INDEPENDENT SCHOOL DISTRICT #2149
MINNEWASKA AREA SCHOOLS

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2020

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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT #2149
SCHOOL BOARD AND ADMINISTRATION OFFICIALS
YEAR ENDED JUNE 30, 2020

Elected Officials

Position	Name	Term Expires
Chairperson	Chad Christianson	December 31, 2020
Vice Chairperson	Jeff Holtberg	December 31, 2024
Treasurer	Chad Barsness	December 31, 2024
Clerk	Diane Meyer	December 31, 2020
Director	Nick Gugisberg	December 31, 2022
Director	Justin Zavadil	December 31, 2022
Director	Ted Reichmann	December 31, 2022

Appointed

Superintendent / Business Manager	Chip Rankin
Business / Accounting	Vicki Moen

BRIAN D. KOEHN, CPA, PLLC

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INDEPENDENT AUDITORS' REPORT

To the School Board of
Independent School District #2149
Minnewaska Area Schools

Report on the Financial Statements
I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #2149 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
My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions
In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #2149, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters
Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, General Fund budgetary comparison information, Schedule of Changes in Net OPEB Liability and Related Ratios, Schedule of Employer Contributions – OPEB, and schedules of Proportionate Share of Net Pension Liability and Employer Contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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
My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District #2149's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, supplementary Information and additional supplementary information as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and the Uniform Financial Accounting and Reporting Standards 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 my opinion, the combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and the Uniform Financial Accounting and Reporting Standards Compliance Table are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*
In accordance with *Government Auditing Standards,* I have also issued my report dated December 14, 2020, on my consideration of the Independent School District #2149's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Independent School District #2149's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements
In accordance with Minnesota Statutes, I have also issued my report dated December 14, 2020, on my consideration of Independent School District #2149's compliance with provisions of the Minnesota Legal Compliance Audit Guide for Political Subdivisions, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the District has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

Brian D. Koehn, CPA, PLLC
Parkers Prairie, Minnesota
December 14, 2020

This section of Independent School District #2149's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

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

- General Fund: - The overall revenues were $18,640,895 while the overall expenditures were $18,191,569 increasing fund balance by $449,326 compared to an increase of $45,776 during fiscal year 2019.
- Food Service Fund: -The revenues were $795,526 and the expenditures were $837,941 decreasing fund balance by $42,415 compared to a decrease of $75,030 during fiscal year 2019
- Community Service Fund: - The revenues were $533,535, while the expenditures were $571,353, decreasing fund balance by $37,818 compared to a decrease of $76,892 during fiscal year 2019
- Debt Service Fund: - The revenues were $1,520,631, while the expenditures were $1,485,625, increasing fund balance by $35,006 compared to an increase of $11,693during fiscal year 2019
- Net Position decreased by $73,843 compared to an increase of $3,639,654 during fiscal year 2019. The difference can be attributed to the changes in pension costs and estimates.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of three parts - Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The following outline shows how the various parts of this annual report are arranged and related to one another.

A. Management's Discussion and Analysis
B. Basic Financial Statements
    a. District-Wide Financial Statements
    b. Fund Financial Statements

Footnote 1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

DISTRICT-WIDE STATEMENTS

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's *net position* and how they have changed. Net position- the difference between the District's assets and liabilities- is one way to measure the District's financial health or position.

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

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

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

FUND FINANCIAL STATEMENTS

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

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

The District has the following type of funds:

• Governmental funds- Most of the District's basic services are included in governmental funds, which generally focus on:

- how *cash and other financial assets* that can readily be converted to cash flow in and out and
- the balances left at year-end that are available for spending.

Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.

NET POSITION

A summary of assets, liabilities, and net position is presented in the table below.

STATEMENT OF NET POSITION
JUNE 30, 2020 AND 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES(DOR)	2020	2019	Percentage Change
Current assets	$ 9,067,451	$ 8,303,145	9.21%
Capital assets	30,169,040	31,127,049	-3.08%
Deferred outflows of resources	8,715,208	13,089,296	-33.42%
Total assets and (DOR)	47,951,699	52,519,490	-8.70%
LIABILITIES AND NET POSITION			
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES(DIR)			
Other liabilities	$ 1,717,715	$ 1,644,930	4.42%
Long-term liabilities	27,025,501	28,349,040	-4.67%
Deferred inflows of resources	16,539,270	19,782,464	-16.39%
Total liabilities and (DIR)	45,282,486	49,776,434	-9.03%
NET POSITION			
Net Investment in capital assets	15,507,507	15,048,272	3.05%
Restricted for specific purposes	915,954	790,860	15.82%
Unrestricted	(13,754,248)	(13,096,076)	-5.03%
Total Net Position	2,669,213	2,743,056	2.69%
Total Liabilities and Net Position	$ 47,951,699	$ 52,519,490	-8.70%

CHANGE IN NET POSITION

Changes in Net Position. The District's total revenues were $21,484,150 for the year ended June 30, 2020.

The total cost of all programs and services was $21,557,993 The District's expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position $73,843. A summary of revenues and expenses is presented in the table below.

STATEMENT OF ACTIVITIES
YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019	Percentage Change
REVENUES			
Program Revenues			
Charges for Service	$ 1,182,418	$ 1,231,674	-4.00%
Operating Grants and Contributions	5,414,626	5,846,208	-7.38%
Capital Grants and Contributions	45,125	162,794	-72.28%
General			
Property Taxes	3,927,318	3,473,747	13.06%
Aids and Payments from State and Other	10,704,861	10,088,991	6.10%
Other	209,802	220,528	-4.86%
Total Revenues	21,484,150	21,023,942	2.19%
EXPENSES			
Administration	237,581	502,517	-52.72%
District Support Services	524,985	421,235	24.63%
Regular Instruction	7,485,609	5,292,524	41.44%
Vocational Educational Instruction	276,638	225,251	22.81%
Special Education Instruction	5,938,804	4,646,901	27.80%
Community Education and Services	599,726	505,708	18.59%
Instructional Support Services	581,942	372,094	56.40%
Pupil Support Services	2,184,415	2,227,381	-1.93%
Sites and Buildings	3,369,136	2,825,070	19.26%
Fiscal and other Fixed-Cost Programs	359,157	365,607	-1.76%
Total Expenses	21,557,993	17,384,288	24.01%
CHANGE IN NET POSITION	(73,843)	3,639,654	102.03%
NET POSITION - BEGINNING	2,743,056	(896,598)	-405.94%
NET POSITION - END	$ 2,669,213	$ 2,743,056	2.69%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a *combined* fund balance of $3,271,870. This was down from $2,867,771 at the end of the prior year, an increase of $404,099. See discussion on each governmental fund below for change.

	2020			
	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	$ 18,640,895	$ 18,191,569	$ -	$ 449,326
Food Service Fund	795,526	837,941	-	(42,415)
Community Service Fund	533,535	571,353	-	(37,818)
Debt Service Fund	1,520,631	1,485,625	-	35,006
Total	$ 21,490,587	$ 21,086,488	$ -	$ 404,099

	2019			
	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	$ 18,131,864	$ 18,086,088	$ -	$ 45,776
Food Service Fund	872,721	947,751	-	(75,030)
Community Service Fund	531,070	607,752	-	(76,682)
Debt Service Fund	1,499,318	1,487,625	-	11,693
Total	$ 21,034,973	$ 21,129,216	$ -	$ (94,243)

GENERAL FUND

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

The following table presents a summary of General Fund revenues.

	Year Ended June 30, 2020	Year Ended June 30, 2019	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Property Taxes	$ 2,530,667	$ 2,194,448	$ 336,219	15.3%
Other Local Sources	611,328	745,829	(134,501)	-18.0%
State Sources	14,977,066	14,655,636	321,430	2.2%
Federal Sources	458,327	456,313	2,014	0.4%
Sales and Other Conversion of Assets	63,507	79,638	(16,131)	-20.3%
Total General Fund Revenues	$ 18,640,895	$ 18,131,864	$ 509,031	2.8%

Total General Fund revenue increased by $509,031 or 12.8% from the previous year. This increase can largely be credited to an increase in the state aid formula as well as increase in students.

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30,		Amount of Increase	Percent Increase
	2020	2019	(Decrease)	(Decrease)
Salaries	$ 10,104,913	$ 10,026,486	$ 78,427	0.8%
Employee Benefits	2,893,355	2,866,588	26,767	0.9%
Purchased Services	3,074,540	3,153,002	(78,462)	-2.5%
Supplies and Materials	800,203	670,665	129,538	19.3%
Capital Expenditures	1,227,740	769,921	457,819	59.5%
Other Expenditures	90,815	599,427	(508,612)	-84.8%
Total General Fund Expenditures	$ 18,191,566	$ 18,086,089	$ 105,477	0.6%

Total General Fund expenditures decreased by $104,477 or 0.6% from the previous year. This decrease is primarily in capital expenditures and long-term facilities maintenance net of increased staffing costs due to enrollment increases and a reduction in expenditures due to less spring activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised the annual operating budget. A majority of the budget amendments relate to changes in appropriations and revising budgets to reflect salary adjustments.

OTHER NON-MAJOR FUNDS

Expenditures exceeded Revenues in the other non-major funds by $80,233 due to changes in number of meals served and changes in spring Community Service Programming.

CAPITAL ASSETS

By the end of 2019, the District had a net investment of $30,169,040 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and school vehicles. Total depreciation expense for the year was $1,478,043. See the notes to the financial statements for additional information on capital assets.

	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets, Non-Depreciable:				
Land	$ 354,088	$ -	$ -	$ 354,088
Capital Assets, Depreciable:				
Land Improvements	6,674,604	-	-	6,674,604
Buildings	42,955,780	430,844	-	43,386,624
Equipment	3,127,656	92,018	25,384	3,194,290
Total Capital Assets, Being Depreciated	52,758,040	522,862	25,384	53,255,518
Total Capital Assets	53,112,128	522,862	25,384	53,609,606
Less: Accumulated Depreciation				
Land Improvements	1,609,132	282,599	-	1,891,731
Buildings	18,594,709	984,487	-	19,579,196
Equipment	1,781,238	210,957	22,556	1,969,639
Total Accumulated Depreciation	21,985,079	1,478,043	22,556	23,440,566
Total Depreciable Capital Assets , Net	30,772,961	(955,181)	2,828	29,814,952
Capital Assets, Net	$ 31,127,049	$ (955,181)	$ 2,828	$ 30,169,040

LONG-TERM LIABILITIES

The District's long-term liabilities relate to bonded indebtedness and pensions and detailed information is presented in Notes 5, 7, and 10.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Funding sources and student enrollment will have the largest bearing on the future of the school district as state and federal funding levels, tied to enrollment numbers, continue to fail to keep up with inflation. The District's enrollment is projected to increase over the next two school years which will result in an increase in formula revenues.

Additional factors include future facility needs as the buildings age, the demand of changing technologies and the divergence of the student population.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers 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 any questions about this report or would like additional information, contact the District Office, Independent School District No. 2149, 25122 State Hwy. 28. Glenwood, Minnesota 56334 or by phone at 320-239-4820.

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT #2149
STATEMENT OF NET POSITION
AS OF JUNE 30, 2020

ASSETS	
Cash and Cash Equivalents	4,576,492
Receivables	
Current Property Taxes	2,379,382
Delinquent Property Taxes	28,806
Accounts	177,288
Due from State of Minnesota	1,795,258
Due From Federal Government thru State of Minnesota	77,001
Prepaid Items	18,110
Inventories	15,114
Capital Assets	
Non-Depreciable	354,088
Depreciable, Net of Accumulated Depreciation	29,814,952
Total Assets	39,236,491
DEFERRED OUTFLOWS OF RESOURCES	
OPEB	191,335
Pensions	8,523,873
Total Deferred Outflows of Resources	8,715,208
LIABILITIES	
Account Payable	254,770
Salaries Payable	1,271,581
Accrued Interest Payable	142,183
Unearned Revenue	29,025
Vacation Payable	20,156
Long Term Liabilities	
Bonds and Leases, Due Within One Year	1,384,440
Bonds and Leases, Due in More Than One Year	13,277,093
Compensated Absences Payable	110,888
Pension Benefits Payable	10,392,193
OPEB Benefits Payable	1,860,887
Total Liabilities	28,743,216
DEFERRED INFLOWS OF RESOURCES	
Pensions	12,232,441
OPEB	95,429
Property Taxes Levied for Subsequent Year	4,211,400
	16,539,270
NET POSITION	
Net Investment in Capital Assets	15,507,507
Restricted for Specific Purposes	915,954
Unrestricted	(13,754,248)
Total Net Position	$ 2,669,213

See accompanying notes to financial statements

INDEPENDENT SCHOOL DISTRICT #2149
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES					
Administration	237,581.00	$ -	$ -	$ -	$ (237,581)
District Support Services	524,985.00	-	-	-	(524,985)
Regular Instruction	7,485,609.00	374,050	68,919	31,456	(7,011,184)
Vocational Instruction	276,638.00	-	4,905	-	(271,733)
Special Education Instruction	5,938,804.00	113,746	4,962,406	-	(862,652)
Community Education and Services	599,726.00	237,070	93,537	13,669	(255,450)
Instructional Support Services	581,942.00	-	2,790	-	(579,152)
Pupil Support Services	2,184,415.00	457,552	282,069	-	(1,444,794)
Sites and Buildings	3,369,136.00	-	-	-	(3,369,136)
Fiscal and Other Fixed-Cost Programs	359,157.00	-	-	-	(359,157)
Total Governmental Activities	$ 21,557,993	$ 1,182,418	$ 5,414,626	$ 45,125	(14,915,824)
GENERAL REVENUES					
Property Taxes					
General Purposes					2,524,221
Community Education					140,550
Debt Service					1,262,547
Aids and Payments from the State					10,704,861
Unrestricted Investment Earnings					37,568
Miscellaneous Revenues					172,234
Total General Revenues					14,841,981
CHANGE IN NET POSITION					(73,843)
Net Position - Beginning of Year					2,743,056
NET POSITION - END OF YEAR					$ 2,669,213

See accompanying notes to financial statements

FUND FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT #2149
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2020

	General	Debt Service	Other Governmental Funds	Totals
ASSETS				
Cash and Cash Equivalents	$ 3,357,584	$ 965,691	$ 253,217	$ 4,576,492
Due from Other Funds	-	-	-	-
Receivables				
Current Property Taxes	1,465,398	832,040	81,944	2,379,382
Delinquent Property Taxes	18,277	9,051	1,478	28,806
Accounts	176,474	-	814	177,288
Due from Other Governments	1,816,289	46,345	9,625	1,872,259
Prepaid Items	18,110	-	-	18,110
Inventories	-	-	15,114	15,114
Total Assets	6,852,132	1,853,127	362,192	9,067,451
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Account Payable	242,470	-	12,300	254,770
Due to Other Governments	-	-	-	-
Salaries Payable	1,253,873	-	17,708	1,271,581
Total Liabilities	1,496,343	-	30,008	1,526,351
DEFERRED INFLOWS OF RESOURCES				
Deferred Revenue	18,277	9,051	30,502	57,830
Property Taxes Levied for Subsequent Year	2,648,325	1,402,358	160,717	4,211,400
Total Deferred Inflows of Resources	2,666,602	1,411,409	191,219	4,269,230
FUND BALANCES				
Nonspendable	18,110	-	15,113	33,223
Restricted for Specific Purposes	348,384	441,718	125,852	915,954
Assigned to Specific Purposes	7,572	-	-	7,572
Unassigned	2,315,121	-	-	2,315,121
Total Fund Balances	2,689,187	441,718	140,965	3,271,870
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 6,852,132	$ 1,853,127	$ 362,192	$ 9,067,451

INDEPENDENT SCHOOL DISTRICT #2149
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2020

		2020
Fund Balances - Total Governmental Funds		$ 3,271,870
Amounts reported for governmental activities in the statements of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Capital Assets	$ 53,609,606	
Accumulated Depreciation	(23,440,567)	
		30,169,039
Accrued Interest payable for long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.		(142,183)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Debt Issuance premiums and discounts are reported as an other financing source or use in the funds at the time of issuance, but are amortized over the life of the related bonds in the district-wide financials.		
Bond Principal Payable	(13,245,000)	
Unamortized Premium	(344,303)	
Capital Lease Payable	(1,072,230)	
Compensated Absences Payable	(110,888)	
Pension Benefit Payable	(10,392,193)	
OPEB Benefit Payable	(1,860,887)	
		(27,025,501)
Vacation Payable is not recorded in the fund financial statements		(20,156)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Inflows - Pensions	(12,232,441)	
Deferred Inflows - OPEB	(95,429)	
Deferred Outflows - OPEB	191,335	
Deferred Outflows - Pensions	8,523,873	
		(3,612,662)
Delinquent taxes receivable are earned, but not available in the current period. Therefore, they are recorded as a deferred inflows of resources in the funds but are part of net position.		28,806
Total Net Position - Governmental Activities		$ 2,669,213

See accompanying notes to financial statements

INDEPENDENT SCHOOL DISTRICT #2149
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020

	General	Debt Service	Other Governmental Funds	Totals
REVENUES				
Local Property Tax Levies	$ 2,530,667	$ 1,262,547	$ 140,551	$ 3,933,765
Other Local and County Sources	611,328	8,476	287,745	907,549
State Sources	14,977,066	249,608	164,073	15,390,747
Federal Sources	458,327	-	381,334	839,661
Sales and Other Conversion of Assets	63,507	-	355,358	418,865
Total Revenue	18,640,895	1,520,631	1,329,061	21,490,587
EXPENDITURES				
Administration	678,103	-	-	678,103
District Support Services	508,368	-	-	508,368
Regular Instruction	6,981,806	-	-	6,981,806
Vocational Instruction	276,637	-	-	276,637
Special Education Instruction	5,595,087	-	-	5,595,087
Community Education and Services	-	-	571,353	571,353
Instructional Support Services	556,211	-	-	556,211
Pupil Support Services	1,292,683	-	837,941	2,130,624
Sites and Buildings	2,222,280	-	-	2,222,280
Fiscal and Other Fixed-Cost Programs	80,394	1,485,625	-	1,566,019
Total Expenditures	18,191,569	1,485,625	1,409,294	21,086,488
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	449,326	35,006	(80,233)	404,099
Fund Balance - Beginning of Year	2,239,861	406,712	221,198	2,867,771
FUND BALANCE - END OF YEAR	$ 2,689,187	$ 441,718	$ 140,965	$ 3,271,870

INDEPENDENT SCHOOL DISTRICT #2149
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020

Net Change in Fund Balances - Total Governmental Funds		$ 404,099
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period these amounts are:		
Capital Outlay	$ 522,862	
Capital Assets Disposed, Net of Depreciation	(2,828)	
Depreciation Expense	(1,478,043)	
		(958,009)
Debt Proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. In the current period this amount consists of:		
Capital Lease Proceeds	-	
Capital Lease Retirement	224,329	
Bond Principal Retirement	1,135,000	
Bond Premium Amortization	57,914	
		1,417,243
In the statement of activities severence payable and vacation payable are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.		
Vacation Payable	12,478	
Compensated Absences Payable	46,800	
		59,278
Delinquent property taxes are receivable, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. The increase (decrease) in the current period is:		(6,445)
Net Pension liability and the OPEB Liability do not represent the impending use of current resources. Therefore the change in these liabilities and related deferrals are not reported in the governmental funds.		
OPEB Liability	173,449	
Net Pension Liability	(313,954)	
Deferred Inflows of Resources	3,510,637	
Deferred Outflows of Resources	(4,374,089)	
		(1,003,957)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however interest expense is recognized as interest accrues.		13,948
Change in Net Position - Governmental Activities		$ (73,843)

See accompanying notes to financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 2149 have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

Independent School District No. 2149 is an educational entity established by the State of Minnesota and is considered a charitable organization under Internal Revenue Code Section 170. It was formed on July 1, 1993, from the consolidation of Independent School Districts No. 6046-62 Joint Powers District, No. 612 Glenwood, No. 614 Starbuck and No. 615 Villard. 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 staggering four-year terms The District's Board consists of seven members; the superintendent of the District serves as a non-voting member. The majority of the District's funding is provided by county levies and state aid.

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 include 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.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District is financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are included in these financial statements.

C. Government-wide Financial Statement Presentation

The Government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Government-wide Financial Statement Presentation (cont.)

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net assets are available. Depreciation expense can be specifically identified by function and is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the District-wide financial statements.

Separate Fund financial statements are provided for governmental funds. Aggregated information for the remaining non-major governmental funds is reported in a single column in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund and fiduciary fund financial statements. 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.

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:

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

Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds.

The District reports deferred revenue on its statement of net position and balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the District before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are as follows:

Major Governmental Funds

General Fund – Accounts for all financial resources except those required to be accounted for in another fund. It includes general operations and pupil transportation, activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, and health and safety projects.

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

Non-major Governmental Funds

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

Community Service Special Revenue Fund – The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, K-6 extended day programs, or other similar services.

E. Budgeting

The budget for each fund is prepared on the same basis of accounting as the financial statements. Each June, the School Board adopts an annual budget for the following fiscal year for the General Fund, Food Service, Community Service, and Debt Service Fund. Budgets presented in this report for comparison to actual amounts are presented in accordance with generally accepted accounting principles.

Formal budgetary integration is employed as a management control device during the year for the general fund, debt service fund, capital projects fund, and all special revenue funds.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed by the District to assure effective budgetary control and to facilitate effective cash planning and control. Encumbrance information has not been incorporated into the financial statements, however.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Cash Equivalents

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

G. Receivables

Accounts Receivable:
Accounts receivable represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectable accounts is deemed necessary.

Current Property Taxes Receivable:
Current property taxes receivable represents current real and personal property tax levies, certified the previous December and collectible in the current calendar year, which have not been received by the District.

Delinquent Property Taxes Receivable:
Delinquent property taxes receivable represents prior year property taxes that remain uncollected at June 30, 2020. They are equally offset by a deferred inflows of resources amount in the governmental fund financial statements.

H. Inventories

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

I. Prepaid Items

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes

Property tax levies are established by the school board and 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

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements. Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year).

The majority of the revenue in the General Fund 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. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the “tax shift.” The current tax shift as mandated by legislation recognizes $213,996 of the property tax levy for 2020 as revenue in fiscal year 2019-2020. The taxes collectible for 2019 are recorded as deferred revenue (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 deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District capitalizes equipment asset additions of $5,000 or more. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment. Depreciation expense includes depreciation on capital lease assets. Building capital lease depreciation is not being tracked separately as the energy improvements done with the lease proceeds was combined with bond funding and cannot be easily broken out.

Capital assets not being depreciated include land and construction in progress.

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

L. Unearned Revenue

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and certain other payments received before eligibility requirements are met are also recorded as unearned revenue

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has two items that quality for reporting in this category. Deferred outflows of resources related to pension and OPEB are reported in the government-wide Statement of Net Position. Deferred outflows of resources related to pensions and OPEB are recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Net Position and Balance Sheet – Governmental Funds will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items which quality for reporting in this category. The first item, is property tax levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. Deferred inflows of resources related to pensions are recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

N. Unamortized Bond Premiums and Discounts Amortization Policy

The unamortized bond premiums incurred in connection with financing bond obligations are being amortized using the effective interest rate for the bond premium with any balance at early payoff fully amortized at that time. Amortized premiums amounted to $57,914 for 2020.

O. 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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the methods described in footnote 1 M. Bonds payable are reported net of the applicable bond premium or discount.

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

P. Vacation Pay

Since teachers are not eligible for vacation pay only amounts accrued to other employees are recorded in the financial statements. Vacation accumulations end each year at June 30. Vacation days earned in the previous year must be used by June 30 of the following year, unless extended by the board.

Q. Sick Pay Severance Pay Obligations

Substantially all District employees are entitled to sick leave at various rates. Unused sick leave enters into the calculation of early retirement incentive payments for some employees upon termination. (See footnote 9)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Other Post-employment and Pension Benefits

In addition to retirement benefits, the District provides post-retirement medical insurance benefits to teachers & administrators in accordance with their master employment agreement. The teachers are responsible for funding a portion of the cost of the health insurance and an implicit rate subsidy still exists. See note 10 for further information. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense for plans administered under a trust, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefits payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments for PERA are reported at fair value. See note 7 for further information regarding pensions.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minnesota School District. This direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2016. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teachers Retirement Fund Association in 2015.

S. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and 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 fiscal year 2020. The District is self-insured for unemployment compensation. During the year ended June 30, 2020, $9,377 was paid in unemployment claims.

T. Fund Balance Classifications

Fund balance is divided into five classifications based primarily on the extent to which the School is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

Nonspendable The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form: criterion includes that are not expected to be converted to cash. It also includes the long-term amount of loans receivable, as well as property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

Restricted Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Fund Balance Classifications (continued)

Committed The committed fund balance classification includes internally imposed constraints on amounts that can be used only for the specific purposes imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previously commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned Amounts in the assigned fund balance classification are internally imposed constraints intended to be used by the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. Assigned amounts represent intended uses established by the School District Board of Education.

Unassigned Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

U. Net Position

Net position represents the difference between assets and liabilities in the District-wide and Fiduciary Fund financial statements. The three classifications of Net position are as follows:

Net Investment in Capital Assets Net investment in capital assets consists of capital assets, net of accumulation depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets.

Restricted Net Assets Net assets are reported as restricted in the District-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Unrestricted Net Assets All other net assets that do not meet the definition of “invested in capital assets, net of related debt or "restricted".

W. Use of Estimates

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

X. Internal Activity

It is the District’s policy to eliminate all internal activity in its presentation of its government-wide financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Y. Implementation of GASB Statement No. 84

As of July 1, 2019, the District adopted GASB Statement No. 84, Fiduciary Activities. The objective of this statement is to improve the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. The impact to the District resulted in the student activity funds being changed from reporting as an agency fund to the General Fund. There was no effect of the implementation of this standard on beginning net position and fund balance.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Expenditures Exceeding Budget

Budgetary control for governmental funds is established by each funds' total budget. The general fund did not have expenditures that exceeded budget.

NOTE 3 – DEPOSITS

A. Cash Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the District's School Board. All such depositories are members of the Federal Reserve System.

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% 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.

At June 30, 2020, all deposits were insured or collateralized by securities held by the District's agent in the District's name. At June 30, 2020, the District does not have any investments

NOTE 3 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Cash Deposits (Continued)

Deposit balances at June 30, 2020, are as follows:

	Carrying Amount	Bank Balance
Total Bank Deposits	$ 4,572,192	$ 4,869,820

At June 30, 2020, All of the District's deposits were covered by federal depository insurance or were covered by collateral held in Federal Reserve pledge accounts in the District's name. The District has the following recurring fair value measurements as of June 30, 2020 included as cash deposits.

A summary of the components of cash deposits and cash equivalents is:

Cash on Hand	$ 4,300
Cash Deposits	4,572,192
Total Cash, Cash Deposits, and Investments	$ 4,576,492

NOTE 4 – CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2020 is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets, Non-Depreciable:				
Land	$ 354,088	$ -	$ -	$ 354,088
Capital Assets, Depreciable:				
Land Improvements	6,674,604	-	-	6,674,604
Buildings	42,955,780	430,844	-	43,386,624
Equipment	3,127,656	92,018	25,384	3,194,290
Total Capital Assets, Being Depreciated	52,758,040	522,862	25,384	53,255,518
Total Capital Assets	53,112,128	522,862	25,384	53,609,606
Less: Accumulated Depreciation				
Land Improvements	1,609,132	282,599	-	1,891,731
Buildings	18,594,709	984,487	-	19,579,196
Equipment	1,781,238	210,957	22,556	1,969,639
Total Accumulated Depreciation	21,985,079	1,478,043	22,556	23,440,566
Total Depreciable Capital Assets , Net	30,772,961	(955,181)	2,828	29,814,952
Capital Assets, Net	$ 31,127,049	$ (955,181)	$ 2,828	$ 30,169,040

Depreciation expense of $1,478,043 for the year ended June 30, 2020, was charged to the following governmental functions:

Governmental Activities	
Admin	$ 1,760
District Support Services	7,419
Regular Instruction	47,989
Community Education	438
Instructional Support Services	19,120
Pupil Support Services	44,144
Sites and Buildings	1,357,173
Total Depreciation Expense	$ 1,478,043

NOTE 5 – LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

The District has issued general obligation school building bonds and lease purchase obligations to finance the construction of capital facilities or to refinance previous bond issues. Assets of the Debt Service Fund, together with scheduled future tax levies are dedicated for the retirement of these bonds and loans. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota Law.

Description	Issue Date	Interest Rates	Effective Rate After Bond Discount	Original Principal	Final Maturity	Principal Due Within 1 year	Balance
General Obligation Bonds							
Series 2015 A School Building Bonds	2/11/2015	3%-4.25%	2.39%	$ 8,470,000	2/1/2035	$ 500,000	$ 7,495,000
Series 2016A Refunding Bonds	4/28/2016	2.00%	1.41%	7,020,000	2/1/2028	665,000	5,750,000
						1,165,000	13,245,000
Bond Premiums - Net						-	344,303
Total General Obligation Bonds						1,165,000	13,589,303
Capital Leases							
Copier / Printer Lease	8/29/2018	7.78%		$ 32,151	9/1/2022	8,217	18,647
Copier Lease	9/1/2015	8.47%		17,606	9/1/2020	625	625
Bobcat	7/25/2017	4.50%		58,673	7/25/2020	1,740	1,740
Energy Conservation Project #1	12/21/2007	4.29%		1,323,783	1/26/2023	139,840	450,507
Energy Conservation Project #2	12/21/2007	4.49%		1,248,197	12/21/2027	69,018	600,711
Total Capital Leases						219,440	1,072,230
Total Bonds and Leases						1,384,440	14,661,533
Compensated Absences Payable						-	110,888
Pension Benefits Payable						-	10,392,193
OPEB Benefits Payable						-	1,860,887
						$ 1,384,440	$ 27,025,501

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term liabilities not including compensated absences & pension benefits payable are as follows:

Year Ended June 30,	Bonds Payable Principal	Bonds Payable Interest	Bonds Payable Total	Capital Lease Payable Principal	Capital Lease Payable Interest	Capital Lease Payable Total	Total
2021	$ 1,165,000	$ 322,025	$ 1,487,025	$ 219,441	$ 45,224	$ 264,665	$ 1,751,690
2022	1,195,000	293,725	1,488,725	234,904	35,166	270,070	1,758,795
2023	1,225,000	264,675	1,489,675	233,771	24,874	258,645	1,748,320
2024	1,250,000	234,925	1,484,925	78,852	16,371	95,223	1,580,148
2025	1,280,000	144,625	1,424,625	82,433	12,791	95,224	1,519,849
2026-2030	4,840,000	689,150	5,529,150	222,829	28,021	250,850	5,780,000
2031-2035	2,290,000	220,913	2,510,913	-	-	-	2,510,913
			-	-	-	-	-
Total	$ 13,245,000	$ 2,170,038	$ 15,415,038	$ 1,072,230	$ 162,447	$ 1,234,677	$ 16,649,715

NOTE 5 – LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities

General Obligation Bonds – These obligations were issued to finance acquisition and/or construction of capital facilities or to refinance (refund) previous bond issues. Assets of the Debt Service Funds, together with scheduled deferred ad valorem tax revenue are dedicated for the retirement of these obligations. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

Capital Leases Payable – During fiscal year 2019 the District entered into a 5-year capital lease for several copiers and printers for $32,151 at 7.78% with monthly payments of $1,782. During fiscal year 2018 the District entered into a 3-year capital lease for a maintenance utility 4x4 for $58,673 at 4.5% with monthly payments of $1,743. During fiscal year 2016 the District entered into one 5-year capital lease for two copiers, a $17,606 lease at 8.5% with monthly payments of $361. During fiscal year 2015 the District entered into one 5-year capital lease for a phone system, a $53,781 lease at 4.1% with monthly payments of $1,587. In fiscal 2008, the District entered into two capital leases for energy conservation projects. These leases have fifteen to twenty year terms, bear interest rates of 4.29 – 4.49% and have final maturities ranging from January 2023 to December 2027. Annual principal and interest on these leases will be paid from the General and Special Revenue Funds. The assets acquired through these leases are reported as part of depreciable assets on the statement of Net Position if over $5,000 per item.

Compensated Absences Payable – Compensated absences payable consist of vested early retirement incentive pay (based on years of service and/or convertible sick leave) to employees upon retirement. The current liability paid each year comes from general fund revenue.

Pension Benefits Payable – Pension benefits payable consist of pension benefit payments available to employees as specified in the employee's employment contract upon retirement. Pension benefits are paid by the General and Special Revenue Funds.

D. Changes in Long-Term Liabilities

	Outstanding July 1, 2019	Additions	Retirements	Outstanding June 30, 2020
General Obligation Bonds	$ 14,380,000	$ -	$ 1,135,000	$ 13,245,000
Unamortized Bond Premium	402,217	-	57,914	344,303
Capital Lease Payable	1,296,559	-	224,329	1,072,230
Compensated Absences Payable	157,688	-	46,800	110,888
Pensions Benefits Payable	10,078,239	313,954	-	10,392,193
OPEB Benefits Payable	2,034,336	-	173,449	1,860,887
Total Indebtedness	$ 28,349,039	$ 313,954	$ 1,637,492	$ 27,025,501

E. Interest Expense

In 2020 the District had $404,880 of interest charged to expense which was all the interest incurred during 2020.

NOTE 6 – FUND BALANCES

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

			Nonmajor Funds		
Fund Balances	General Fund	Debt Service Fund	Food Service Fund	Community Service Fund	Total
Nonspendable for					
Prepaid Expenditures	$ 18,110	$ -	$ -	$ -	$ 18,110
Inventory	-	-	15,114	-	15,114
Restricted for					
Staff Development	611	-	-	-	611
Student Activities	175,366				175,366
Operating Capital	21,809	-	-	-	21,809
Gifted and Talented	326				326
Unfunded Severence	110,888	-	-	-	110,888
Safe Schools	39,384	-	-	-	39,384
Food Service	-	-	72,841	-	72,841
Community Education	-	-	-	43,865	43,865
School Readiness	-	-	-	6,202	6,202
Community Service	-	-	-	2,943	2,943
Debt Service	-	441,718	-	-	441,718
Assigned for					
Music Department	7,572	-	-	-	7,572
Unassigned	2,315,121	-		-	2,315,121

Deficit Fund balance accounts restricted under UFARS that are included in unassigned fund balance amounts are: Long term Facilities Maintenance, $245,698 and Capital Projects, $74,631, in the General Fund.

NOTE 6 – FUND BALANCES (CONTINUED)

Fund Equity

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The following is a summary of the potential restricted fund balances for the governmental funds:

A. Restricted for Capital Projects
This fund balance restriction represents remaining resources being held for construction projects that the District had bonded for.

B. Restricted for Debt Service
The fund balance restriction represents unspent resources available for paying debt service payments.

C. Restricted for Food Services
The fund balance restriction represents unspent resources available for food service expenses.

D. Restricted for Community Education
The fund balance restriction represents accumulated resources available to provide general community education programming.

E. Restricted for School Readiness
This fund balance restriction represents accumulated resources available to provide services for the school readiness program.

F. Restricted for ECFE (Early Childhood and Family Education)
This fund balance restriction represents accumulated resources available to provide services for early childhood family education programming.

G. Restricted for Gifted and Talented
This fund balance restriction represents accumulated resources available to provide gifted and talented programming in accordance with funding made available for that purpose.

H. Restricted for Staff Development
In accordance with state statute, the District is required to restrict 2.0% of basic General Education revenue for staff development. The cumulative excess of such revenues over staff development expenditures is reported as a restriction of fund balance in the General Fund.

I. Restricted for Long Term Facilities Maintenance (LTFM)
The fund balance restriction represents unspent resources from LTFM revenue (aid & levy). Replaces Deferred Maintenance Health & Safety and Alternative Facilities Bonding & Levy Programs. Funding helps maintain facilities and use space more efficiently.

K. Restricted for Severance and Retirement
The fund balance restriction represents unspent resources from revenues restricted to the payment of severance and retirement benefits.

NOTE 7 – DEFINED BENEFIT PENSION PLAN – STATEWIDE

Substantially all employees of the District are required by state law to belong to pension plans administered by Teachers' Retirement Association (TRA) of Public Employees' retirement Association (PERA), all of which are administered on a statewide basis. Disclosures relating to these plans follows:

PUBLIC EMPLOYEES' RETIREMENT ASSOCIATION

Summary of Significant Accounting Policies

Pensions. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. 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.

A. Plan Description

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

General Employees Retirement Plan:

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

B. Benefits Provided

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

NOTE 7– DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

B. Benefits Provided (Continued)

General Employees Plan Benefits:
General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

C. Contributions

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

General Employees Fund Contributions:
Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2020 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2020, were $242,672. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs
At June 30, 2020, the District reported a liability of $2,526,651 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $78,497. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the District's proportionate share was 0.0457 percent at the end of the measurement period and 0.0449 percent for the beginning of the period.

District's proportionate share of net pension liability	$	2,526,651
State's proportionate share of the net pension liability associated with the district	$	78,497
Total	$	2,605,148

NOTE 7– DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

For the year ended June 30, 2020, the District recognized pension expense of $234,296 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional $5,879 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

At June 30, 2020, the District reported its proportionate share of the General Employees Plan'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 experience	$ 35,970	$ -
Change in Assumptions	-	41,185
Net Difference between projected and actual earnings on plan inv	16,287	-
Changes in proportion and differences between District Contributions and proportionare share of contributions	33,286	-
Contributions paid subsequent to the measurement date	232,866	
Total	$ 318,409	$ 41,185

The $232,866 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2021	$ (10,275)
2022	$ (10,275)
2023	$ (10,275)
2024	$ (3,257)
2025	$ -

E. Actuarial Assumptions

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

Inflation	2.50% per year
Active Member Payroll Frowth	3.25% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan, 1.0 percent per year for the Police and Fire Plan, and 2.0 percent per year for the Correctional Plan.

NOTE 7– DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The most recent four-year experience study for Police and Fire Plan was completed in 2016. The five-year experience study for the Correctional Plan, prepared by a former actuary, was completed in 2012. The mortality assumption for the Correctional Plan is based on the Police and Fire Plan experience study completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

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

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35.50%	5.10%
International Stocks	25.00%	5.90%
Bonds	20.00%	0.75%
Alternative Assets	17.50%	5.90%
Unallocated Cash	2.00%	0.00%
Total	100.00%	

F. Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund, the Police and Fire Fund, and the Correctional Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

G. Pension Liability Sensitivity

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

District's Proportionate share of NPL		
1% decrease 6.50%	Current 7.50%	1% increase 8.50%
$ 4,153,678	$ 2,526,651	$ 1,183,216

H. Pension Plan Fiduciary Net Position

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

TEACHERS RETIREMENT ASSOCIATION

Summary of Significant Accounting Policies
Pensions. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expenses, information about the fiduciary net position of the Teachers Retirement Association (TRA) and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA.

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

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

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

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

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

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

Or

Tier II Benefits

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

Members first employed after June 30, 1989, receive only the Tier II benefic 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 cases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

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

C. Contribution Rate

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

	Ending June 30, 2018		Ending June 30, 2019		Ending June 30, 2020	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.00%	11.50%	11.00%	11.71%	11.00%	11.92%
Coordinated	7.50%	7.50%	7.50%	7.50%	7.50%	7.71%

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

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

Employer Contributions Reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$	403,300,000
Add employer contributions not related to future contribution efforts		(688,000.00)
Deduct TRA's contributions not Included in allocation		(486,000.00)
Total Employer contributions		401,126,000
Total Non-Employer contributions		35,588,000
Employer contributions reported in schedule of employer and non-employer pension allocations	$	437,714,000

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

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

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

The 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 Stocks	35.50%	5.10%
International Stocks	17.50%	5.30%
Bonds	25.00%	5.90%
Alternative Assets	20.00%	0.75%
Unallocated Cash	2.00%	0.00%
Total	100.00%	

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

Changes in actuarial assumptions since the 2018 valuation:

- The COLA was reduced from 2.0% each January to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zer0 percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5&, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.5% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

E. Discount Rate

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

F. Net Pension Liability

On June 30, 2020, Minnewaska Area – ISD #2149 reported a liability of $7,865,542 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. Minnewaska Area – ISD #2149's Proportion of the net pension liability was based on Minnewaska Area – ISD #2149's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.1234% at the end of the Measurement period and 0.1208% for the beginning of the year.

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

District's proportionate share of net pension liability	$	7,865,542
State's proportionate share of the net pension liability associated with the district	$	695,970

For the year ended June 30, 2020, the district recognized pension expense of $697,894. It also recognized $52,902 as an increase to pension expense for the support provided by direct aid.

On June 30, 2019, Minnewaska Area – ISD #2149 hade deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	$	-	$	72,987
Change in Assumptions		-		-
Net Difference between projected and actual earnings on plan inv		58,084		-
Changes in proportion		136,087		-
Contributions paid subsequent to the measurement date		576,114		-
Total	$	770,285	$	72,987

Deferred outflows of resources and (Deferred inflows of resources) will be recognized in pension expense as follows:

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (CONTINUED)

Year Ended June 30,	Pension Expense Amount
2020	$ 27,157
2021	$ 27,157
2022	$ 27,157
2023	$ 27,157
2024	$ 12,636

G. Pension Liability Sensitivity
The following presents the net pension liability of TRA calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current rate.

	District's Proportionate share of NPL		
	1% decrease 6.50%	Current 7.50%	1% increase 8.50%
TRA	$ 12,539,597	$ 7,865,542	$ 4,011,852

The Minnewaska Area – ISD #2149's Proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis and Minneapolis School District.

H. Pension Plan Fiduciary Net Position

Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-40000; or by calling 651-296-2409 or 800-657-3669.

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 TRA's discount rate as well as the value of the Plan's investments. Any impact cause by the resulting declines have not been included in the Schedules as of June 30, 2019.

NOTE 8 - FLEXIBLE BENEFIT PLAN

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

Before the beginning of the plan year, which is from September 1, to August 31, each participant designates a total amount of pre-tax dollars to be contributed to the plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants’ annual contributions to the medical reimbursement portion of the plan, whether or not such contributions have been made.

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

Amounts withheld for medical reimbursement and dependent care are held by Region I. Payments are made to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the employee.

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

NOTE 9 – POST EMPLOYMENT SEVERANCE BENEFITS

The District provides post-employment severance benefits to certain eligible employees as described below.

Plan Descriptions

Early Retirement Incentive (Severance) Plan – As stated in the teacher's Master Contract, teachers who have completed at least 12 years of full-time continuous service, or the equivalent with the District, and are at least 55 years of age, are eligible for severance pay upon submission of a written resignation accepted by the school board. The amount of severance pay depends on the teachers' hire date. Those hired before September 1, 2000 and an eligible teacher, upon retirement from the District, will be paid an amount equal to a maximum of 95 days of unused sick leave pay, less what the District contributed to the teacher's 403(B) annuity. This payment will be made to the teacher's designated 403(B) annuity plan within 30 days of their last employment.

Teachers with a hire date of September 1, 2000 and later are only eligible for the 403(B) annuity match as scheduled below. Those hired before that can use the annuity match but the District's payments will be deducted from their severance payout amount.

Years	0 - 3	up to	$ 750
Years	0 - 8	up to	$ 1,250
Years	9- 13	up to	$ 1,750
Years	14 - 18	up to	$ 2,250
Years	19+	up to	$ 2,750

The maximum career school district contribution for a teacher is $65,000.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through its OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. These benefits are summarized as follows:

Post-Employment Insurance Benefits — All retirees of the District have the option under state law to continue their medical 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. A summary of benefits is as follows:

Teachers' Post-employment Medical Plan – At the time of retirement, the District will set aside a maximum dollar amount of up to $12,069, which will be paid out in a maximum of $168 per month, not to exceed the cost of a single coverage maximum, towards the health insurance premium for a maximum of 6 years following the date of the teacher's retirement; providing the teacher has at least 12 years' experience in the District and has reached the age of 55 or qualified for the "rule of 90". This maximum benefit sunset June 30, 2014 and is no longer available for employees hired after June 30, 2014. Employees hired after the sunset date receive $400 annual employer contribution to the State Retirement System Health Care Savings Plan with a max of $12,069.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLAN (CONTINUED)

A. Plan Description (Continued)

Administrators' Post-employment Medical Plan – The District pays some medical plan coverage after retirement for certain administrators and their spouses up to age 65.

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.

Early Retirement Incentive – The District will pay $2,500 per year for three years to a Health Reimbursement Account to an eligible teacher who retires before June 30, 2020.

No assets are accumulated in a trust that meets the criteria in GASBs No. 75, Paragraph 4.

The retiree health plan does not issue a publicly available financial report.

B. Benefits Provided

The plan provides medical insurance benefits provided to terminated or retired employees and their dependents and beneficiaries. Benefits are provided through a third-party insurer, and the cost of the benefits covered by the plan are described above.

C. Employees Covered by Benefit Terms

At the valuation date of July 1, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	28
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	224
	252

D. Contributions

For the year ended June 30, 2020, the District's actuarially computed benefit payments were $230,239. Employees are not required to contribute to the plan.

E. Net OPEB Liability

The District's net OPEB liability was measured as of July 1, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

F. Actuarial Assumptions

The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	Graded from 2.85 to 8.85 percent
Investment rate of return	N/A
Healthcare cost trend rates	6.5 percent for 2018 grading to 5.00% over 6 years

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.

The actuarial assumptions used in the July 1, 2019 valuation were based on the results of an actuarial experience study as of July 1, 2019.

G. Discount Rate

The discount rate used to measure the total OPEB liability was 3.1%. The projection of cash flows used to determine the discount rate assumed that the District contributions will be made at rates equal to the actuarially determined contribution rates. Based on assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees.

H. Changes in the Net OPEB Liability

	Increase (Decrease) Total OPEB Liability
Balances at June 30, 2019	$ 2,034,336
Changes from the Prior Year:	
Service Cost	97,260
Interest Cost	68,593
Assumption Changes	(21,546)
Plan Changes	-
Difference between Expected and Actual Experience	(87,517)
Benefit Payments	(230,239)
Other Changes	-
Total Net Changes	(173,449)
Balances at June 30, 2020	$ 1,860,887

The measurement date of the net OPEB liability was July 1, 2019; the date of the actuarial valuation on which the total OPEB liability is based was July 1, 2019. Updated procedures were used to roll forward the total OPEB liability to the measurement date.

NOTE 10 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

H. Changes in the Net OPEB Liability (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of changes in the District's new OPEB liability and related ratios, presented as required supplementary information following the notes to the financial statements, presents multiple year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits will be displayed.

I. Sensitivity of the Net OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trend Rates

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount rate	2.10%	3.10%	4.10%
Net OPEB Liability	$ 1,960,391	$ 1,860,887	$ 1,764,459

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

	1% Decrease in Healthcare Trend Rate	Selected Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
Net OPEB Liability	$ 1,960,391	$ 1,860,887	$ 1,764,459
Medical trend rate	5.50% decreasing to 4% over 5 years	6.50% decreasing to 5% over 5 years	7.50% decreasing to 6% over 5 years
Dental trend rate	N/A	N/A	N/A

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

For the year ended June 30, 2020 the District recognized OPEB expenses of $191,335. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to the OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Gains	$ -	$ 76,577
Assumption Changes	-	18,852
District contributions made subsequent to the measurement date	191,335	-
	$ 191,335	$ 95,429

NOTE 11 – COMMITMENTS AND CONTINGENCIES

A. Contracts

In 2019 the District entered into a 4-year transportation agreement with a private transportation carrier. Estimated annual cost is $775,000 per year excluding a fuel clause adjustment.

B. Federal & 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.

C. Pupil units and other underlying statistical data

Limited audit procedures were applied to the underlying records supporting pupil units, full-time equivalent units transported, lunches served, etc. as procedures are being applied by representatives of the State Office of Education and the information is available from them. Over or understatement of these statistics could change the amounts of various state aids earned.

NOTE 12 – RELATED PARTY TRANSACTIONS

A board member of the District is in management of a local business that the District Utilizes. The District had 8 transactions with the business totaling $8,492 during the year ended June 30, 2020.

NOTE 13 –ISSUED BUT NOT YET EFFECTIVE ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. The first statement issued but not yet implemented that will affect the District is Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will be implemented at the District in the year ended June 30, 2022.

The second statement issued but not yet implemented that will affect the District is Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement will be implemented at the District in the year ended June 30, 2022.

The third statement issued but not yet implemented that will affect the District is Statement No. 94, Public- Private and Public-Public Partnerships and Availability Payment Arrangements. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This Statement will be implemented at the District in the year ended June 30, 2023.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT #2149
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
JUNE 30, 2020

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Local Property Tax Levies	$ 2,580,206	$ 2,537,769	$ 2,530,667	$ (7,102)
Other Local and County Sources	739,025	598,532	611,328	12,796
State Sources	14,457,196	14,793,773	14,977,066	183,293
Federal Sources	429,675	451,331	458,327	6,996
Sales and Other Conversion of Assets	96,743.00	64,971.00	63,507	(1,464)
Total Revenue	18,302,845	18,446,376	18,640,895	194,519
EXPENDITURES				
Administration	708,246	774,584	678,103	(96,481)
District Support Services	509,276	549,868	508,368	(41,500)
Regular Instruction	7,410,955	7,126,495	6,981,806	(144,689)
Vocational Instruction	261,899	278,459	276,637	(1,822)
Special Education Instruction	5,461,415	5,481,006	5,595,087	114,081
Instructional Support Services	428,314	565,797	556,211	(9,586)
Pupil Support Services	1,431,756	1,317,862	1,292,683	(25,179)
Sites and Buildings	2,152,714	2,334,121	2,222,280	(111,841)
Fiscal and Other Fixed-Cost Programs	81,806	80,396	80,394	(2)
Total Expenditures	18,446,381	18,508,588	18,191,569	(317,019)
EXCESS OF REVENUES OVER EXPENDITURES	(143,536)	(62,212)	449,326	511,538
NET CHANGE IN FUND BALANCE	(143,536)	(62,212)	449,326	511,538
Fund Balance - Beginning of Year	2,239,861	2,239,861	2,239,861	-
FUND BALANCE - END OF YEAR	2,096,325	2,177,649	2,689,187	511,538

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting Policies

The budget for each fund is prepared on the same basis of accounting as the financial statements. Each June, the School Board adopts an annual budget for the following fiscal year for the General Fund, Food Service, Community Service, Capital Projects and Debt Service Funds. Under GASB 34 only the General Fund and major special revenue fund budgets should be reported as required supplementary information. The district does not have any major special revenue funds, so only the General Fund Budget is being shown as required supplementary information. Budgets presented in this report for comparison to actual amounts are presented in accordance with generally accepted accounting principles.

Formal budgetary integration is employed as a management control device during the year for all the funds.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed by the District to assure effective budgetary control and to facilitate effective cash planning and control. Encumbrance information has not been incorporated into the financial statements, however.

INDEPENDENT SCHOOL DISTRICT #2149
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS AND SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
JUNE 30, 2020

Schedule of Changes in Net OPEB Liability and Related Ratios

	June 30, 2020
Total Opeb Liability	
Service Cost	$ 97,260
Interest Cost	68,593
Assumption Changes	(21,546)
Differences between Expected and Actual Experience	(87,517)
Benefit Payments	(230,239)
Net Change in Total OPEB Liability	(173,449)
Net OPEB Obligation, Beginning of Year	2,034,336
Net OPEB Obligation, End of Year	$ 1,860,887
Covered Employee Payroll	$ 10,167,621

Schedule of Employer Contributions - OPEB

Actuarially Delermind Contribution	$ 230,239
Contributions in Relation to the Actuarially Determined Contributions	(230,239)
Contributions Deficiency (Excess)	-

Note: These schedules are intended to show ten-year trend. Additional years will be reported as they become available.

Note to the Schedule of Changes in Net OPEB Liability and Related Ratios

The District implemented the GASB 75 of June 30, 2019 and as such there have been 2 valuations performed. The valuation date was July 1, 2020 and the measurement date was July 1, 2019.

Assumption Changes:

- June 30, 2020
  - Health care trend rates, mortality tables, and salary increase rates were updated
  - The Discount rate was changed from 3.4% to 3.1%
- June 30, 2019
  - None

No assets are accumulated in a trust that meets the criteria in GASB No.75, Paragraph 4 to pay related benefits.

INDEPENDENT SCHOOL DISTRICT #2149
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY, AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
YEAR ENDED JUNE 30, 2020

Schedule of Proportionate Share of the Net Pension Liability

Plan	Actuarial Valuation Date	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability	Employer's Covered-Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	6/30/2019	0.0471%	2,526,651	$ 78,497	$ 3,076,923	82.12%	80.20%
PERA	6/30/2018	0.0449%	$ 2,490,868	$ 81,753	$ 3,020,573	82.46%	79.50%
PERA	6/30/2017	0.0436%	$ 2,783,395	$ 42,994	$ 2,815,040	98.88%	75.90%
PERA	6/30/2016	0.0409%	$ 3,320,877	$ 43,441	$ 2,557,505	129.85%	68.90%
PERA	6/30/2015	0.0441%	$ 2,285,493	$ -	$ 2,622,477	87.15%	78.20%
PERA	6/30/2014	0.0464%	$ 2,179,640	$ -	$ 2,462,836	88.50%	78.70%
TRA	6/30/2019	0.1234%	$ 7,865,542	$ 695,970	$ 7,004,617	112.29%	78.07%
TRA	6/30/2018	0.1208%	$ 7,587,371	$ 712,590	$ 6,671,333	113.73%	78.07%
TRA	6/30/2017	0.1162%	$ 23,195,628	$ 2,241,672	$ 6,317,747	367.15%	51.57%
TRA	6/30/2016	0.1182%	$ 28,193,520	$ 2,830,673	$ 6,263,526	450.12%	44.88%
TRA	6/30/2015	0.1206%	$ 7,460,303	$ 915,126	$ 6,118,707	121.93%	76.80%
TRA	6/30/2014	0.1191%	$ 5,488,042	$ 386,141	$ 6,051,472	90.69%	81.50%

Schedule of Employer Contributions

	Year Ended June 30,	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
PERA	2020	$ 242,672	$ 242,672	$ -	$ 3,235,627	7.50%
PERA	2019	$ 243,327	$ 243,327	$ -	$ 3,244,360	7.50%
PERA	2018	$ 226,543	$ 226,543	$ -	$ 3,020,573	7.50%
PERA	2017	$ 211,128	$ 211,128	$ -	$ 2,815,040	7.50%
PERA	2016	$ 189,121	$ 189,121	$ -	$ 2,557,505	7.50%
PERA	2015	$ 196,632	$ 196,632	$ -	$ 2,622,477	7.40%
PERA	2014	$ 178,740	$ 178,740	$ -	$ 2,462,836	7.25%
TRA	2020	$ 540,056	$ 540,056	$ -	$ 7,004,617	7.71%
TRA	2019	$ 500,350	$ 500,350	$ -	$ 6,671,333	7.50%
TRA	2018	$ 504,810	$ 504,810	$ -	$ 6,730,800	7.50%
TRA	2017	$ 473,831	$ 473,831	$ -	$ 6,317,747	7.50%
TRA	2016	$ 462,342	$ 462,342	$ -	$ 6,263,526	7.50%
TRA	2015	$ 452,194	$ 452,194	$ -	$ 6,118,707	7.50%

These tables are intended to show 10-year trend information. As such, more years will be added as they become available.

PERA – GENERAL EMPLOYEES RETIREMENT FUND

2019 Changes in Actuarial Assumptions

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

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.

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% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, 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 form 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio, to 50.00% of the Social Security cost of Living Adjustment, not less than 1.00% and not more than 1.50%, 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 form 1.00% per year through 2044, and 2.50% per year thereafter, to 1.25% per year.

2017 Changes in Plan Provision

- The state's special funding contribution increased from $6 million to $16 million.

2017 Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed form 0.80% for active members and 60.00% for vested and nonvested deferred members. The revised CSA loads are now 0.00% for active member liability, 15.00% for vested deferred member liability, and 3.00% for nonvested member liability.
- The assumed post-retirement benefit increase rate was changed form 1.00% per year for all years, to 1.00% per year through 2044, and 2.5% per year thereafter.

2016 Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.00% per year through 2035, and 2.50% per year thereafter, to 1.00% per year for all years.
- The assumed investment return was changed from 7.90% to 7.50%. The single discount rate was changed from 7.90% to 7.50%.
- 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% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes in Plan Provision

- 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 fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised.

PERA – GENERAL EMPLOYEES RETIREMENT FUND (CONTINUED)

2015 Changes in Actuarial Assumptions

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

TEACHERS RETIRMENT ASSOCIATION (TRA)

2019 Changes in Actuarial Assumptions

- The COLA was reduced from 2.0% each January to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zer0 percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5&, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.5% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

2018 Changes in Actuarial Assumptions

- The cost of living adjustment (COLA) was reduce from 2.00% each January 1 to 1.00%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.10% each year until reaching the ultimate rate of 1.50% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement 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% if the funded ratio was at least 90.00% 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 in deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.00% to 3.00%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.50% to 7.50%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022 and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.
- The single discount rate changed from 5.12% to 7.50%

TEACHERS RETIRMENT ASSOCIATION (TRA) (CONTINUED)

2017 Changes in Actuarial Assumptions

- The COLA was assumed to increase from 2.00% annually to 2.50% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.50%, but remain at 2.00% for all future years.
- Adjustments were made to the CSA loads. The active load was reduced from 1.40% to zero percent, the vested inactive load increased from 4.00% to 7.00%, and the nonvested inactive load increased from 4.00% to 9.00%.
- The investment return assumption was changed from 8.00% to 7.50%.
- The price inflation assumption was lowered from 2.75% to 2.50%.
- The payroll growth assumption was lowered from 3.50% to 3.00%.
- The general wage growth assumption was lowered from 3.50% to 2.85% for 10 years, followed by 3.25% 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% to 5.12%.

2016 Changes in Actuarial Assumptions

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

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

OTHER SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT #2149
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2020

	Food Service	Community Service	Totals
ASSETS			
Cash and Cash Equivalents	$ 109,310	$ 143,907	$ 253,217
Receivables			
Current Property Taxes	-	81,944	81,944
Delinquent Property Taxes	-	1,478	1,478
Accounts	540	274	814
Due from Other Governments	-	9,625	9,625
Inventories	15,114	-	15,114
Total Assets	124,964	237,228	362,192
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Account Payable	11,365	935	12,300
Salaries Payable	-	17,708	17,708
Total Liabilities	11,365	18,643	30,008
DEFERRED INFLOWS OF RESOURCES			
Deferred Revenue	25,644	4,858	30,502
Property Taxes Levied for Subsequent Year	-	160,717	160,717
Total Deferred Inflows of Resources	25,644	165,575	191,219
FUND BALANCES			
Nonspendable	15,113	-	15,113
Restricted for Specific Purposes	72,842	53,010	125,852
Unassigned	-	-	-
Total Fund Balances	87,955	53,010	140,965
Total Liabilities Deferred Inflows of Resources and Fund Balances	$ 124,964	$ 237,228	$ 362,192

INDEPENDENT SCHOOL DISTRICT #2149
COMBINING STATEMENT OF REVENUES. EXPENDITURES AND CHANGES IN FUND BALANCE – NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2020

	Food Service	Community Service	Totals
REVENUES			
Local Property Tax Levies	$ -	$ 140,551	$ 140,551
Other Local and County Sources	1,233	286,512	287,745
State Sources	66,334	97,739	164,073
Federal Sources	381,334	-	381,334
Sales and Other Conversion of Assets	346,625	8,733	355,358
Total Revenue	795,526	533,535	1,329,061
EXPENDITURES			
Community Education and Services	-	571,353	571,353
Pupil Support Services	837,941	-	837,941
Total Expenditures	837,941	571,353	1,409,294
EXCESS OF REVENUES OVER EXPENDITURES	(42,415)	(37,818)	(80,233)
NET CHANGE IN FUND BALANCE	(42,415)	(37,818)	(80,233)
Fund Balance - Beginning of Year	130,370	90,828	221,198
FUND BALANCE - END OF YEAR	$ 87,955	$ 53,010	$ 140,965

INDEPENDENT SCHOOL DISTRICT #2149
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2020

	Audit	UFARS	Audit UFARS Difference
01 GENERAL FUND			
Total Revenue	$ 18,640,895	$ 18,640,894	$ (1)
Total Expenditures	18,191,569	18,191,566	(3)
Non Spendable:			
4.60 Non Spendable Fund Balance	18,110	18,110	-
Restricted / Reserved:			
4.01 Student Activities	175,366	175,366	-
4.03 Staff Development	611	611	-
4.05 Deferred Maintenance	-	-	-
4.06 Health and Safety	-	-	-
4.07 Capital Projects Levy	(74,931)	(74,931)	-
4.08 Cooperative Revenue	-	-	-
4.14 Operating Debt	-	-	-
4.16 Levy Reduction	-	-	-
4.17 Taconite Building Maint	-	-	-
4.23 Certain Teacher Programs	-	-	-
4.24 Operating Capital	21,809	21,809	-
4.26 $25 Taconite	-	-	-
4.27 Disabled Accessibility	-	-	-
4.28 Learning & Development	-	-	-
4.34 Area Learning Center	-	-	-
4.35 Contracted Alt. Programs	-	-	-
4.36 State Approved Alt. Program	-	-	-
4.38 Gifted & Talented	326	326	-
4.41 Basic Skills Programs	-	-	-
4.45 Career Tech Programs	-	-	-
4.49 Safe School Crime	39,384	39,384	-
4.50 Pre-Kindergarten	-	-	-
4.51 QZAB Payments	-	-	-
4.53 Unfunded Sev & Retiremt Levy	110,888	110,888	-
4.67 LTFM	(245,698)	(245,698)	-
Restricted:			
4.64 Restricted Fund Balance	-	-	-
Committed:			
4.18 Committed for Separation	-	-	-
4.61 Committed Fund Balance	-	-	-
Assigned:			
4.62 Assigned Fund Balance	7,572	7,572	-
Unassigned:			
4.22 Unassigned Fund Balance	2,635,752	2,635,752	-
02 FOOD SERVICES			
Total Revenue	$ 795,526	$ 795,526	$ -
Total Expenditures	837,941	837,942	1
Non Spendable:			
4.60 Non Spendable Fund Balance	15,114	15,114	-
Restricted / Reserved:			
4.52 OPEB Liab Not In Trust	-	-	-
Restricted:			
4.64 Restricted Fund Balance	72,841	72,841	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-

	Audit	UFARS	Audit UFARS Difference
04 COMMUNITY SERVICE			
Total Revenue	$ 533,535	$ 533,535	$ -
Total Expenditures	571,353	571,352	(1)
Non Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted / Reserved:			
4.26 $25 Taconite	-	-	-
4.31 Community Education	43,865	43,865	-
4.32 E.C.F.E	-	-	-
4.44 School Readiness	6,202	6,202	-
4.47 Adult Basic Education	-	-	-
4.52 OPEB Liab Not In Trust	-	-	-
Restricted:			
4.64 Restricted Fund Balance	2,944	2,944	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-
07 DEBT SERVICE			
Total Revenue	$1,520,631	$1,520,631	$ -
Total Expenditures	1,485,625	1,485,625	-
Non Spendable:			
4.60 Non Spendable Fund Balance	-	-	-
Restricted / Reserved:			
4.25 Bond Refundings	-	-	-
4.51 QZAB Payments	-	-	-
Restricted:			
4.64 Restricted Fund Balance	441,718	441,718	-
Unassigned:			
4.63 Unassigned Fund Balance	-	-	-

NOTES TO TABLE

The District has no balances to report in funds 06,08,20,25,45, or 47.

Statutory negative restricted deficits are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

INDEPENDENT SCHOOL DISTRICT #2149
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND RELATED NOTES
YEAR ENDED JUNE 30, 2020

U.S. Department of Education	Federal CFDA #		Federal Expenditures		
Passed Thru Minnesota Department of Education					
Special Education Cluster					
Special Education - Grants to State	84.027	$	232,547		
Special Education - Preschool Grants	84.173		15,122		
Total Special Education Cluster				$	247,669
Special Education - Grants for Infants and Families	84.181				2,790
Title 1 Grants to Local Education Agencies	84.010				166,906
Improving Teacher Quality State Grants	84.367				30,953
Title IV Grant	84.424				5,104
Career and Technical Education - Basic Grants to States	84.048				4,906
Total U.S. Department of Education					458,328
US Department of Agriculture					
Passed through Minnesota Department of Education					
Child Nutrition Cluster:					
School Breakfast Program	10.553		66,570		
National School Lunch Program	10.555		203,838		
Summer Food Service Program for Children	10.559		110,926		
Total U.S. Department of Agriculture					381,334
Total Federal Awards				$	839,662

Notes to Schedule of Expenditures of Federal Awards

Note 1: **Basis of Presentation**: The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in fund balance, or cash flows of the District.

Note 2: **Summary of Significant Accounting Policies:** Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10% de minims indirect cost rate as allowed under Uniform Guidance.

Note 2: Non-monetary assistance of $45,390 is reported in this schedule, representing the value of commodities received and disbursed for the U.S. Department of Agriculture National School Lunch Program (CFDA No. 10.555).

Note 3: 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 4: During the year ended June 30, 2020 the District did not pass any federal money to sub-recipients.

OTHER REPORTS AND COMMUNICATIONS

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

To the School Board of
Independent School District #2149
Minnewaska Area Schools

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #2149, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Independent School District #2149's basic financial statements and have issued my report thereon dated December 14, 2020.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered Independent School District #2149's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independent School District #2149's internal control. Accordingly, I do not express an opinion on the effectiveness of Independent School District #2149's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying schedule of findings and questioned costs, I did identify certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

School Board of
Independent School District #2149

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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. I consider the deficiencies described in the accompanying schedule of findings and questioned costs as items, 2020-001 and 2020-002, to be material weaknesses.

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.

Compliance and Other Matters

In connection with my engagement to audit the financial statements of Independent School District #2149, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Independent School District #2149's Response to Findings

The Independent School District #2149's response to the findings identified in my audit is described in the accompanying Schedule of Findings and Questioned Costs. I did not audit Independent School District #2149's responses and, accordingly, I express no opinion on them.

Purpose of this Report

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

Brian D. Koehn, CPA, PLLC
Parkers Prairie, Minnesota
December 14, 2020

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

To the School Board of
Independent School District #2149
Minnewaska Area Schools

Report on Compliance for Each Major Federal Program

I have audited the Independent School District #2149's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Independent School District #2149's major federal programs for the year ended June 30, 2020. Independent School District #2149's major federal programs are identified in the summary of auditor's 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

My responsibility is to express an opinion on compliance for each of the Independent School District #2149's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my 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 I 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 Independent School District #2149's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Independent School District #2149's compliance.

Opinion on Each Major Federal Program

In my opinion, Independent School District #2149 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

School Board of
Independent School District #2149

Report on Internal Control over Compliance

Management of Independent School District #2149 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Independent School District #2149's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Independent School District #2149'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 a 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.

My 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. I did not identify any deficiency in internal control over compliance, that I consider to be material weakness.

Independent School District #2149's response to the internal control over compliance findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Independent School District #2149's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of my 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.

Brian D. Koehn, CPA, PLLC

Brian D. Koehn, CPA, PLLC
Parkers Prairie, Minnesota
December 14, 2020

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the School Board of
Independent School District #2149
MInnewaska Area Schools

I 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 #2149, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Independent School District #2149's basic financial statements and have issued my report thereon dated December 14, 2020.

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

In connection with my audit, nothing came to my attention that caused us to believe that Independent School District #2149 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Schools* except as described in the Schedule of Findings and Questioned Costs as Finding 2020-003, 2020-004 and 2020-005*.* However, my audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had I performed additional procedures, other matters may have come to my attention regarding the Independent School District #2149's noncompliance with the above referenced provisions.

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

Brian D. Koehn, CPA, PLLC

Brian D. Koehn, CPA, PLLC
Parkers Prairie, Minnesota
December 14, 2020

INDEPENDENT SCHOOL DISTRICT #2149
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2020

A- SUMMARY OF AUDIT RESULTS

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

Financial Statements

Type of Auditor's Report Issued	Unmodified
Internal Control over Financial Reporting	
Material weaknesses identified?	Yes
Significant deficiences identified not considered to be materal weaknesses?	Yes
Noncompliance material to financial statements noted?	None Reported

Federal Awards

Internal Control over Financial Reporting	
Material weaknesses identified?	None Reported
Significant deficiences identified not considered to be materal weaknesses?	None Reported
Type of Auditor's Report Issued on Compliance for Major Programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance (2 CFR 200.516(a).	None Reported

Programs Tested as Major Programs:

Name of Federal Program / Cluster	CFDA Number
Child Nutrition Cluster	10.553, 10.555, 10.559

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low risk?	No

B – FINANCIAL STATEMENT FINDINGS (CONTINUED)

The following findings 2020-001 & 2020-002 have been reported as material weaknesses in internal control.

Finding 2020-001 Lack of Segregation of Accounting Duties (Same finding as Prior Year)

Criteria: A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping, and reconciliation function.

Condition: The District does not have adequate segregation of accounting duties.

Context: This finding impacts the internal control for all significant accounting functions.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Cause: Due to personnel constraints, one person is performing or reviewing all the accounting functions of cash receipts, disbursements & journal entries.

Recommendation: While I recognize the District’s office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective internal control structure, it is important that the District be aware of this condition.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings: District does not dispute this finding.

Actions Planned in Response to Finding: Administration will review the segregation of accounting duties to attempt to resolve the lack of segregation of duties within the District office until it becomes cost prohibitive.

Official Responsible for Ensuring CAP: Superintendent/Business Manager.

Planned Completion Date for CAP: June 30, 2021

Plan to Monitor Completion of CAP: The School Board will monitor this CAP.

B – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Finding 2020-002 Period End Financial Reporting Process (Same finding as Prior Year)

Criteria: Internal controls should be in place to provide reasonable assurance to the School District that management prepare, monitor, and report annual financial activity without auditor intervention.

Condition: Personnel responsible for financial reporting have time and monetary constraints that require assistance in preparing the financial statements and related footnotes in accordance with GAAP.

Context: The District will continue to rely upon the audit firm to assist in drafting the financial statements and footnotes. Management will review and approve.

Effect: Departures from generally accepted accounting principles may not be detected by the District.

Cause: The School District personnel do not have the time, or money to have the resources to prepare the financial statements and related footnotes in accordance with GAAP.

Recommendation: The District should continue to document its annual review of the financial statements prepared by the auditor, by a designated member of the District and the School Board should be aware of the condition.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings: District does not dispute this finding.

Actions Planned in Response to Finding: District personnel will continue to annually get additional training on GAAP requirements and continue to utilize auditing firm to prepare financial statements and footnotes. In addition, District will document its review of the statements prepared by auditor to assure accuracy and retain documentation of those reviews.

Official Responsible for Ensuring CAP: Superintendent/Business Manager.

Planned Completion Date for CAP: Ongoing

Plan to Monitor Completion of CAP: The corrective action plan will be monitored by the School Board.

C – FEDERAL AWARD FINDINGS & QUESTIONED COSTS

None Reported

D – PRIOR YEAR FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Audit Finding 2019-002 – Financial Oversight & Monitoring Controls

During the prior year audit, the predecessor auditor noted that the audit firm proposed, and the District posted to its general ledger several journal entries to correct material misstatements that were not initially identified by the District's internal control procedures. These adjustments were related to revenues, payables, and retirement obligations and capital assets.

CORRECTIVE ACTION TAKEN:

During the year ended June 30, 2020, the District completed more entries and initially identified other entries that were needed. The auditor did not propose any material adjusting journal that were not identified by the District.

Audit Finding 2019-004 – Child Nutrition Cluster (CFDA 10.533, 10.555) & Special Ed Cluster (CFDA 84.027, 84.173): Grant Period – Year Ended June 30, 2019, Department of Agriculture & Department of Education, passed through Minnesota Department of Education (Same finding as Prior Year)

During the prior year audit, the predecessor auditor noted there was inadequate segregation of duties and no written policy related to federal programs.

CORRECTIVE ACTION TAKEN:

The district adopted a new policy titled "Uniform Grant Guidance Policy Regarding Federal Revenue Sources" in November of 2019. This policy was implemented and followed during the year ended June 30, 2020.

Audit Finding 2019-005 Contracting/Bid Laws

One quote and one bid tested had no documentation for why the lowest quote or bid was not accepted.

CORRECTIVE ACTION TAKEN:

The District either accepted the lowest bids or documented why a higher amount was approved during the year ended June 30, 2020.

Audit Finding 2019-006 Non School Activities

The District has included Booster Clubs as part of the District's General Fund.

CORRECTIVE ACTION TAKEN:

The District reviewed the accounts in Student Activities to ensure compliance during the year ended June 30, 2020.

E – FINDINGS RELATED TO MINNESOTA LEGAL COMPLIANCE

Finding 2020-003 Donations Accepted by Resolution

Criteria: Minnesota Statutes 465.03 requires the District to accept all gifts on terms prescribed by the donor by a resolution of the School Board.

Condition: The School Board accepted donations by motion during the year ended June 30, 2020.

Context: This finding impacts the District's compliance with Minnesota Statutes.

Effect: The District was not in compliance with Minnesota Statutes.

Cause: The District did not fully understand the requirement.

Recommendation: I recommend the District accept all gifts and donations by Resolution.
#

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings: District does not dispute this finding.

Actions Planned in Response to Finding: The District has changed its policies during the year ended June 30, 2021 to accept donations by resolution instead of by motion.

Official Responsible for Ensuring CAP: Superintendent.

Planned Completion Date for CAP: June 30, 2021

Plan to Monitor Completion of CAP: The School Board will monitor this CAP.

E – FINDINGS RELATED TO MINNESOTA LEGAL COMPLIANCE (CONTINUED)

Finding 2020-004 Transactions with a Board Member

Criteria: Minnesota Statutes 471.89 requires the District to, prior to performance of the contract, authorize the contract by adopting a resolution setting forth the essential facts and determining that the contract price was as low or lower than the price at which the commodity or service could be obtained elsewhere? The statute also requires the interested officer (board member) to file an affidavit with the District with similar information prior to payment.

Condition: The School Board did adopt the resolution prior to transactions with a Board member.

Context: This finding impacts the District's compliance with Minnesota Statutes.

Effect: The District was not in compliance with Minnesota Statutes.

Cause: The District did not fully understand the requirement.

Recommendation: I recommend the District obtain the affidavit and adopt a resolution annually prior to payment to Board members.
#

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings: District does not dispute this finding.

Actions Planned in Response to Finding: The District has changed its policies during the year ended June 30, 2021 to require the affidavit and resolution.

Official Responsible for Ensuring CAP: Superintendent.

Planned Completion Date for CAP: June 30, 2021

Plan to Monitor Completion of CAP: The School Board will monitor this CAP.

E – FINDINGS RELATED TO MINNESOTA LEGAL COMPLIANCE (CONTINUED)

Finding 2020-005 Compliance with the Manual for Activity Fund Accounting

Criteria: Minnesota Statutes 123b.77 requires the District to adopt the uniform financial accounting and reporting standards for Minnesota school districts provided for in guidelines adopted by the Minnesota Department of Education. This would include chapter 14 Student Activity Accounting or Manual for Activity Fund Accounting (MAFA). There was a new version of MAFA issued that was effective for the year ended June 30, 2020.

Condition: The District did not fully implement the procedures and standards required by MAFA for the year ended June 30, 2020. The District was not in compliance with the following provisions:

- Obtain a Student Activity Purpose Summary on an annual basis?

Context: This finding impacts the District's compliance with Minnesota Statutes.

Effect: The District was not in compliance with Minnesota Statutes.

Cause: The District did not fully understand the requirement

Recommendation: I recommend the District review MAFA and adopt procedures to ensure compliance.
#

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Findings: District does not dispute this finding.

Actions Planned in Response to Finding: The District has already changed its procedures related to student activities. Student Activity Purpose Summaries will be obtained for the year ended June 30, 2021. The District will also work to ensure compliance with MAFA during the year ended June 30, 2021.

Official Responsible for Ensuring CAP: Business Manager.

Planned Completion Date for CAP: June 30, 2021

Plan to Monitor Completion of CAP: The School Board will monitor this CAP.