INDEPENDENT SCHOOL DISTRICT NO. 139
RUSH CITY, MINNESOTA

Financial Statements and
Supplemental Information

Year Ended
June 30, 2021

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INDEPENDENT SCHOOL DISTRICT NO. 139

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INTRODUCTORY SECTION

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INDEPENDENT SCHOOL DISTRICT NO. 139

School Board and Administration
Year Ended June 30, 2021

SCHOOL BOARD

School Board Members	Position
Stefanie Folkema	Chairperson
Teri Umbreit	Vice Chairperson
Kristin Papke	Clerk
Matthew Meissner	Treasurer
Kenneth Lind	Director
Jennifer Widell	Director

ADMINISTRATION

Brent Stavig	Superintendent
Kerstin Quigley	Business Manager

FINANCIAL SECTION

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 139
Rush City, Minnesota

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 139 (the District) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

(continued)

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
5353 Wayzata Boulevard • Suite 410 • Minneapolis, MN 55416 • Phone: 952-545-0424 • Fax: 952-545-0569 • www.mmkr.com

OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2021, and the respective changes in financial position and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and supplemental information are presented for purposes of additional analysis and are not required parts of the basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

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

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

(continued)

Prior Year Comparative Information

We have previously audited the District's 2020 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated December 17, 2020. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards,* we have also issued our report dated January 23, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Minneapolis, Minnesota
January 23, 2023

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This section of Independent School District No. 139's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2021. Please read it in conjunction with the other components of the District's annual financial statements.

FINANCIAL HIGHLIGHTS

- The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at June 30, 2021 by $3,958,524. The District's total net position increased by $1,244,663 during the fiscal year ended June 30, 2021.

- Government-wide revenues totaled $13,179,531 and were $1,244,663 more than expenses of $11,934,868.

- The General Fund's total fund balance (under the governmental fund presentation) increased $1,329,464 from the prior year, compared to an increase of $1,178,391 planned in the budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- Independent Auditor's Report;
- Management's discussion and analysis;
- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements;
- Required supplementary information; and
- Supplemental information consisting of combining and individual fund statements and schedules.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District requires consideration of additional nonfinancial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

FUND FINANCIAL STATEMENTS

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

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

The District maintains the following kinds of funds:

Governmental Funds – The District's basic services are included in governmental funds, which generally focus on: 1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds financial statements provide a detailed *short-term* view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information (reconciliation schedules) immediately following the governmental funds financial statements that explain the relationship (or differences) between these two types of financial statement presentations.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to other organizations or individuals. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

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

Table 1
Summary Statement of Net Position
as of June 30, 2021 and 2020

	2021	2020
Assets		
Current and other assets	$ 9,992,400	$ 8,670,216
Capital assets, net of depreciation	15,042,296	16,017,504
Total assets	$ 25,034,696	$ 24,687,720
Deferred outflows of resources		
Pension plan deferments	$ 2,946,317	$ 4,285,949
OPEB plan deferments	37,381	20,573
Total deferred outflows of resources	$ 2,983,698	$ 4,306,522
Liabilities		
Current and other liabilities	$ 1,196,258	$ 1,052,232
Long-term liabilities, including due within one year	15,007,877	15,200,020
Total liabilities	$ 16,204,135	$ 16,252,252
Deferred inflows of resources		
Property taxes levied for subsequent year	$ 3,189,889	$ 3,166,716
Pension plan deferments	4,653,892	6,846,470
OPEB plan deferments	11,954	14,943
Total deferred inflows of resources	$ 7,855,735	$ 10,028,129
Net position		
Net investment in capital assets	$ 7,793,385	$ 7,459,658
Restricted	1,777,541	1,088,685
Unrestricted	(5,612,402)	(5,834,482)
Total net position	$ 3,958,524	$ 2,713,861

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

The District's increase in net investment in capital assets is due mostly to the relationship between the rate at which the District's capital assets are being depreciated and how that compares to the rate at which the District is repaying the debt issued to purchase or construct those assets. The District's increase in net position restricted for capital asset acquisition and facilities maintenance, other state funding purposes, and debt service primarily contributed to the increase in the restricted portion of net position. The change in the District's share of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) pension plans also contributed to the change in deferred outflows, long-term liabilities, deferred inflows, and unrestricted net position. Positive operations in the current year also contributed to the increases in current assets and unrestricted net position.

Table 2 presents a summarized version of the District's Statement of Activities:

Table 2
Summary Statement of Activities
Years Ended June 30, 2021 and 2020

	2021	2020
Revenues		
Program revenues		
Charges for services	$ 256,353	$ 689,927
Operating grants and contributions	2,461,531	2,121,375
General revenues		
Property taxes	3,167,543	3,054,255
General grants and aids	7,178,152	6,783,191
Other	115,952	215,866
Total revenues	13,179,531	12,864,614
Expenses		
Administration	778,610	792,186
District support services	394,701	327,371
Elementary and secondary regular instruction	4,246,307	4,220,444
Vocational education instruction	235,324	210,563
Special education instruction	1,946,394	1,932,194
Instructional support services	754,866	852,483
Pupil support services	663,792	725,244
Sites and buildings	1,245,545	1,009,877
Fiscal and other fixed cost programs	78,083	80,195
Food service	351,556	451,082
Community service	360,480	484,443
Depreciation not included in other functions	710,510	723,123
Interest and fiscal charges	168,700	208,624
Total expenses	11,934,868	12,017,829
Change in net position	1,244,663	846,785
Net position – beginning	2,713,861	1,867,076
Net position – ending	$ 3,958,524	$ 2,713,861

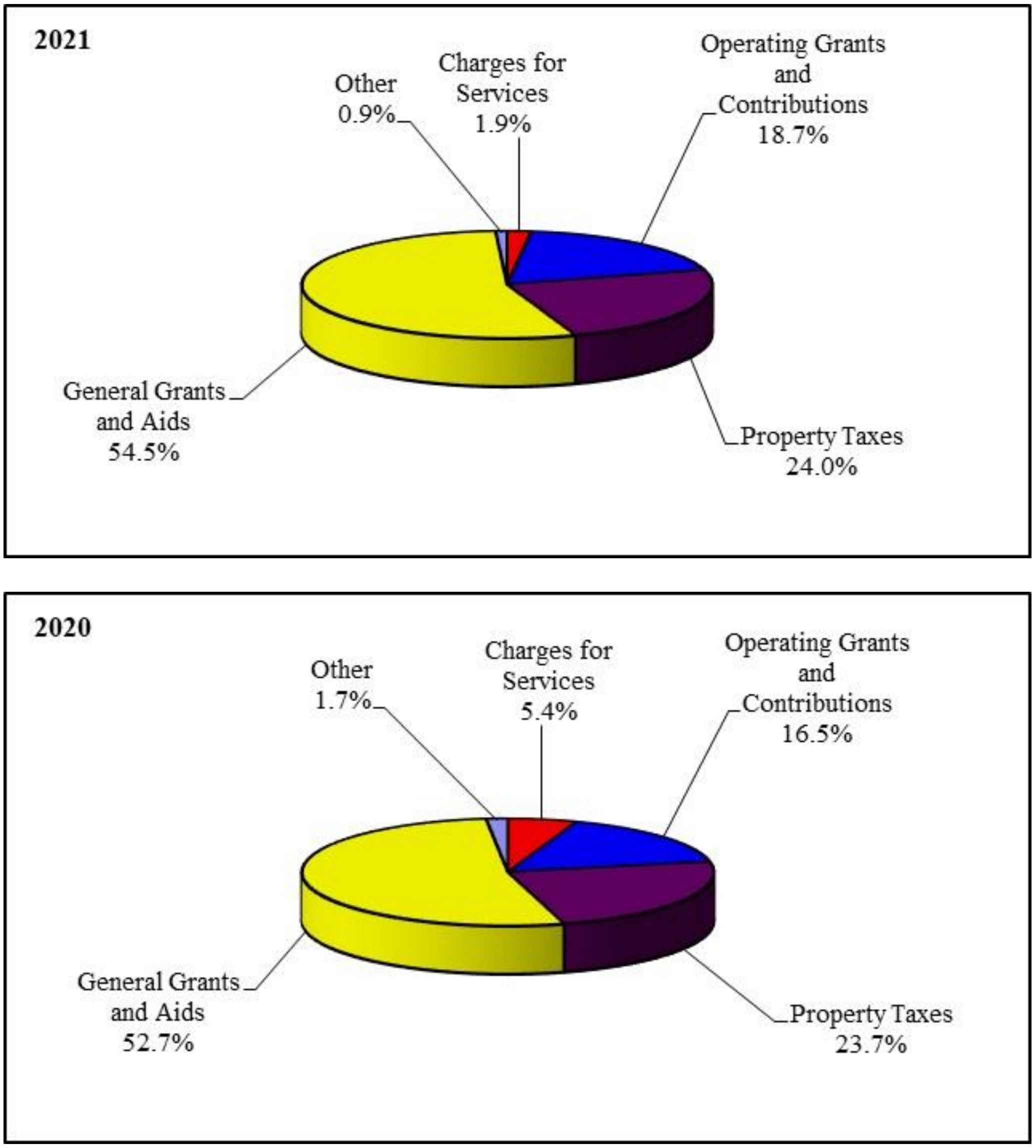
This table is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

The decrease in charges for services and other general revenues was largely due to the change with distance learning caused by the COVID-19 pandemic. Operating grants and contributions, along with general grants and aids, increased from the prior year, due to increased COVID-19 pandemic-related stimulus funding received by the District in the current year. An increase in the approved levy contributed to the change in property taxes in the current year.

Spending was also impacted by the COVID-19 pandemic, with restrictions reducing expenses in both food service and community service.

Figure A shows further analysis of these revenue sources:

Figure A – Sources of Revenues for Fiscal Years 2021 and 2020

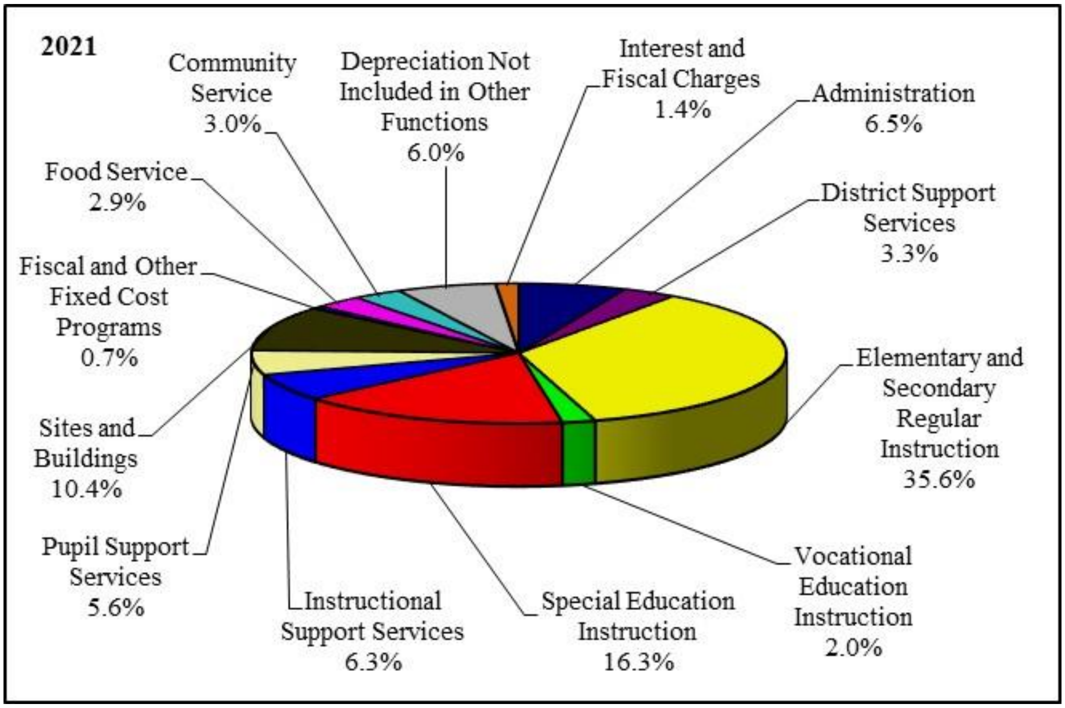


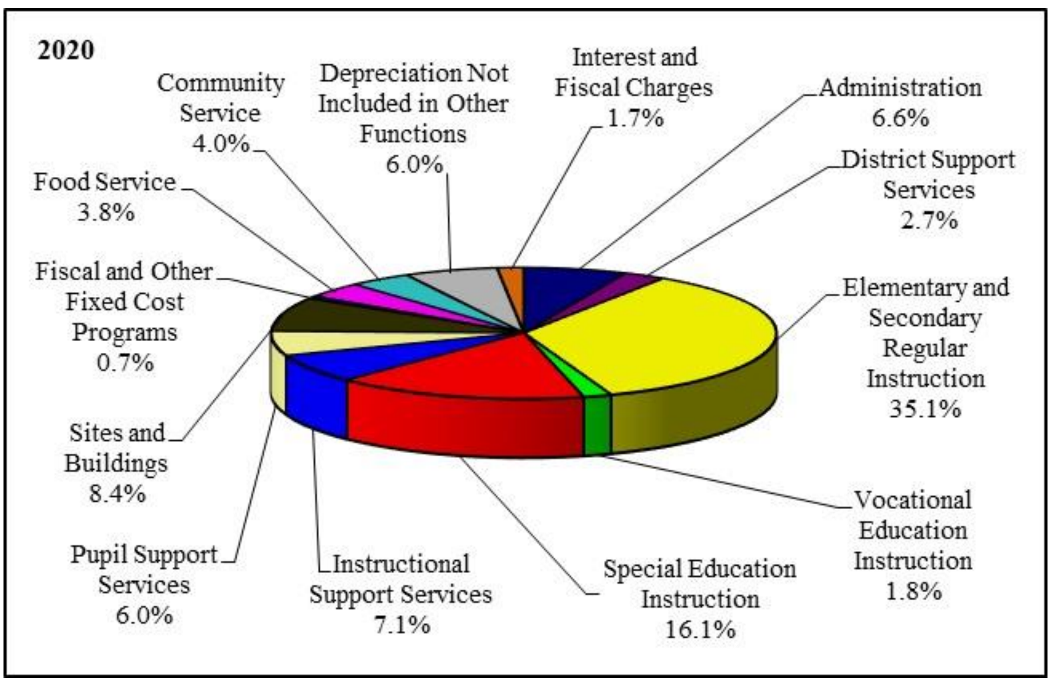
The largest share of the District's revenue is received from the state, including the general education aid formula and most of the operating grants.

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

Figure B shows further analysis of these expense functions:

Figure B – Expenses for Fiscal Years 2021 and 2020





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

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported combined fund balances of $4,701,441, an increase of $1,292,287 from the previous year. This increase was primarily in the General Fund as discussed below.

The General Fund total fund balance increased from $2,486,311 at June 30, 2020 to $3,815,775 at June 30, 2021, an increase of $1,329,464. The District had anticipated an increase of $1,178,391 as planned in the final adopted budget. The current year increase was primarily in assigned fund balance, which increased by $1,500,000 for capital projects.

The Debt Service Fund equity is entirely restricted to pay bonded obligations of the District. The overall fund balance of the Debt Service Fund increased by $9,266 in the current year. The remaining fund balance of $315,122 at June 30, 2021, is available for meeting future debt service obligations.

The Permanent Fund, used to account for the District's Aquatic Center contributions, recognized a slight fund balance increase of $11,652. Investment earnings were more than expenditures in the current year. The Permanent Fund ended the year with a total fund balance of $523,153.

The Food Service Special Revenue Fund reported $41,987 more in expenditures than revenues, reducing the fund balance to a ($26,651) deficit balance. The Community Service Special Revenue Fund reported a decrease in fund balance of $16,108, ending the year with a total fund balance of $74,042.

General Fund Budgetary Points of Interest

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to as the original budget. During the year, the District amended that budget for known changes in circumstances such as updated enrollment levels, legislative funding, funding changes from grants or other local sources, staffing changes, insurance premium changes, special education estimate changes, and employee contract settlements. The original budget anticipated an increase in year-end fund balance of $19,883, while the final amended budget anticipated an increase of $1,178,391 in year-end fund balance.

The General Fund's actual operating results were favorable compared to budget projections, with equity ending the year $151,073 more than the ending projected amounts. Total revenues and other financing sources were $51,738 more than the budgeted amount of $11,141,439. A favorable variance, primarily in state sources ($113,736), contributed to actual revenues surpassing amounts anticipated in the final budget. General Fund programs experienced favorable expenditure variances, with spending ending the year under the total amounts approved in the final budget. Total General Fund expenditures and other financing uses were $99,335 below the budgeted amount of $9,963,048.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

The following table shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ended June 30, 2021 and 2020.

Table 3
Capital Assets

	2021	2020	Change
Land	$ 235,734	$ 235,734	$ –
Land improvements	1,693,180	1,749,979	(56,799)
Buildings	27,101,797	27,170,233	(68,436)
Furniture and equipment	3,050,798	4,226,261	(1,175,463)
Less accumulated depreciation	(17,039,213)	(17,364,703)	325,490
Total	$ 15,042,296	$ 16,017,504	$ (975,208)
Depreciation expense	$ 827,760	$ 876,168	$ (48,408)

By the end of 2021, the District had invested in a broad range of capital assets, including school buildings, athletic facilities, and other equipment for various instructional programs (see Table 3).

The changes presented in the table above reflect the ongoing activity at district sites during fiscal year 2021. The District also completed a major review of its capital asset records to purge old assets and those below their current capitalization policy.

The District defines capital assets as those with an initial, individual cost of $2,500 or more, which benefit more than one fiscal year.

Additional details about capital assets can be found in the notes to basic financial statements.

Long-Term Liabilities

Table 4 illustrates the components of the District's long-term liabilities with changes from the prior year:

Table 4
Outstanding Long-Term Liabilities

	2021	2020	Change
General obligation bonds payable	$ 6,850,000	$ 8,070,000	$ (1,220,000)
Unamortized premium/discount	398,911	487,846	(88,935)
Capital lease payable	902,616	1,038,131	(135,515)
Net pension liability	6,522,914	5,297,006	1,225,908
Total OPEB liability	333,436	307,037	26,399
Total	$ 15,007,877	$ 15,200,020	$ (192,143)

The changes in general obligation bonds payable, unamortized premium/discount, and capital lease payable, in the table above, are primarily due to principal payments and amortization during fiscal year 2021, as planned in the approved repayment schedules.

The differences in the net pension liability reflect the change in the District's proportionate share of the state-wide pension obligations for the PERA and the TRA.

The state limits the amount of general obligation debt the District can issue to 15.0 percent of the market value of all taxable property within the District's corporate limits (see Table 5):

Table 5
Limitations on Debt

District's market value	$ 535,541,200
Limit rate	15.0%
Legal debt limit	$ 80,331,180

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

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of the voter-approved operating referendum, the District is dependent on the state of Minnesota for a majority of its revenue authority.

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. The Legislature has added $161, or 2.45 percent, per pupil to the basic general education funding formula for fiscal year 2022, and an additional $135, or 2.00 percent, per pupil to the formula for fiscal year 2023.

The COVID-19 pandemic caused numerous financial and operational challenges for school districts in fiscal 2021, and is expected to continue to have a significant impact in fiscal 2022 and possibly beyond.

The amount of funding a district receives is also dependent on the number of students it serves, meaning attracting and retaining students is critical to the District's financial well-being. The COVID-19 pandemic will impact how many students the District attracts and maintains. Students choosing to enroll in other online schools, private school options, or kindergarten families choosing to wait a year, will mean less revenue for the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about these statements or need additional financial information, contact the Business Manager and/or the Superintendent, Independent School District No. 139, 51001 Fairfield Avenue, P.O. Box 566, Rush City, Minnesota 55069.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 139

Statement of Net Position
as of June 30, 2021
(With Partial Comparative Information as of June 30, 2020)

	Governmental Activities	
	2021	2020
Assets		
Cash and temporary investments	$ 5,921,009	$ 4,493,087
Receivables		
Current taxes	2,053,365	2,061,833
Delinquent taxes	87,821	104,858
Accounts and interest	–	15,471
Due from other governmental units	1,913,138	1,939,447
Inventory	6,218	14,503
Prepaid items	10,849	41,017
Capital assets		
Not depreciated	235,734	235,734
Depreciated, net of accumulated depreciation	14,806,562	15,781,770
Total capital assets, net of accumulated depreciation	15,042,296	16,017,504
Total assets	25,034,696	24,687,720
Deferred outflows of resources		
Pension plan deferments	2,946,317	4,285,949
OPEB plan deferments	37,381	20,573
Total deferred outflows of resources	2,983,698	4,306,522
Total assets and deferred outflows of resources	$ 28,018,394	$ 28,994,242
Liabilities		
Accounts and contracts payable	$ 1,053,230	$ 950,832
Accrued interest payable	85,625	100,875
Unearned revenue	57,403	525
Long-term liabilities		
Due within one year	1,433,095	1,355,515
Due in more than one year	13,574,782	13,844,505
Total long-term liabilities	15,007,877	15,200,020
Total liabilities	16,204,135	16,252,252
Deferred inflows of resources		
Property taxes levied for subsequent year	3,189,889	3,166,716
Pension plan deferments	4,653,892	6,846,470
OPEB plan deferments	11,954	14,943
Total deferred inflows of resources	7,855,735	10,028,129
Net position		
Net investment in capital assets	7,793,385	7,459,658
Restricted for		
Capital asset acquisition and facilities maintenance	93,470	–
Food service	–	15,336
Community service	96,589	92,519
Other purposes (state funding restrictions)	791,986	210,991
Debt service	272,343	258,338
Permanent Fund		
Expendable	12,153	501
Nonexpendable	511,000	511,000
Unrestricted	(5,612,402)	(5,834,482)
Total net position	3,958,524	2,713,861
Total liabilities, deferred inflows of resources, and net position	$ 28,018,394	$ 28,994,242

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 139

Statement of Activities
Year Ended June 30, 2021
(With Partial Comparative Information for the Year Ended June 30, 2020)

	2021				2020
		Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
Administration	$ 778,610	$ –	$ –	$ (778,610)	$ (792,186)
District support services	394,701	2,788	–	(391,913)	(278,524)
Elementary and secondary regular instruction	4,246,307	62,365	745,270	(3,438,672)	(3,332,532)
Vocational education instruction	235,324	39	10,832	(224,453)	(205,209)
Special education instruction	1,946,394	–	1,129,590	(816,804)	(969,002)
Instructional support services	754,866	32,545	–	(722,321)	(836,746)
Pupil support services	663,792	–	–	(663,792)	(712,056)
Sites and buildings	1,245,545	–	153,723	(1,091,822)	(861,307)
Fiscal and other fixed cost programs	78,083	–	–	(78,083)	(80,195)
Food service	351,556	–	314,067	(37,489)	(46,370)
Community service	360,480	158,616	108,049	(93,815)	(160,653)
Depreciation not included in other functions	710,510	–	–	(710,510)	(723,123)
Interest and fiscal charges	168,700	–	–	(168,700)	(208,624)
Total governmental activities	$ 11,934,868	$ 256,353	$ 2,461,531	(9,216,984)	(9,206,527)
General revenues					
Taxes					
Property taxes, levied for general purposes				1,806,044	1,692,750
Property taxes, levied for community service				61,086	60,063
Property taxes, levied for debt service				1,300,413	1,301,442
General grants and aids				7,178,152	6,783,191
Other general revenues				86,102	155,492
Investment earnings				29,850	60,374
Total general revenues				10,461,647	10,053,312
Change in net position				1,244,663	846,785
Net position – beginning				2,713,861	1,867,076
Net position – ending				$ 3,958,524	$ 2,713,861

See notes to basic financial statements

Balance Sheet
Governmental Funds
as of June 30, 2021
(With Partial Comparative Information as of June 30, 2020)

	General Fund	Debt Service Fund	Permanent Fund
Assets			
Cash and temporary investments	$ 4,485,140	$ 800,348	$ 523,153
Receivables			
Current taxes	1,204,270	809,386	–
Delinquent taxes	43,056	42,846	–
Accounts and interest	–	–	–
Due from other governmental units	1,840,528	10,095	–
Due from other funds	–	–	–
Inventory	–	–	–
Prepaid items	10,849	–	–
Total assets	$ 7,583,843	$ 1,662,675	$ 523,153
Liabilities			
Accounts and contracts payable	$ 998,607	$ –	$ –
Unearned revenue	–	–	–
Due to other funds	–	–	–
Total liabilities	998,607	–	–
Deferred inflows of resources			
Unavailable revenue – long-term receivable	902,616	–	–
Unavailable revenue – delinquent taxes receivable	43,056	42,846	–
Property taxes levied for subsequent year	1,823,789	1,304,707	–
Total deferred inflows of resources	2,769,461	1,347,553	–
Fund balances (deficit)			
Nonspendable	10,849	–	511,000
Restricted	885,456	315,122	12,153
Assigned	1,513,026	–	–
Unassigned	1,406,444	–	–
Total fund balances	3,815,775	315,122	523,153
Total liabilities, deferred inflows of resources, and fund balances	$ 7,583,843	$ 1,662,675	$ 523,153

See notes to basic financial statements

Nonmajor Funds		Total Governmental Funds 2021		2020
$	112,368	$ 5,921,009	$	4,493,087
	39,709	2,053,365		2,061,833
	1,919	87,821		104,858
	–	–		15,471
	62,515	1,913,138		1,939,447
	59,944	59,944		–
	6,218	6,218		14,503
	–	10,849		41,017
$	282,673	$ 10,052,344	$	8,670,216
$	54,623	$ 1,053,230	$	950,832
	57,403	57,403		525
	59,944	59,944		–
	171,970	1,170,577		951,357
	–	902,616		1,038,131
	1,919	87,821		104,858
	61,393	3,189,889		3,166,716
	63,312	4,180,326		4,309,705
	6,218	528,067		566,520
	94,670	1,307,401		608,331
	–	1,513,026		13,026
	(53,497)	1,352,947		2,221,277
	47,391	4,701,441		3,409,154
$	282,673	$ 10,052,344	$	8,670,216

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Reconciliation of the Balance Sheet to the Statement of Net Position Governmental Funds as of June 30, 2021 (With Partial Comparative Information as of June 30, 2020)

	2021	2020
Total fund balances – governmental funds	$ 4,701,441	$ 3,409,154
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	32,081,509	33,382,207
Accumulated depreciation	(17,039,213)	(17,364,703)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable. Debt issuance premiums and discounts are excluded from net position until amortized, but are included in fund balances upon issuance as other financing sources and uses.		
General obligation bonds payable	(6,850,000)	(8,070,000)
Unamortized premium/discount	(398,911)	(487,846)
Capital lease payable	(902,616)	(1,038,131)
Net pension liability	(6,522,914)	(5,297,006)
Total OPEB liability	(333,436)	(307,037)
Accrued interest payable is included in net position, but is excluded from fund balances until due and payable.	(85,625)	(100,875)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows of resources – pension plan deferments	2,946,317	4,285,949
Deferred outflows of resources – OPEB plan deferments	37,381	20,573
Deferred inflows of resources – pension plan deferments	(4,653,892)	(6,846,470)
Deferred inflows of resources – OPEB plan deferments	(11,954)	(14,943)
Deferred inflows of resources – unavailable revenue – long-term receivable	902,616	1,038,131
Deferred inflows of resources – unavailable revenue – delinquent taxes	87,821	104,858
Total net position – governmental activities	$ 3,958,524	$ 2,713,861

INDEPENDENT SCHOOL DISTRICT NO. 139

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2021
(With Partial Comparative Information for the Year Ended June 30, 2020)

	General Fund	Debt Service Fund	Permanent Fund
Revenue			
Local sources			
Property taxes	$ 1,812,120	$ 1,310,924	$ –
Investment earnings	18,012	–	11,838
Other	319,354	–	–
State sources	8,641,819	161,392	–
Federal sources	401,872	–	–
Total revenue	11,193,177	1,472,316	11,838
Expenditures			
Current			
Administration	750,903	–	–
District support services	400,852	–	–
Elementary and secondary regular instruction	3,950,453	–	–
Vocational education instruction	217,681	–	–
Special education instruction	1,893,767	–	–
Instructional support services	728,339	–	–
Pupil support services	740,188	–	–
Sites and buildings	938,283	–	–
Fiscal and other fixed cost programs	77,897	–	186
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	–	–
Debt service			
Principal	135,515	1,220,000	–
Interest and fiscal charges	29,835	243,050	–
Total expenditures	9,863,713	1,463,050	186
Excess (deficiency) of revenue over expenditures	1,329,464	9,266	11,652
Other financing sources (uses)			
Sale of capital assets	–	–	–
Transfers in	–	–	–
Transfers (out)	–	–	–
Total other financing sources (uses)	–	–	–
Net change in fund balances	1,329,464	9,266	11,652
Fund balances			
Beginning of year	2,486,311	305,856	511,501
End of year	$ 3,815,775	$ 315,122	$ 523,153

See notes to basic financial statements

Nonmajor Funds	Total Governmental Funds 2021	Total Governmental Funds 2020
$ 61,536	$ 3,184,580	$ 3,028,796
–	29,850	60,374
141,321	460,675	976,997
112,885	8,916,096	8,560,149
309,231	711,103	342,609
624,973	13,302,304	12,968,925
–	750,903	756,845
–	400,852	327,891
–	3,950,453	4,014,737
–	217,681	207,379
–	1,893,767	1,862,294
–	728,339	813,146
–	740,188	830,440
–	938,283	1,012,103
–	78,083	80,195
338,759	338,759	445,951
344,193	344,193	461,380
116	116	5,503
–	1,355,515	1,316,578
–	272,885	312,372
683,068	12,010,017	12,446,814
(58,095)	1,292,287	522,111
–	–	6,661
–	–	91,149
–	–	(91,149)
–	–	6,661
(58,095)	1,292,287	528,772
105,486	3,409,154	2,880,382
$ 47,391	$ 4,701,441	$ 3,409,154

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INDEPENDENT SCHOOL DISTRICT NO. 139

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2021
(With Partial Comparative Information for the Year Ended June 30, 2020)

	2021	2020
Total net change in fund balances – governmental funds	$ 1,292,287	$ 528,772
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	184,562	362,927
Depreciation expense	(827,760)	(876,168)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.	(332,010)	(10,497)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds payable	1,220,000	1,185,000
Capital lease payable	135,515	131,578
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	15,250	14,813
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	88,935	88,935
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Net pension liability	(1,225,908)	140,717
Total OPEB liability	(26,399)	5,213
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows of resources – pension plan deferments	(1,339,632)	(2,071,820)
Deferred outflows of resources – OPEB plan deferments	16,808	(1,097)
Deferred inflows of resources – pension plan deferments	2,192,578	1,469,474
Deferred inflows of resources – OPEB plan deferments	2,989	(14,943)
Deferred inflows of resources – unavailable revenue – long-term receivable	(135,515)	(131,578)
Deferred inflows of resources – unavailable revenue – delinquent taxes	(17,037)	25,459
Change in net position – governmental activities	$ 1,244,663	$ 846,785

INDEPENDENT SCHOOL DISTRICT NO. 139

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2021
(With Partial Comparative Information for the Year Ended June 30, 2020)

	2021				2020
	Budgeted Amounts			Over (Under)	
	Original	Final	Actual	Final Budget	Actual
Revenue					
Local sources					
Property taxes	$ 1,736,153	$ 1,774,729	$ 1,812,120	$ 37,391	$ 1,671,586
Investment earnings	15,000	40,000	18,012	(21,988)	43,753
Other	483,600	355,970	319,354	(36,616)	574,490
State sources	8,151,888	8,528,083	8,641,819	113,736	8,289,046
Federal sources	201,155	442,657	401,872	(40,785)	139,112
Total revenue	10,587,796	11,141,439	11,193,177	51,738	10,717,987
Expenditures					
Current					
Administration	769,440	844,940	750,903	(94,037)	756,845
District support services	374,388	440,612	400,852	(39,760)	327,891
Elementary and secondary regular instruction	4,487,672	4,032,665	3,950,453	(82,212)	4,014,737
Vocational education instruction	203,853	204,898	217,681	12,783	207,379
Special education instruction	2,012,349	1,778,965	1,893,767	114,802	1,862,294
Instructional support services	741,754	789,697	728,339	(61,358)	813,146
Pupil support services	798,783	547,291	740,188	192,897	830,440
Sites and buildings	929,434	1,058,771	938,283	(120,488)	1,012,103
Fiscal and other fixed cost programs	72,600	64,000	77,897	13,897	68,252
Debt service					
Principal	94,650	135,515	135,515	–	131,578
Interest and fiscal charges	70,700	29,835	29,835	–	33,772
Total expenditures	10,555,623	9,927,189	9,863,713	(63,476)	10,058,437
Excess of revenue over expenditures	32,173	1,214,250	1,329,464	115,214	659,550
Other financing sources (uses)					
Sale of capital assets	1,000	–	–	–	6,661
Transfers (out)	(13,290)	(35,859)	–	35,859	(91,149)
Total other financing sources (uses)	(12,290)	(35,859)	–	35,859	(84,488)
Net change in fund balances	$ 19,883	$ 1,178,391	1,329,464	$ 151,073	575,062
Fund balances					
Beginning of year			2,486,311		1,911,249
End of year			$ 3,815,775		$ 2,486,311

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 139

Statement of Fiduciary Net Position
Fiduciary Funds
as of June 30, 2021

		Scholarship Custodial Fund
Assets		
Cash and temporary investments	$	217,406
Net position		
Restricted for scholarships	$	217,406

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

		Scholarship Custodial Fund
Additions		
Contributions	$	63,587
Deductions		
Scholarships		29,051
Change in net position		34,536
Net position		
Beginning of year		182,870
End of year	$	217,406

See notes to basic financial statements

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Independent School District No. 139 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

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

C. Government-Wide Financial Statement Presentation

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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 internally directed revenues are reported instead as general revenues.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. For capital assets that essentially serve all functional areas, depreciation expense is reported as "depreciation not included in other functions." Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner:

1. **Revenue Recognition** – Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District generally considers revenues, including property taxes, to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

2. **Recording of Expenditures –** Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

Fiduciary funds are presented in the fiduciary fund financial statements by type: the District has a Scholarship Custodial Fund. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Funds

The existence of the various district funds has been established primarily by the 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 – The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

Permanent Fund – The Permanent Fund accounts for the Aquatic Center's contributions received and held by the District as restricted for pool center operations. Disbursements from the Permanent Fund are made in accordance with the trust agreement.

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is used primarily to record financial activities of the District's child nutrition program.

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

Fiduciary Fund

Scholarship Custodial Fund – The Scholarship Custodial Fund is used to account for resources held by the District, in a custodial capacity for others, to provide college scholarships for graduating students. There is no requirement that any portion of these resources be preserved as capital.

E. Budgetary Information

The School Board adopts an annual budget for most governmental funds. The District does not adopt a budget for the Permanent Fund. The budget for each fund is prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Budgeted appropriations lapse at year-end.

Actual expenditures exceeded final appropriations in the current year by $84,892, $30,615, and $32,100, in the Food Service Special Revenue Fund, Community Service Special Revenue Fund, and Debt Service Fund, respectively. These variances were funded by revenues in excess of budget and available fund balance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Temporary Investments

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

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

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

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

G. Receivables

When necessary, the District utilizes an allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are delinquent property taxes receivable and the capital lease receivable from the St. Croix River Education District (the SCRED), reported with due from other governmental units.

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of purchased food and surplus commodities received from the federal government. Purchased food inventory is recorded at cost on a first-in, first-out basis. Surplus commodities are stated at standardized costs, as determined by the U.S. 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 recorded as expenditures/expenses at the time of consumption.

J. Property Taxes

The majority of the District's revenue in the General Fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is allocated between property taxes and state aids by the Legislature, based on education funding priorities.

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes $38,078 of the property tax levy collectible in 2021 as revenue to the District in fiscal year 2020–2021. The remaining portion of the taxes collectible in 2021 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals, as they are collected.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources (unavailable revenue) in the fund financial statements because it is not known to be available to finance the operations of the District.

K. Capital Assets

Capital assets that are purchased or constructed by the District are recorded at historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation. The District defines capital assets as those with an initial, individual cost of $2,500 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks or parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

L. Long-Term Obligations

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

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

M. Compensated Absences

1. **Vacation Pay –** The District compensates certain employees upon termination of employment for unused vacation. The full-time employees of the District earn vacation based upon the number of completed years of service. Since teachers do not receive vacation benefits, there is not a material vacation liability to accrue as of June 30, 2021.

2. **Sick Pay** – Substantially all district employees are entitled to sick leave at various rates. Unused sick leave is not paid out upon termination; therefore, no liability is reported as of year-end.

N. State-Wide Pension Plans

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

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

O. Deferred Outflows/Inflows of Resources

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unavailable revenue from long-term receivables and property taxes receivable, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. The District has recorded a long-term receivable and delinquent property taxes not collected within 60 days of year-end, which are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available.

P. Net Position

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

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.

- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

- **Unrestricted Net Position** – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

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

Q. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, nonspendable portions in the Permanent Fund, and other long-term assets.

- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.

- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the District's business manager and superintendent are authorized to establish assignments of fund balance.

- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

R. 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 and disclosures in the financial statements during the reporting period. Actual results could differ from those estimates.

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 the current year.

T. Prior Period Comparative Financial Information/Reclassification

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

U. Deficit Fund Equity

As of June 30, 2021, the District's Food Service Special Revenue Fund reported a fund balance deficit of $26,651. This deficit will be eliminated through positive operating results in future years.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

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

Deposits	$	446,352
Investments		5,692,063
Total deposits and investments	$	6,138,415

Cash and investments are presented in the financial statements as follows:

Statement of Net Position		
Cash and temporary investments	$	5,921,009
Statement of Fiduciary Net Position		
Cash and temporary investments		
Scholarship Custodial Fund		217,406
Total deposits and investments	$	6,138,415

B. Deposits

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

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

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

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

At year-end, the carrying amount of the District's deposits was $446,352, while the balance on the bank records was $802,161. At June 30, 2021, all deposits were fully covered by federal deposit insurance, surety bonds, or by collateral held by the District's agent in the District's name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Investments

The District had the following investments at year-end:

Investment Type	Credit Risk Rating	Credit Risk Agency	Fair Value Measurements	Interest Risk	Total
Investment pools/mutual funds					
Minnesota School District Liquid Asset Fund					
Liquid Class	AAA	S&P	Amortized cost	N/A	$ 791,471
MAX Class	AAA	S&P	Amortized cost	N/A	4,900,592
Total					$ 5,692,063

N/A – Not Applicable

The Minnesota School District Liquid Asset Fund (MSDLAF) is regulated by Minnesota Statutes and is an external investment pool, which is not registered with the Securities and Exchange Commission. The District's investment in this pool is measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. For MSDLAF investments, there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice for the Liquid Class; the redemption notice period is 14 days for the MAX Class, with the exception of direct investments of funds distributed by the state of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24-hour hold on all requests for redemptions.

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

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The District's investment policies do not further restrict investing in specific financial instruments.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

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

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District's investment policies do not address concentration risk.

NOTE 3 – CAPITAL ASSETS

Capital assets activity for the year ended is as follows:

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year
Capital assets, not depreciated				
Land	$ 235,734	$ –	$ –	$ 235,734
Capital assets, depreciated				
Land improvements	1,749,979	16,839	(73,638)	1,693,180
Buildings	27,170,233	–	(68,436)	27,101,797
Furniture and equipment	4,226,261	167,723	(1,343,186)	3,050,798
Total capital assets, depreciated	33,146,473	184,562	(1,485,260)	31,845,775
Less accumulated depreciation for				
Land improvements	(1,132,062)	(44,133)	55,148	(1,121,047)
Buildings	(13,254,182)	(610,258)	48,988	(13,815,452)
Furniture and equipment	(2,978,459)	(173,369)	1,049,114	(2,102,714)
Total accumulated depreciation	(17,364,703)	(827,760)	1,153,250	(17,039,213)
Net capital assets, depreciated	15,781,770	(643,198)	(332,010)	14,806,562
Total capital assets, net	$ 16,017,504	$ (643,198)	$ (332,010)	$ 15,042,296

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

Elementary and secondary regular instruction	$ 26,691
Vocational education instruction	1,440
Instructional support services	2,805
Pupil support services	82,245
Community service	4,069
Depreciation not included in other functions	710,510
Total depreciation expense	$ 827,760

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

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

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
2015 Refunding Bonds	11/12/2015	2.00–3.00%	$ 9,175,000	02/01/2026	$ 6,120,000
2017 Facilities Maintenance Bonds	02/09/2017	3.00%	$ 1,075,000	02/01/2027	730,000
Total general obligation bonds payable					$ 6,850,000

These bonds were issued to finance acquisition, construction, and/or improvements of capital facilities, or to finance the retirement (refunding) of prior bond issues. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105.0 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

B. Capital Lease Payable

In June 2012, the District entered into a capital lease agreement with Kinetic Leasing, Inc. to finance the purchase of a building for $1,930,000 on behalf of the SCRED. The lease bears an interest rate of 2.97 percent and a final maturity of February 1, 2027. The District makes semiannual payments through the General Fund. Also, in June 2012, the District entered into an agreement to sublease the building to the SCRED to purchase the building capitalized by the SCRED at $1,930,000. The lease bears an interest rate of 2.97 percent and a final maturity of February 1, 2027. The SCRED makes semiannual payments to the District. The terms of the sublease between the SCRED and the District are identical to the capital lease payment terms, with the intent of the transactions to be hold harmless to the District in matching debt payments with receipts from the SCRED.

C. Other Long-Term Liabilities

The District offers a number of benefits to its employees, including: pensions and OPEB. The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are financed primarily from the General Fund.

District employees participate in two state-wide, cost-sharing, multiple employer defined benefit pension plans administered by the PERA and the TRA. The following is a summary of the net pension liabilities, deferred outflows and inflows of resources, and pension expense reported for these plans as of and for the year ended June 30, 2021:

Pension Plans	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERA	$ 1,402,937	$ 192,261	$ 72,108	$ 64,331
TRA	5,119,977	2,754,056	4,581,784	797,870
Total	$ 6,522,914	$ 2,946,317	$ 4,653,892	$ 862,201

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

D. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for general obligation bonds payable and capital lease payable are as follows:

Year Ending June 30,	General Obligation Bonds Payable Principal	General Obligation Bonds Payable Interest	Capital Lease Payable Principal	Capital Lease Payable Interest
2022	$ 1,265,000	$ 205,500	$ 139,570	$ 25,780
2023	1,300,000	167,550	143,746	21,604
2024	1,345,000	128,550	148,047	17,303
2025	1,385,000	88,200	152,477	12,873
2026	1,425,000	46,650	157,039	8,311
2027	130,000	3,900	161,737	3,612
	$ 6,850,000	$ 640,350	$ 902,616	$ 89,483

E. Changes in Long-Term Liabilities

	Balance – Beginning of Year	Additions	Deletions	Balance – End of Year	Due Within One Year
General obligation bonds payable	$ 8,070,000	$ –	$ 1,220,000	$ 6,850,000	$ 1,265,000
Unamortized premium/discount	487,846	–	88,935	398,911	–
Total bonds payable	8,557,846	–	1,308,935	7,248,911	1,265,000
Capital lease payable	1,038,131	–	135,515	902,616	139,570
Net pension liability	5,297,006	1,707,881	481,973	6,522,914	–
Total OPEB liability	307,037	46,972	20,573	333,436	28,525
	$ 15,200,020	$ 1,754,853	$ 1,946,996	$ 15,007,877	$ 1,433,095

NOTE 5 – FUND BALANCES

The following is a breakdown of equity components of governmental funds, which are defined earlier in the report. When applicable, certain restrictions which have an accumulated deficit balance at June 30 are included in unassigned fund balance in the District's financial statements, in accordance with accounting principles generally accepted in the United States of America. A description of these deficit balance restrictions is included herein since the District has specific authority to future resources for such deficits.

A. Classifications

At year-end, a summary of the District's governmental fund balance classifications is as follows:

	General Fund	Debt Service Fund	Permanent Fund	Nonmajor Funds	Total
Nonspendable					
Inventory	$ –	$ –	$ –	$ 6,218	$ 6,218
Prepaid items	10,849	–	–	–	10,849
Restricted principal	–	–	511,000	–	511,000
Total nonspendable	10,849	–	511,000	6,218	528,067
Restricted					
Student activities	161,810	–	–	–	161,810
Staff development	73,305	–	–	–	73,305
Operating capital	85,328	–	–	–	85,328
Learning and development	196,694	–	–	–	196,694
Gifted and talented	12,232	–	–	–	12,232
Basic skills programs	312,271	–	–	–	312,271
Safe schools levy	770	–	–	–	770
Long-term facilities maintenance	8,142	–	–	–	8,142
Medical Assistance	34,904	–	–	–	34,904
Debt service	–	315,122	–	–	315,122
Pool center operations	–	–	12,153	–	12,153
Community education	–	–	–	85,696	85,696
Early childhood family education	–	–	–	8,974	8,974
Total restricted	885,456	315,122	12,153	94,670	1,307,401
Assigned					
Q Comp	13,026	–	–	–	13,026
Capital projects	1,500,000	–	–	–	1,500,000
Total assigned	1,513,026	–	–	–	1,513,026
Unassigned					
Unassigned – food service deficit	–	–	–	(32,869)	(32,869)
Unassigned – school readiness deficit	–	–	–	(20,628)	(20,628)
Unassigned	1,406,444	–	–	–	1,406,444
Total unassigned	1,406,444	–	–	(53,497)	1,352,947
Total	$ 3,815,775	$ 315,122	$ 523,153	$ 47,391	$ 4,701,441

B. Minimum Fund Balance Policy

The School Board has formally adopted a fund balance policy regarding the minimum fund balance. The policy establishes that the District will strive to maintain a minimum unrestricted General Fund balance (consisting of assigned and unassigned fund balances) of 15.0 percent of the General Fund expenditures for each fiscal year. If the balance will decrease below 15.0 percent, the administration shall apprise the School Board of this prior to budget adoption. If the balance will decrease below 10.0 percent, the School Board will initiate certain measures to ensure that the balance does not fall below this level.

At June 30, 2021, the unrestricted fund balance (consisting of assigned and unassigned fund balances, without restricted account deficits) of the General Fund was 29.6 percent of fiscal 2021 actual expenditures.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

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

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

2. Teachers Retirement Association (TRA)

The TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. The TRA is a separate statutory entity, administered by a Board of Trustees. The Board of Trustees consists of four active members, one retired member, and three statutory officials.

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

B. Benefits Provided

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

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

1. GERF Benefits

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

Benefit increases are provided to benefit recipients each January. The post-retirement increase will be equal to 50.0 percent of the cost of living adjustment (COLA) announced by the Social Security Administration, with the minimum increase of at least 1.0 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase, will receive the full increase. For recipients receiving the annuity or benefit at least one month but less than a full year as of the June 30 before the effective date of the increase, will receive a reduced prorated increase. For members retiring on January 1, 2024 or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

2. TRA Benefits

The TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statutes and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any 5 consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

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

Tier I Benefits

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

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

(b) Three percent per year early retirement reduction factor for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule of 90 (age plus allowable service equals 90 or more).

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Tier II Benefits

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

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

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

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

C. Contributions

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

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2021 and the District was required to contribute 7.5 percent for Coordinated Plan members. The District’s contributions to the GERF for the year ended June 30, 2021, were $121,463 The District’s contributions were equal to the required contributions as set by state statutes.

2. TRA Contributions

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

	Year Ended June 30,					
	2019		2020		2021	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic Plan	11.00 %	11.71 %	11.00 %	11.92 %	11.00 %	12.13 %
Coordinated Plan	7.50 %	7.71 %	7.50 %	7.92 %	7.50 %	8.13 %

The District’s contributions to the TRA for the plan’s fiscal year ended June 30, 2021, were $327,469. The District’s contributions were equal to the required contributions for each year as set by state statutes.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

		in thousands
Employer contributions reported in the TRA's Annual Comprehensive Financial Report Statement of Changes in Fiduciary Net Position	$	425,223
Add employer contributions not related to future contribution efforts		(56)
Deduct the TRA's contributions not included in allocation		(508)
Total employer contributions		424,659
Total nonemployer contributions		35,587
Total contributions reported in the Schedule of Employer and Nonemployer Pension Allocations	$	460,246

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

D. Pension Costs

1. GERF Pension Costs

At June 30, 2021, the District reported a liability of $1,402,937 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 $16.0 million. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the District totaled $43,402. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by the PERA during the measurement period for employer payroll paid dates from July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of the PERA's participating employers. The District's proportionate share was 0.0234 percent at the end of the measurement period and 0.0226 percent for the beginning of the period.

District's proportionate share of the net pension liability	$	1,402,937
State's proportionate share of the net pension liability associated with the District	$	43,402

For the year ended June 30, 2021, the District recognized pension expense of $60,569 for its proportionate share of the GERF's pension expense. In addition, the District recognized $3,762 as grant revenue for its proportionate share of the state of Minnesota's pension expense for the annual $16 million contribution.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

At June 30, 2021, the District reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 12,365	$ 5,308
Changes in actuarial assumptions	–	51,335
Net collective difference between projected and actual investment earnings	25,260	–
Changes in proportion	33,173	15,465
District's contributions to the GERF subsequent to the measurement date	121,463	–
Total	$ 192,261	$ 72,108

The $121,463 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2022	$ (75,984)
2023	$ 3,119
2024	$ 37,660
2025	$ 33,895

2. TRA Pension Costs

At June 30, 2021, the District reported a liability of $5,119,977 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District's proportionate share was 0.0693 percent at the end of the measurement period and 0.0635 percent for the beginning of the period.

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

District's proportionate share of the net pension liability	$ 5,119,977
State's proportionate share of the net pension liability associated with the District	$ 429,026

For the year ended June 30, 2021, the District recognized pension expense of $758,568. It also recognized $39,302 as an increase to pension expense for the support provided by direct aid.

At June 30, 2021, the District reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 102,676	$ 74,313
Changes in actuarial assumptions	1,792,082	4,134,911
Net difference between projected and actual investment earnings on pension plan investments	86,071	–
Changes in proportion	445,758	372,560
District's contributions to the TRA subsequent to the measurement date	327,469	–
Total	$ 2,754,056	$ 4,581,784

A total of $327,469 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2022	$ 155,995
2023	$ (1,489,846)
2024	$ (1,053,505)
2025	$ 149,237
2026	$ 82,922

E. Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.25%	2.50%
Wage growth rate		2.85% before July 1, 2028 and 3.25% thereafter
Projected salary increase	3.00%	
Active member payroll growth		2.85% to 8.85% before July 1, 2028, and 3.25% to 9.25% thereafter
Investment rate of return	7.50%	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on Pub-2010 General Employee Mortality Table for the GERF Plan and the RP-2014 tables for the TRA for males and females, as appropriate, with slight adjustments to fit the PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the GERF and 1.00 percent for January 2020 through January 2023, then increasing by 0.10 percent each year, up to 1.50 percent annually for the TRA.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Actuarial assumptions used in the June 30, 2020 valuations were based on the results of actuarial experience studies. The most recent four-year experience study in the GERF plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation. The most recent experience study in the TRA plan was completed in 2015, with economic assumptions updated in 2017.

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

1. **GERF**

CHANGES IN PLAN PROVISIONS

- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020 through December 31, 2023, and zero percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

CHANGES IN ACTUARIAL ASSUMPTIONS

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years two through five, and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 Table to the Pub-2010 General Mortality Table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality Table to the Pub-2010 General/Teacher Disabled Annuitant Mortality Table, with adjustments.
- The mortality improvement scale was changed from MP-2018 to MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100.00 percent joint and survivor option changed from 35.00 percent to 45.00 percent. The assumed number of married female new retirees electing the 100.00 percent joint and survivor option changed from 15.00 percent to 30.00 percent. The corresponding number of married new retirees electing the life annuity option was adjusted accordingly.

2. **TRA**

CHANGES IN ACTUARIAL ASSUMPTIONS

- Employer contribution rate increased from 7.92 percent to 8.13 percent in July 2020.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	35.50 %	5.10 %
Private markets	25.00	5.90 %
Fixed income	20.00	0.75 %
International equity	17.50	5.30 %
Cash equivalents	2.00	– %
Total	100.00 %	

F. Discount Rate

1. GERF

The discount rate used to measure the total pension liability in 2020 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

2. TRA

The discount rate used to measure the total pension liability was 7.50 percent. There was no change since the prior measurement. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2020 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	$ 2,248,421	$ 1,402,937	$ 705,480
TRA discount rate	6.50%	7.50%	8.50%
District's proportionate share of the TRA net pension liability	$ 7,838,630	$ 5,119,977	$ 2,879,944

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 PERA website at www.mnpera.org.

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 the TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000; or by calling 651-296-2409 or 800-657-3669.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through the OPEB Plan, a single-employer defined benefit plan administered by the District. Management of the plan is vested with the School Board of 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. The plan does not issue a separate financial report.

No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

B. Benefits Provided

All retirees of the District upon retirement have the option under state law to continue their medical insurance coverage through the District. For principals, a $25,000 benefit is available with 10 years of service ($30,000 with 15 years of service) paid to a Healthcare Savings Plan in three equal annual installments. Retirees not eligible for these benefits must pay the full district premium rate for their coverage.

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 until the retiree reaches Medicare eligibility, 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.

C. Contributions

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined periodically by the District. The District's contributions in the current year totaled $28,525 as required on a pay-as-you-go basis to finance current year benefits as described in the previous section.

D. Membership

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

Retirees and beneficiaries receiving benefits	8
Active plan members	137
Total members	145

E. Total OPEB Liability of the District

The District's total OPEB liability of $333,436 as of year-end was measured as of July 1, 2020, and was determined by an actuarial valuation as of that date.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

F. Actuarial Methods and Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2020, using the entry-age method, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	2.40%
20-year municipal bond yield	2.40%
Inflation rate	2.50%
Healthcare trend rate	6.25% in 2020 grading to 5.00% over 5 years

Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-year municipal bond yield.

Mortality rates were based on the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables with MP-2018 Generational Improvement Scale. The rates used are recent tables developed and recommended by the Society of Actuaries.

The retirement and withdrawal assumptions used to value GASB Statement No. 75 liabilities are similar to those used to value pension liabilities for Minnesota school district employees. The state pension plans base their assumptions on periodic experience studies.

Economic assumptions are based on input from a variety of published sources of historical and projected future financial data. Each assumption was reviewed for reasonableness with the source information, as well as for consistency with the other economic assumptions.

G. Changes in the Total OPEB Liability

	Total OPEB Liability
Beginning balance	$ 307,037
Changes for the year	
Service cost	26,326
Interest	10,018
Changes in actuarial assumptions	10,628
Benefit payments	(20,573)
Total net changes	26,399
Ending balance	$ 333,436

Changes since the prior measurement date include the following:

- The discount rate was changed from 3.10 percent to 2.40 percent.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

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

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1.0 percentage point lower or 1.0 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
OPEB discount rate	1.40%	2.40%	3.40%
Total OPEB liability	$ 352,365	$ 333,436	$ 314,978

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.0 percentage point lower or 1.0 percentage point higher than the current healthcare cost trend rates:

	1% Decrease in Healthcare Trend Rate	Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
OPEB healthcare trend rate	5.25% decreasing to 4.00% over 5 years	6.25% decreasing to 5.00% over 5 years	7.25% decreasing to 6.00% over 5 years
Total OPEB liability	$ 300,483	$ 333,436	$ 372,382

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

For the current year ended, the District recognized OPEB expense of $35,127. As of year-end, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ –	$ 7,280
Changes in actuarial assumptions	8,856	4,674
District's contributions subsequent to the measurement date	28,525	–
Total	$ 37,381	$ 11,954

A total of $28,525 reported as deferred outflows of resources, related to OPEB resulting from district contributions subsequent to the measurement date, will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2022. Remaining amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	OPEB Expense Amount
2022	$ (1,217)
2023	$ (1,217)
2024	$ (1,217)
2025	$ (1,215)
2026	$ 1,768

NOTE 8 – INTERFUND BALANCES

As of June 30, 2021, The District's Community Service Special Revenue Fund reported $59,944 due from the Food Service Special Revenue Fund to eliminate a short-term cash deficit. Interfund balances reported on the fund-based financial statements are eliminated on the government-wide financial statements.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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

B. Legal Contingencies

The District has the usual and customary types of miscellaneous legal claims pending at year-end, mostly of a minor nature and usually covered by insurance carried for that purpose. Although the outcomes of these claims are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

C. Operating Leases

The District has three operating leases for equipment as of June 30, 2021, with final maturities through July 5, 2024. Annual minimum lease payments are as follows:

Year Ending June 30,	Amount
2022	$ 76,399
2023	$ 39,655
2024	$ 29,318
2025	$ 29,318

The District's cost under these leases was $74,416 for the year ended June 30, 2021.

D. COVID-19

The COVID-19 pandemic has caused numerous financial and operational challenges for districts in fiscal 2021, and is expected to have a significant impact for fiscal 2022 and possibly beyond. Any potential effects it may have on the District's future operations and financial condition have not been reflected in these financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

Public Employees Retirement Association Pension Benefits Plan
Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
Year Ended June 30, 2021

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.0269%	$ 1,261,899	$ –	$ 1,261,899	$ 1,401,848	90.02%	78.70%
06/30/2016	06/30/2015	0.0242%	$ 1,254,248	$ –	$ 1,254,248	$ 1,429,543	87.74%	78.20%
06/30/2017	06/30/2016	0.0231%	$ 1,878,262	$ 24,534	$ 1,902,796	$ 1,459,057	128.73%	68.90%
06/30/2018	06/30/2017	0.0232%	$ 1,483,487	$ 18,657	$ 1,502,144	$ 1,454,563	101.99%	75.90%
06/30/2019	06/30/2018	0.0231%	$ 1,281,293	$ 42,071	$ 1,323,364	$ 1,509,630	84.87%	79.50%
06/30/2020	06/30/2019	0.0226%	$ 1,249,503	$ 38,832	$ 1,288,335	$ 1,610,329	77.59%	80.20%
06/30/2021	06/30/2020	0.0234%	$ 1,402,937	$ 43,402	$ 1,446,339	$ 1,683,918	83.31%	79.10%

Public Employees Retirement Association Pension Benefits Plan
Schedule of District Contributions
Year Ended June 30, 2021

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	$ 104,887	$ 104,887	$ –	$ 1,429,543	7.34%
06/30/2016	$ 108,623	$ 108,623	$ –	$ 1,459,057	7.44%
06/30/2017	$ 108,840	$ 108,840	$ –	$ 1,454,563	7.48%
06/30/2018	$ 112,900	$ 112,900	$ –	$ 1,509,630	7.48%
06/30/2019	$ 120,528	$ 120,528	$ –	$ 1,610,329	7.48%
06/30/2020	$ 125,846	$ 125,846	$ –	$ 1,683,918	7.47%
06/30/2021	$ 121,463	$ 121,463	$ –	$ 1,619,505	7.50%

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

Teachers Retirement Association Pension Benefits Plan
Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
Year Ended June 30, 2021

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.0676%	$ 3,278,099	$ 230,528	$ 3,508,627	$ 3,255,055	100.71%	81.50%
06/30/2016	06/30/2015	0.0634%	$ 3,925,404	$ 481,354	$ 4,406,758	$ 3,292,248	119.23%	76.80%
06/30/2017	06/30/2016	0.0675%	$ 16,113,178	$ 1,617,614	$ 17,730,792	$ 3,473,651	463.87%	44.88%
06/30/2018	06/30/2017	0.0687%	$ 13,722,499	$ 1,326,273	$ 15,048,772	$ 3,695,058	371.37%	51.57%
06/30/2019	06/30/2018	0.0662%	$ 4,156,430	$ 390,628	$ 4,547,058	$ 3,634,869	114.35%	78.07%
06/30/2020	06/30/2019	0.0635%	$ 4,047,503	$ 358,090	$ 4,405,593	$ 3,788,416	106.84%	78.21%
06/30/2021	06/30/2020	0.0693%	$ 5,119,977	$ 429,026	$ 5,549,003	$ 4,036,227	126.85%	75.48%

Teachers Retirement Association Pension Benefits Plan
Schedule of District Contributions
Year Ended June 30, 2021

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	$ 246,230	$ 246,230	$ –	$ 3,292,248	7.48%
06/30/2016	$ 261,239	$ 261,239	$ –	$ 3,473,651	7.52%
06/30/2017	$ 277,126	$ 277,126	$ –	$ 3,695,058	7.50%
06/30/2018	$ 272,615	$ 272,615	$ –	$ 3,634,869	7.50%
06/30/2019	$ 291,792	$ 291,792	$ –	$ 3,788,416	7.70%
06/30/2020	$ 318,891	$ 318,891	$ –	$ 4,036,227	7.90%
06/30/2021	$ 327,469	$ 327,469	$ –	$ 4,031,355	8.12%

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

INDEPENDENT SCHOOL DISTRICT NO. 139

Other Post-Employment Benefits Plan
Schedule of Changes in the District's Total
OPEB Liability and Related Ratios
Year Ended June 30, 2021

	District Fiscal Year-End Date			
	2018	2019	2020	2021
Total OPEB liability				
Service cost	$ 22,624	$ 23,303	$ 23,344	$ 26,326
Interest	11,310	10,856	11,045	10,018
Changes in actuarial assumptions	–	–	(7,012)	10,628
Differences between expected and actual experience	–	–	(10,920)	–
Benefit payments	(60,269)	(35,477)	(21,670)	(20,573)
Net change in total OPEB liability	(26,335)	(1,318)	(5,213)	26,399
Total OPEB liability – beginning	339,903	313,568	312,250	307,037
Total OPEB liability – ending	$ 313,568	$ 312,250	$ 307,037	$ 333,436
Covered-employee payroll	$ 4,837,982	$ 4,983,121	$ 5,381,947	$ 5,543,405
Total OPEB liability as a percentage of covered-employee payroll	6.48%	6.27%	5.70%	6.02%

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

Note 2: The District implemented GASB Statement No. 75 in fiscal 2018. This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

PERA – GENERAL EMPLOYEES RETIREMENT FUND

2020 CHANGES IN PLAN PROVISIONS

- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020 through December 31, 2023, and zero percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2020 CHANGES IN ACTUARIAL ASSUMPTIONS

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25 percent less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years two through five, and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 Table to the Pub-2010 General Mortality Table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 Disabled Annuitant Mortality Table to the Pub-2010 General/Teacher Disabled Annuitant Mortality Table, with adjustments.
- The mortality improvement scale was changed from MP-2018 to MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100.00 percent joint and survivor option changed from 35.00 percent to 45.00 percent. The assumed number of married female new retirees electing the 100.00 percent joint and survivor option changed from 15.00 percent to 30.00 percent. The corresponding number of married new retirees electing the life annuity option was adjusted accordingly.

2019 CHANGES IN PLAN PROVISIONS

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

2019 CHANGES IN ACTUARIAL ASSUMPTIONS

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

PERA – GENERAL EMPLOYEES RETIREMENT FUND (CONTINUED)

2018 CHANGES IN PLAN PROVISIONS

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

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

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

2017 CHANGES IN PLAN PROVISIONS

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

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

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

PERA – GENERAL EMPLOYEES RETIREMENT FUND (CONTINUED)

2016 CHANGES IN ACTUARIAL ASSUMPTIONS

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

2015 CHANGES IN PLAN PROVISIONS

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

2015 CHANGES IN ACTUARIAL ASSUMPTIONS

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

TEACHERS RETIREMENT ASSOCIATION (TRA)

2018 CHANGES IN PLAN PROVISIONS

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

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The investment return assumption was changed from 8.50 percent to 7.50 percent.
- The single discount rate changed from 5.12 percent to 7.50 percent.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

- The COLA was assumed to increase from 2.00 percent annually to 2.50 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.50 percent, but remain at 2.00 percent for all future years.
- Adjustments were made to the CSA loads. The active load was reduced from 1.40 percent to zero percent, the vested inactive load increased from 4.00 percent to 7.00 percent, and the nonvested inactive load increased from 4.00 percent to 9.00 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for 10 years, followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate changed from 4.66 percent to 5.12 percent.

TEACHERS RETIREMENT ASSOCIATION (TRA) (CONTINUED)

2016 CHANGES IN ACTUARIAL ASSUMPTIONS

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

2015 CHANGES IN PLAN PROVISIONS

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

2015 CHANGES IN ACTUARIAL ASSUMPTIONS

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

OTHER POST-EMPLOYMENT BENEFITS PLAN

2020 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate was changed from 3.10 percent to 2.40 percent.

2019 CHANGES IN ACTUARIAL ASSUMPTIONS

- The mortality tables, medical trend rates, and salary scale assumptions were updated.
- The discount rate was changed from 3.40 percent to 3.10 percent.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

- The healthcare trend rates were changed to better anticipate short-term and long-term medical increases.
- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.
- The discount rate was changed from 3.50 percent to 3.40 percent.

2017 CHANGES IN METHODS

- The actuarial cost method was changed from projected unit credit to entry-age as prescribed by GASB Statement No. 75.
- An average claim cost with different aging factors was used in the prior valuation to determine claims costs. For this valuation, an aging table was applied to the average age 65 annual claims amount to derive the claims costs at all the possible retirement ages.

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SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 139

Nonmajor Governmental Funds
Combining Balance Sheet
as of June 30, 2021

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	$ –	$ 112,368	$ 112,368
Receivables			
Current taxes	–	39,709	39,709
Delinquent taxes	–	1,919	1,919
Due from other governmental units	56,125	6,390	62,515
Due from other funds	–	59,944	59,944
Inventory	6,218	–	6,218
Total assets	$ 62,343	$ 220,330	$ 282,673
Liabilities			
Accounts and contracts payable	$ 5,247	$ 49,376	$ 54,623
Unearned revenue	23,803	33,600	57,403
Due to other funds	59,944	–	59,944
Total liabilities	88,994	82,976	171,970
Deferred inflows of resources			
Unavailable revenue – delinquent taxes receivable	–	1,919	1,919
Property taxes levied for subsequent year	–	61,393	61,393
Total deferred inflows of resources	–	63,312	63,312
Fund balances (deficit)			
Nonspendable	6,218	–	6,218
Restricted	–	94,670	94,670
Unassigned	(32,869)	(20,628)	(53,497)
Total fund balances (deficit)	(26,651)	74,042	47,391
Total liabilities, deferred inflows of resources, and fund balances	$ 62,343	$ 220,330	$ 282,673

Nonmajor Governmental Funds
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2021

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	$ –	$ 61,536	$ 61,536
Other (refunds)	(17,295)	158,616	141,321
State sources	4,836	108,049	112,885
Federal sources	309,231	–	309,231
Total revenue	296,772	328,201	624,973
Expenditures			
Current			
Food service	338,759	–	338,759
Community service	–	344,193	344,193
Capital outlay	–	116	116
Total expenditures	338,759	344,309	683,068
Net change in fund balances	(41,987)	(16,108)	(58,095)
Fund balances (deficit)			
Beginning of year	15,336	90,150	105,486
End of year	$ (26,651)	$ 74,042	$ 47,391

INDEPENDENT SCHOOL DISTRICT NO. 139

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2021
(With Comparative Actual Amounts for the Year Ended June 30, 2020)

	2021			2020
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	$ –	$ –	$ –	$ 106
Other – primarily meal sales (refunds)	39,859	(17,295)	(57,154)	180,293
State sources	175	4,836	4,661	20,922
Federal sources	213,000	309,231	96,231	203,497
Total revenue	253,034	296,772	43,738	404,818
Expenditures				
Current				
Salaries	102,811	125,640	22,829	143,419
Employee benefits	30,506	34,875	4,369	43,100
Purchased services	30,200	25,150	(5,050)	39,640
Supplies and materials	89,400	152,345	62,945	219,289
Other expenditures	450	749	299	503
Capital outlay	500	–	(500)	5,503
Total expenditures	253,867	338,759	84,892	451,454
Excess (deficiency) of revenue over expenditures	(833)	(41,987)	(41,154)	(46,636)
Other financing sources				
Transfers in	–	–	–	557
Net change in fund balances	$ (833)	(41,987)	$ (41,154)	(46,079)
Fund balances (deficit)				
Beginning of year		15,336		61,415
End of year		$ (26,651)		$ 15,336

INDEPENDENT SCHOOL DISTRICT NO. 139

Community Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2021
(With Comparative Actual Amounts for the Year Ended June 30, 2020)

	2021			2020
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 61,033	$ 61,536	$ 503	$ 59,944
Investment earnings	–	–	–	1,742
Other – primarily tuition and fees	44,700	158,616	113,916	222,214
State sources	106,217	108,049	1,832	101,576
Total revenue	211,950	328,201	116,251	385,476
Expenditures				
Current				
Salaries	201,202	209,393	8,191	277,649
Employee benefits	67,716	65,015	(2,701)	78,200
Purchased services	35,541	46,686	11,145	68,200
Supplies and materials	8,235	23,787	15,552	30,070
Other expenditures	–	(688)	(688)	7,261
Capital outlay	1,000	116	(884)	–
Total expenditures	313,694	344,309	30,615	461,380
Excess (deficiency) of revenue over expenditures	(101,744)	(16,108)	85,636	(75,904)
Other financing sources				
Transfers in	–	–	–	90,592
Net change in fund balances	$ (101,744)	(16,108)	$ 85,636	14,688
Fund balances				
Beginning of year		90,150		75,462
End of year		$ 74,042		$ 90,150

INDEPENDENT SCHOOL DISTRICT NO. 139

Debt Service Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2021
(With Comparative Actual Amounts for the Year Ended June 30, 2020)

	2021			2020
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 1,320,898	$ 1,310,924	$ (9,974)	$ 1,297,266
Investment earnings	1,500	–	(1,500)	4,961
State sources	147,955	161,392	13,437	148,605
Total revenue	1,470,353	1,472,316	1,963	1,450,832
Expenditures				
Debt service				
Principal	1,220,000	1,220,000	–	1,185,000
Interest	210,000	242,100	32,100	277,650
Fiscal charges and other	950	950	–	950
Total expenditures	1,430,950	1,463,050	32,100	1,463,600
Net change in fund balances	$ 39,403	9,266	$ (30,137)	(12,768)
Fund balances				
Beginning of year		305,856		318,624
End of year		$ 315,122		$ 305,856

OTHER REQUIRED REPORTS

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

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

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

To the School Board and Management of
Independent School District No. 139
Rush City, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 139 (the District) as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 23, 2023.

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Recommendations as findings 2021-001 and 2021-002 that we consider to be material weaknesses.

(continued)

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COMPLIANCE AND OTHER MATTERS

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

DISTRICT'S RESPONSES TO FINDINGS

The District's responses to the findings identified in our audit have been included in the accompanying Schedule of Findings and Recommendations. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the responses.

PURPOSE OF THIS REPORT

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

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

Minneapolis, Minnesota
January 23, 2023

MMKR
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Thomas A. Karnowski, CPA
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INDEPENDENT AUDITOR'S REPORT

ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of
Independent School District No. 139
Rush City, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 139 (the District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 23, 2023.

MINNESOTA LEGAL COMPLIANCE

In connection with our audit, we noted that the District failed to comply with provisions of the uniform financial accounting and reporting standards section of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, insofar as they relate to accounting matters as described in the Schedule of Findings and Recommendations as finding 2021-003. Also, in connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

DISTRICT'S RESPONSE TO FINDING

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

PURPOSE OF THIS REPORT

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

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

Minneapolis, Minnesota
January 23, 2023

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A. FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

2021-001 Timeliness and Accuracy of Reconciliations

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

Condition – During the audit, we noted several instances where reconciliations prepared by Independent School District No. 139's (the District) staff were not being performed as timely as in the past, or were not reconciled to the District's general ledger and underlying records. In previous audits of the District, we have generally found the District's internal controls over financial reporting to be well designed, implemented, and functioning properly. In the current year, although the internal controls were still considered to be well designed, the effectiveness of some control procedures was diminished, due to a lack of timeliness and accuracy.

Questioned Costs – Not applicable.

Context – The condition was noted in several areas, including cash and investments, property tax and state aid receipts, capital assets, accrued liabilities, and other areas.

Repeat Finding – This is a current year finding.

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

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

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

Corrective Action Plan

Actions Planned – The District intends to review policies, procedures, and transaction cycles, and work with the District's financial auditors to review specific weaknesses identified during the annual audit and actions needed to eliminate or mitigate this internal control weakness.

Official Responsible – Kerstin Quigley, Business Manager.

Planned Completion Date – June 30, 2023.

Disagreement With or Explanation of Finding – The District is in agreement with this finding.

Plan to Monitor – The Business Manager and the Superintendent will make the entire business office aware of its objective to address this condition and supervise the progress of planned actions during the year.

A. FINANCIAL STATEMENT FINDINGS (CONTINUED)

MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

2021-002 Segregation of Duties

Criteria – Internal control over financial reporting.

Condition – The District has limited segregation of duties in several areas, including the processing of general disbursements, payroll transactions, investing activities, and general receipt entries.

Questioned Costs – Not applicable.

Context – The condition applies to multiple areas as noted above.

Repeat Finding – This is a current year and prior year finding.

Cause – The limited segregation of duties is primarily caused by the limited size of the District's business office staff.

Effect – One important element of internal accounting controls is an adequate segregation of duties such that no one individual have responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction. A lack of segregation of duties subjects the District to a higher risk that errors or fraud could occur and not be detected and corrected in a timely manner in the normal course of business.

Recommendation – We recommend that the District continue its efforts to segregate duties as best it can within the limits of what the District considers to be cost-beneficial.

Corrective Action Plan

Actions Planned – The District intends to review policies, procedures, and transaction cycles, and work with the District's financial auditors to review specific weaknesses identified during the annual audit and actions needed to eliminate or mitigate this internal control weakness.

Official Responsible – Kerstin Quigley, Business Manager.

Planned Completion Date – June 30, 2022.

Disagreement With or Explanation of Finding – The District is in agreement with this finding.

Plan to Monitor – The Business Manager and the Superintendent will make the entire business office aware of its objective to address this condition and supervise the progress of planned actions during the year.

B. MINNESOTA LEGAL COMPLIANCE FINDINGS

2021-003 Timely Completion of Financial Statements

Criteria – Minnesota Statutes § 6.65, 123B.77, Subd. 3 requires that the District submit audited fund balance, revenue, and expenditure data to the Minnesota Department of Education annually by November 30, and audited financial statements by December 31.

Condition – The District did not meet the deadlines for submitting audited financial data and audited financial statements for the fiscal year ended June 30, 2021.

Questioned Costs – Not applicable.

Context – The District did not submit the audited financial data and audited financial statements by the statutory deadlines.

Repeat Finding – This is a current year finding.

Cause – This was due to turnover of the District's business office staff, delays in the availability of certain data necessary to complete the financial statements, and the impact of the COVID-19 pandemic.

Effect – The District was not in compliance with state submission deadlines.

Recommendation – We recommend that the District comply with state statutory submission requirements in the future.

Corrective Action Plan

Actions Planned – The District will review its policies and procedures relating to financial report processes to ensure compliance with reporting deadlines in the future.

Official Responsible – Kerstin Quigley, Business Manager.

Planned Completion Date – June 30, 2023.

Disagreement With or Explanation of Finding – The District is in agreement with this finding.

Plan to Monitor – The Business Manager and the Superintendent will make the entire business office aware of its objective to address this condition and supervise the progress of planned actions during the year.

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2021

		Audit	UFARS	Audit – UFARS
General Fund				
Total revenue		$ 11,193,177	$ 11,193,177	$ –
Total expenditures		$ 9,863,713	$ 9,863,713	$ –
Nonspendable				
460	Nonspendable fund balance	$ 10,849	$ 10,849	$ –
Restricted				
401	Student activities	$ 161,810	$ 161,810	$ –
402	Scholarships	$ –	$ –	$ –
403	Staff development	$ 73,305	$ 73,305	$ –
407	Capital projects levy	$ –	$ –	$ –
408	Cooperative revenue	$ –	$ –	$ –
413	Projects funded by COP	$ –	$ –	$ –
414	Operating debt	$ –	$ –	$ –
416	Levy reduction	$ –	$ –	$ –
417	Taconite building maintenance	$ –	$ –	$ –
424	Operating capital	$ 85,328	$ 85,328	$ –
426	$25 taconite	$ –	$ –	$ –
427	Disabled accessibility	$ –	$ –	$ –
428	Learning and development	$ 196,694	$ 196,694	$ –
434	Area learning center	$ –	$ –	$ –
435	Contracted alternative programs	$ –	$ –	$ –
436	State approved alternative program	$ –	$ –	$ –
438	Gifted and talented	$ 12,232	$ 12,232	$ –
440	Teacher development and evaluation	$ –	$ –	$ –
441	Basic skills programs	$ 312,271	$ 312,271	$ –
448	Achievement and integration	$ –	$ –	$ –
449	Safe schools levy	$ 770	$ 770	$ –
451	QZAB payments	$ –	$ –	$ –
452	OPEB liability not in trust	$ –	$ –	$ –
453	Unfunded severance and retirement levy	$ –	$ –	$ –
459	Basic skills extended time	$ –	$ –	$ –
467	Long-term facilities maintenance	$ 8,142	$ 8,142	$ –
472	Medical Assistance	$ 34,904	$ 34,904	$ –
473	PPP loans	$ –	$ –	$ –
474	EIDL loans	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
475	Title VII – Impact Aid	$ –	$ –	$ –
476	PILT	$ –	$ –	$ –
Committed				
418	Committed for separation	$ –	$ –	$ –
461	Committed fund balance	$ –	$ –	$ –
Assigned				
462	Assigned fund balance	$ 1,513,026	$ 1,513,026	$ –
Unassigned				
422	Unassigned fund balance	$ 1,406,444	$ 1,406,444	$ –
Food Service				
Total revenue		$ 296,772	$ 296,772	$ –
Total expenditures		$ 338,759	$ 338,759	$ –
Nonspendable				
460	Nonspendable fund balance	$ 6,218	$ 6,218	$ –
Restricted				
452	OPEB liability not in trust	$ –	$ –	$ –
474	EIDL loans	$ –	$ –	$ –
464	Restricted fund balance	$ (32,869)	$ (32,869)	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Community Service				
Total revenue		$ 328,201	$ 328,201	$ –
Total expenditures		$ 344,309	$ 344,309	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
426	$25 taconite	$ –	$ –	$ –
431	Community education	$ 85,696	$ 85,696	$ –
432	ECFE	$ 8,974	$ 8,974	$ –
440	Teacher development and evaluation	$ –	$ –	$ –
444	School readiness	$ (20,628)	$ (20,628)	$ –
447	Adult basic education	$ –	$ –	$ –
452	OPEB liability not in trust	$ –	$ –	$ –
473	PPP loans	$ –	$ –	$ –
474	EIDL loans	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2021

		Audit	UFARS	Audit – UFARS
Building Construction				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
407	Capital projects levy	$ –	$ –	$ –
413	Projects funded by COP	$ –	$ –	$ –
467	Long-term facilities maintenance	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Debt Service				
Total revenue		$ 1,472,316	$ 1,472,316	$ –
Total expenditures		$ 1,463,050	$ 1,463,050	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
433	Maximum effort loan	$ –	$ –	$ –
451	QZAB payments	$ –	$ –	$ –
467	Long-term facilities maintenance	$ –	$ –	$ –
464	Restricted fund balance	$ 315,122	$ 315,122	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Trust				
Total revenue		$ 11,838	$ 11,838	$ –
Total expenditures		$ 186	$ 186	$ –
401	Student activities	$ –	$ –	$ –
402	Scholarships	$ –	$ –	$ –
422	Net position	$ 523,153	$ 523,153	$ –
Custodial Fund				
Total revenue		$ 63,587	$ 63,587	$ –
Total expenditures		$ 29,051	$ 29,051	$ –
401	Student activities	$ –	$ –	$ –
402	Scholarships	$ 217,406	$ 217,406	$ –
448	Achievement and integration	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
Internal Service				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Revocable Trust Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Irrevocable Trust Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Debt Service Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –

Note 1: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

Note 2: The amount of funds held for the Aquatic Center accounted for as a Permanent Fund for financial statement purposes is included in the Trust Fund net position balance for the purpose of this table.

Note 3: The amounts listed as UFARS match the District's UFARS trial balance. The MDE compliance table was no longer available at the time the District completed its records for fiscal 2021.

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