INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
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Brian Dreher	Chairperson
Ralph Lewis	Vice-Chairperson
Bob Stueven	Treasurer
Teresa Rud	Clerk
Shelly Patten	Director
Scott Mai	Director
Steve Cairns	Superintendent (Through June 30, 2020)
Jeremy Tammi	Superintendent (Effective July 1, 2020)

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Independent School District No. 363
Northome, 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. 363, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 363, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Boards Statement No. 84, *Fiduciary Activities.* As discussed in Note 2 to the financial statements, the District has retroactively restated the previously reported net position and fund balances in accordance with this statement.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the District's total OPEB liability and related ratios, schedule of District contributions, schedule of District's share of net pension liability, and notes to required supplementary information as listed in the table of contents as required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's 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 combining statements, schedule of changes in fund balances, and compliance table as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements, schedule of changes in fund balances, and 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 combining statements, schedule of changes in fund balances, and compliance table are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

November 5, 2020

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This section of Independent School District No. 363's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2020. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

The general fund balance increased $256,340 during the 2019-2020 school year.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general fund budget for the year, and supplementary information that is presented for additional analysis.

District-wide Statements

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

The two district-wide statements report the District's *net position* and how it has changed. Net position – the difference between the District's assets, liabilities, and deferred inflows/outflows 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 District's overall health, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- *Governmental activities*: All of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues.

The District has one kind of fund:

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 statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, reconciliations have been provided following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance to help explain the relationship (or differences) between governmental funds and governmental activities.

The District maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, both of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data is provided in the form of combining statements elsewhere in this report.

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was $2,373,269 on June 30, 2020 (see details in Table A-1). This was an increase of 1.6 percent from the prior year.

Table A-1
Statement of Net Position

	2020	2019	Total Percentage Change
Current and Other Assets	$ 5,884,666	$ 5,667,096	3.8 %
Capital Assets	3,190,325	3,402,336	(6.2)
Total Assets	9,074,991	9,069,432	0.1
Deferred Outflows of Resources	2,636,714	3,732,905	(29.4)
Long-Term Liabilities	4,297,715	4,364,646	(1.5)
Other Liabilities	640,087	907,614	(29.5)
Total Liabilities	4,937,802	5,272,260	(6.3)
Deferred Inflows of Resources	4,400,634	5,193,320	(15.3)
Net Position			
Net Investment in Capital Assets	2,623,929	2,653,805	(1.1)
Restricted	457,188	313,549	45.8
Unrestricted	(707,848)	(630,597)	(12.3)
Total Net Position	$ 2,373,269	$ 2,336,757	1.6 %

Change in Net Position

Table A-2 presents the change in net position of the District.

Table A-2
Change in Net Position

	2020	2019	Total Percentage Change
Revenues			
Program Revenues			
Charges for Services	$ 51,884	$ 75,446	(31.2) %
Operating Grants and Contributions	1,378,474	1,147,887	20.1
Capital Grants and Contributions	116,608	103,846	12.3
General Revenues			
Property Taxes	1,158,787	1,188,567	(2.5)
Unrestricted State Aid	3,490,870	3,543,389	(1.5)
Other Sources	372,921	92,595	302.7
Total Revenues	6,569,544	6,151,730	6.8
Expenses			
Administration	333,521	402,745	(17.2)
District Support Services	166,741	163,500	2.0
Elementary & Secondary Regular Instruction	2,973,208	1,515,827	96.1
Vocational Education Instruction	68,760	90,097	(23.7)
Special Education Instruction	650,139	697,916	(6.8)
Community Education and Services	104,317	99,881	4.4
Instructional Support Services	41,240	58,510	(29.5)
Pupil Support Services	1,370,576	1,371,846	(0.1)
Sites and Buildings	701,249	854,030	(17.9)
Fixed Costs	65,533	46,983	39.5
Interest on Long-Term Debt	14,227	18,015	(21.0)
Depreciation - Unallocated	171,602	171,601	0.0
Total Expenses	6,661,113	5,490,951	21.3
Change in Net Position	(91,569)	660,779	(113.9)
Net Position - Beginning	2,336,757	1,675,978	39.4
GASB 84 Adjustment - See Note 2	128,081		100.0
Net Position - Beginning as Restated	2,464,838	1,675,978	47.1
Net Position - Ending	$ 2,373,269	$ 2,336,757	1.6 %

The District’s total revenues were $6,569,544 for the year ended June 30, 2020. Property taxes and state aid payments accounted for 88 percent of total revenue for the year.

The total cost of all programs and services was $6,661,113. The District's expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position $91,569 over last year. For the year ended June 30, 2020, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA decreased net position by $255,367. For the year ended June 30, 2019, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA increased net position by $1,132,451.

The net cost of governmental activities is their total costs less program revenues applicable to each category.

Table A-3 presents these net costs.

Table A-3
Net Cost of Governmental Activities

	Total Cost of Services 2020	Total Cost of Services 2019	Total Percentage Change	Net Cost of Services 2020	Net Cost of Services 2019	Total Percentage Change
Expenses						
Administration	$ 333,521	$ 402,745	(17.2) %	$ 331,339	$ 402,745	(17.7) %
District Support Services	166,741	163,500	2.0	166,741	163,500	2.0
Elementary & Secondary Regular Instruction	2,973,208	1,515,827	96.1	2,578,262	1,324,326	94.7
Vocational Education Instruction	68,760	90,097	(23.7)	55,325	81,139	(31.8)
Special Education Instruction	650,139	697,916	(6.8)	116,455	133,680	(12.9)
Community Education and Services	104,317	99,881	4.4	68,118	80,957	(15.9)
Instructional Support Services	41,240	58,510	(29.5)	1,178	18,507	(93.6)
Pupil Support Services	1,370,576	1,371,846	(0.1)	905,108	940,046	(3.7)
Sites and Buildings	701,249	854,030	(17.9)	640,259	803,338	(20.3)
Fixed Costs	65,533	46,983	39.5	65,533	25,918	152.8
Interest on Long-Term Debt	14,227	18,015	(21.0)	14,227	18,015	(21.0)
Depreciation - Unallocated	171,602	171,601	0.0	171,602	171,601	0.0
	$ 6,661,113	$ 5,490,951	21.3 %	$ 5,114,147	$ 4,163,772	22.8 %

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Table A-4
Major Funds

	Fund Balance 6/30/20	Fund Balance 6/30/19	Increase (Decrease)	Percentage Decrease
Governmental Funds				
General	$ 4,755,228	$ 4,220,227	$ 535,001	12.7 %
Debt Service Fund	41,417	53,666	(12,249)	(22.8)

General Fund

The general fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12, including pupil transportation activities and capital outlay projects.

Table A-5 presents a summary of general fund revenue.

Table A-5
General Fund Revenue

	2020	2019	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	$ 1,011,495	$ 1,041,500	$ (30,005)	(2.9) %
Interest Earnings	215,724	13,220	202,504	1,531.8
Other	151,573	93,700	57,873	61.8
State Sources	4,553,768	4,580,433	(26,665)	(0.6)
Federal Sources	161,439	142,165	19,274	13.6
Total General Fund Revenue	$ 6,093,999	$ 5,871,018	$ 222,981	3.8 %

Total general fund revenue increased by $222,981 or 3.8 percent from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue.

Table A-6 presents a summary of general fund expenditures.

Table A-6
General Fund Expenditures

	2020	2019	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 3,144,644	$ 3,362,216	$ (217,572)	(6.5) %
Employee Benefits	758,114	819,568	(61,454)	(7.5)
Purchased Services	1,260,940	1,378,359	(117,419)	(8.5)
Supplies and Materials	383,705	455,106	(71,401)	(15.7)
Capital Expenditures	116,890	376,311	(259,421)	(68.9)
Other Expenditures	64,283	43,552	20,731	47.6
Total General Fund Expenditures	$ 5,728,576	$ 6,435,112	$ (706,536)	(11.0) %

Total general fund expenditures decreased $706,536 or 11.0 percent from the previous year.

General Fund Budgetary Highlights

The District adopted its original budget in June 2019. During the year ended June 30, 2020, the District revised its budget.

The District's final budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by $132,242, the actual results for the year show a $256,340 surplus.

Capital Assets and Debt Administration

Capital Assets

Note 5 to the financial statements presents an analysis of capital assets transactions occurring during the year ended June 30, 2020. Additions totaling $118,061 consisted of three vehicles, a water softener, an oven, and a gas pump. The District disposed of one bus and one vehicle totaling $91,848.

Long-Term Debt

At year-end, the District had $893,538 of long-term debt consisting of bonded indebtedness net of related premiums and severance payable. Note 8 to the financial statements presents details and payment provisions of these items.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the existing circumstances that could significantly affect its financial health in the future:

- Declining enrollment coupled with inflation will undoubtedly have a negative impact on the District's financial outlook.
- As the building ages, the District expects the cost of maintaining the building to increase significantly over the years.
- Weakening economic conditions in local economy.
- On March 13, 2020, a national emergency was declared for the COVID-19 outbreak in the United States of America. This event affects the economy and financial markets. The extent of the impact on the District may be both direct and indirect and will vary based on the duration of the outbreak and various other factors. Estimates of the effect cannot be determined at the time of this report.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administration Offices, Independent School District No. 363, P.O. Box 465, Northome, MN 56661.

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2020

GOVERNMENTAL ACTIVITIES	
ASSETS	
Cash and Investments	$ 5,367,180
Property Taxes Receivable, Net of Allowance	303,350
Accounts Receivable	450
Due From Other MN School Districts	558
Due From Department of Education	190,388
Due From Federal Government	9,609
Prepaid Expense	7,985
Inventory	5,146
Capital Assets	
Land	193,500
Other Capital Assets, Net of Depreciation	2,996,825
TOTAL ASSETS	9,074,991
DEFERRED OUTFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan	2,624,057
Other Postemployment Benefit	12,657
TOTAL DEFERRED OUTFLOWS OF RESOURCES	2,636,714
LIABILITIES	
Accounts Payable	30,211
Salaries Payable	200,013
Due to Other MN School Districts	92,862
Payroll Deductions	119,033
Interest Payable	5,833
Long-Term Liabilities Due Within One Year	192,135
Long-Term Liabilities	
Bonds, Net Unamortized Premium	566,396
Severance Payable	327,142
Total Other Postemployment Benefit Liability	207,632
Net Pension Liability	3,388,680
Less Amounts Due Within One Year	(192,135)
Total Long-Term Liabilities	4,297,715
TOTAL LIABILITIES	4,937,802
DEFERRED INFLOWS OF RESOURCES	
Property Taxes Levied - Subs. Years	539,114
Cost Sharing Defined Benefit Pension Plan	3,782,831
Other Postemployment Benefit	78,689
TOTAL DEFERRED INFLOWS OF RESOURCES	4,400,634

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2020

NET POSITION	
Net Investment in Capital Assets	2,623,929
Restricted	
Student Activities	143,031
Scholarships	145,395
Achievement and Integration	10,115
Safe Schools	5,201
Community Service	4,679
Debt Service	35,580
Building	3,412
Permanent Fund - Nonexpendable	100,000
Permanent Fund - Expendable	9,775
Unrestricted	(707,848)
TOTAL NET POSITION	$ 2,373,269

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES					
Administration	$ 333,521	$	$	$ 2,182	$ (331,339)
District Support Services	166,741				(166,741)
Elementary & Secondary					
Regular Instruction	2,973,208	5,546	386,935	2,465	(2,578,262)
Vocational Education Instruction	68,760		13,435		(55,325)
Special Education Instruction	650,139	272	533,412		(116,455)
Community Education and Services	104,317	7,042	29,157		(68,118)
Instructional Support Services	41,240		40,062		(1,178)
Pupil Support Services	1,370,576	38,574	375,473	51,421	(905,108)
Sites and Buildings	701,249	450		60,540	(640,259)
Fixed Costs	65,533				(65,533)
Interest on Long-Term Debt	14,227				(14,227)
Depreciation - Unallocated	171,602				(171,602)
TOTAL GOVERNMENTAL ACTIVITIES	$ 6,661,113	$ 51,884	$ 1,378,474	$ 116,608	(5,114,147)

General Revenues	
Taxes	
Property Taxes, Levied for General Purposes	1,011,827
Property Taxes, Levied for Community Education and Services	14,469
Property Taxes, Levied for Debt Services	132,491
Unrestricted State Aid	3,490,870
Unrestricted Investment Earnings	221,210
Gain on Sale of Capital Assets	4,500
Other General Revenue	147,211
TOTAL GENERAL REVENUES	5,022,578
Change in Net Position	(91,569)
Net Position - Beginning	2,336,757
GASB 84 Adjustment - See Note 2	128,081
Net Position - Beginning as Restated	2,464,838
Net Position - Ending	$ 2,373,269

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2020

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	$ 5,132,771	$ 105,673	$ 128,736	$ 5,367,180
Current Property Taxes Receivable	170,965	135,816	7,647	314,428
Delinquent Property Taxes Receivable	6,434	4,568	920	11,922
Accounts Receivable	450			450
Due From Other MN School Districts	558			558
Due From Department of Education	182,114	5,352	2,922	190,388
Due From Federal Government	9,609			9,609
Due From Other Funds	5,146			5,146
Prepaid Expense	7,985			7,985
Inventory			5,146	5,146
TOTAL ASSETS	$ 5,516,032	$ 251,409	$ 145,371	$ 5,912,812
LIABILITIES				
Accounts Payable	$ 30,211	$	$	$ 30,211
Salaries Payable	193,453		6,560	200,013
Due To Other MN School Districts	92,862			92,862
Payroll Deductions	119,033			119,033
Due To Other Funds			5,146	5,146
TOTAL LIABILITIES	435,559		11,706	447,265
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Delinquent Taxes	6,434	4,568	920	11,922
Property Taxes Levied - Subs. Years	318,811	205,424	14,879	539,114
TOTAL DEFERRED INFLOWS OF RESOURCES	325,245	209,992	15,799	551,036
FUND BALANCES				
Fund Balance:				
Nonspendable: Prepaid Expense	7,985			7,985
Nonspendable: Inventory			5,146	5,146
Nonspendable: Scholarships			100,000	100,000
Restricted for Student Activities	143,031			143,031
Restricted for Achievement and Integration	10,115			10,115
Restricted for Safe Schools	5,201			5,201
Restricted for Community Service			4,679	4,679
Restricted for Debt Service		41,417		41,417
Restricted for Scholarships	145,395		9,775	155,170
Restricted for Building Fund			3,412	3,412
Committed for Severance	255,000			255,000
Unassigned	4,188,501		(5,146)	4,183,355
TOTAL FUND BALANCES	4,755,228	41,417	117,866	4,914,511
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 5,516,032	$ 251,409	$ 145,371	$ 5,912,812

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2020

Total fund balances - governmental funds	$ 4,914,511
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	
Cost of capital assets	11,562,316
Less accumulated depreciation	(8,371,991)
Deferred outflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	2,636,714
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Bonds	(560,000)
Premium on bonds	(6,396)
Severance payable	(327,142)
Total other postemployment benefit liability	(207,632)
Net pension liability	(3,388,680)
Deferred inflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(3,861,520)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	11,922
An allowance has been set up for taxes receivable in the government-wide financial statements.	(23,000)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.	(5,833)
Net position - governmental activities	$ 2,373,269

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local Property Tax Levies	$ 1,011,495	$ 132,542	$ 14,236	$ 1,158,273
Other Local & County Revenues	367,297		10,919	378,216
Revenue From State Sources	4,553,768	53,734	42,300	4,649,802
Revenue From Federal Sources	161,439		177,074	338,513
Sale/Other Conversion of Asset			38,575	38,575
TOTAL REVENUES	6,093,999	186,276	283,104	6,563,379
EXPENDITURES				
Current				
Administration	333,521			333,521
District Support Services	166,741			166,741
Elementary & Secondary Regular Instruction	2,628,332			2,628,332
Vocational Education Instruction	68,760			68,760
Special Education Instruction	650,139			650,139
Community Education and Services			104,316	104,316
Instructional Support Services	41,240			41,240
Pupil Support Services	972,830		282,703	1,255,533
Sites and Buildings	688,705			688,705
Fixed Costs	61,418		3,640	65,058
Debt Service				
Principal		180,000		180,000
Interest and Fees		18,525		18,525
Capital Outlay	116,890			116,890
TOTAL EXPENDITURES	5,728,576	198,525	390,659	6,317,760
Revenues Over (Under) Expenditures	365,423	(12,249)	(107,555)	245,619
OTHER FINANCING SOURCES (USES)				
Transfers In			109,083	109,083
Transfers Out	(109,083)			(109,083)
TOTAL OTHER FINANCING SOURCES (USES)	(109,083)		109,083	
Net Change in Fund Balances	256,340	(12,249)	1,528	245,619
Fund Balances - Beginning	4,220,227	53,666	266,918	4,540,811
GASB 84 Adjustment - See Note 2	278,661		(150,580)	128,081
Fund Balances - Beginning as Restated	4,498,888	53,666	116,338	4,668,892
Fund Balances - Ending	$ 4,755,228	$ 41,417	$ 117,866	$ 4,914,511

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

Total net change in fund balances - governmental funds	$	245,619
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over the estimated useful lives as depreciation expense.		
Capital Outlay		113,561
Depreciation expense		(330,072)
The gain on the disposal of capital assets increases net position.		4,500
Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.		180,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Also, governmental funds report the effect of premiums when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		3,823
Change in net pension liability		(194,682)
Change in deferred outflows and inflows of resources related to net pension liability		(60,685)
Change in deferred outflows and inflows of resources related to other postemployment benefit liability		(123,625)
Recognition of additional pension expense and grant revenue for the District's proportionate share of the State of Minnesota's contribution to the PERA and TRA.		
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid).		
Other postemployment benefit liability		120,294
Severance payable		(50,816)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		514
Change in net position - governmental activities	$	(91,569)

See Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 363 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

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

Component units are legally separated 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 dependent upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

C. Basic Financial Statement Presentation

The district-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

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

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-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 or related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for advance amounts recognized in accordance with a statutory "tax shift." Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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

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

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

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements.

Description of Funds

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

Major Governmental Funds

General Fund – Accounts for all financial resources and transactions except those required to be accounted for in other funds including pupil transportation and capital outlay activities, which were previously (prior to July 1, 1996) accounted for in separate special revenue funds.

Debt Service Fund – Accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

GASB No. 34 also requires that budget vs. actual information be presented for the general fund and all major special revenue funds.

Nonmajor Governmental Funds

Special Revenue Funds – Accounts for proceeds of specific revenue sources (other than permanent fund and major capital projects) that are legally restricted to expenditures for specified purposes. The District's special revenue funds and its purpose is as follows:

Food Service – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches, or snacks in connection with school activities.

Community Service – Accounts for all resources designated for programs other than those for elementary and secondary students.

Building Fund – Accounts for resources used for the acquisition and construction of major capital facilities.

Permanent Fund – Accounts for resources legally restricted such that only the earnings it generates, and not the principal, may be used to finance operations.

E. Specific Account Information

Cash and 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 carried at fair value. The District considers certificates of deposit to be cash.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data
Level 3: Unobservable market inputs that are not corroborated by market data

Taxes Receivable – Taxes receivable represents taxes levied in 2019 which are not payable until 2020, net of the amount received prior to June 30.

Property Taxes – 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 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 the taxes are collected.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as unavailable revenue (property taxes levied for subsequent years).

The majority of the revenue in the general fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between property taxes and state aids by the legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the “tax shift.”

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year. The allowance for uncollectible taxes is $23,000.

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

Capital Assets – Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 25 years for equipment.

Capital assets not being depreciated include land and construction in process, if any.

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

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued in the future, bond premiums and discounts will be deferred and amortized over the life of the bonds using the effective interest method. Bonds payable will be reported net of the applicable bond premium or discount. Bond issuance costs will be expensed in the period incurred.

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

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

PERA has a special funding situation created by direct aid contributions of $16 million made by the State of Minnesota to the fund in 2019.

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. The District has two items that qualify for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* which represents actuarial differences within PERA and TRA pension plans and other postemployment benefit plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – delinquent taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The item, *property taxes levied – subs. years,* is reported as a deferred inflow of resources for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent property tax revenue levied for a subsequent period. The third items, *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* which represent actuarial differences within PERA and TRA pension plans and other postemployment benefits.

Net Position – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance – The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the Minnesota Department of Education.

Committed – Consists of amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned – Consists of amounts a government intends to use for a specific purpose. These constraints are established by the Board of Education and/or management. The Board of Education delegates the authority to assign fund balances to the Superintendent.

Unassigned – Consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

The school district will strive to maintain a minimum unassigned general fund balance of three months of operating expenses.

F. Use of Estimates

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

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION AND FUND BALANCE

The District implemented GASB Statement No. 84, *Fiduciary Activities,* in the fiscal year ended June 30, 2020. As a result, beginning general fund balance has been restated to reflect the student activity cash balance of $128,081 and the scholarships cash balance of $150,580, resulting in an increase in general fund balance of $278,661. The permanent fund has also been restated to reflect the scholarships cash balance of $150,580 being moved to the general fund. This resulted in a decrease in beginning fund balance of $150,580 in the permanent fund. Finally, net position has also been restated to reflect the student activity cash balance of $128,081, resulting in an increase in net position.

NOTE 3 RECLASSIFICATIONS

Certain reclassifications have been made to the 2019 financial statements in order to conform with the 2020 presentation.

NOTE 4 DEPOSITS AND INVESTMENTS

The District maintains a cash account at its depository bank. Investments are carried at fair value. The District considers certificates of deposit to be cash.

The District's interest income for the year ended June 30, 2020, was $215,724.

The pooled cash and investment account is comprised of the following:

Cash	$ 1,279,811
Investments	4,087,369
Total	$ 5,367,180

As of June 30, 2020, the District's investments were in the Minnesota School District Liquid Asset Fund external investment pool.

Investment	Fair Value (Level 1)
Minnesota School District Liquid Asset Fund	$4,087,369

The Minnesota School District Liquid Asset Fund is a common law trust organized and existing under the laws of the State of Minnesota, in accordance with the provisions of the Minnesota Joint Powers Act. The general objective of the Fund is to provide a high yield for the participants while maintaining liquidity and preserving capital by investing only in instruments authorized by Minnesota Statutes, which govern the temporary investment of school district monies. In addition, the fixed rate/fixed term portion of the program is also structured with safety of principal as the major objective.

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The District may invest idle funds as authorized in Minnesota Statutes, as follows:

(a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
(b) General obligations and revenue obligations of any state or local government with taxing powers rated "A" and "AA", respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated "A" or better.
(c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
(d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
(e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
(f) Repurchase or reverse repurchase agreements with banks that are qualified as a "depository" of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer

in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

(g) Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.

(h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

The Minnesota School District Liquid Asset Fund is rated AAA by Standard & Poor's.

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk - Deposits - The District does not have a policy for custodial credit risk. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2020, the District was not exposed to custodial credit risk.

Custodial Credit Risk - Investments - The investment in the Minnesota School District Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

NOTE 5 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 193,500	$	$	$ 193,500
Capital Assets, Being Depreciated:				
Land Improvements	510,080			510,080
Buildings	9,091,867	13,200		9,105,067
Equipment	1,740,656	104,861	91,848	1,753,669
Total Capital Assets, Being Depreciated	11,342,603	118,061	91,848	11,368,816
Less Accumulated Depreciation For:				
Land Improvements	422,772	7,854		430,626
Buildings	6,605,898	194,151		6,800,049
Equipment	1,105,097	128,067	91,848	1,141,316
Total Accumulated Depreciation	8,133,767	330,072	91,848	8,371,991
Total Capital Assets, Being Depreciated, Net	3,208,836	(212,011)		2,996,825
Governmental Activities Capital Assets, Net	$ 3,402,336	$ (212,011)	$	$ 3,190,325

In the statement of activities, depreciation expense was charged to the following governmental functions:

Elementary & Secondary Regular Instruction	$ 5,124
Pupil Support Services	115,474
Sites and Buildings	37,872
	158,470
Unallocated	171,602
Total Depreciation Expense	$ 330,072

NOTE 6 DEFINED BENEFIT PENSION PLANS – STATEWIDE

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

Disclosures relating to these plans follow:

A. Public Employees Retirement Association

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

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

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

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

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of 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.

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

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2020 and the District was required to contribute 7.50% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2020, were $72,742. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2020, the District reported a liability of $807,201 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $24,999. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the District's proportionate share was 0.0146% at the end of the measurement period and 0.0141% for the beginning of the period.

District's proportionate share of net pension liability	$	807,201
State of Minnesota's proportionate share of the net pension liability associated with the District		24,999
Total	$	832,200

For the year ended June 30, 2020, the District recognized pension expense of $73,761 for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized an additional $1,872 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

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

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual economic experience	$	22,068	$	
Difference between projected and actual investment earnings				73,810
Changes in actuarial assumptions				61,938
Changes in proportion		23,335		30,658
Contributions paid to PERA subsequent to the measurement date		72,742		
Total	$	118,145	$	166,406

$72,742 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30		Pension Expense Amount
2021	$	(57,675)
2022		(56,825)
2023		(7,803)
2024		1,300

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

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

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

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

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

Changes in Actuarial Assumptions:
- The mortality projection scale was changed from MP-2017 to MP-2018.

Changes in Plan Provisions:
-The employer supplemental contribution was changed prospectively, decreasing from $31 million to $21 million per year. The State's special funding contribution was changed prospectively, requiring $16 million due per year through 2031.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	20.00%	0.75%
International Equity	17.50%	5.90%
Cash	2.00%	0.00%

Discount Rate – The discount rate used to measure the total pension liability in 2019 was 7.50%. 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 General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

District Proportionate Share of NPL		
1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
$ 1,326,995	$ 807,201	$ 378,008

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

Subsequent Events and the COVID-19 Pandemic Subsequent to Year-End
The United States and global markets experienced declines in values resulting from uncertainty caused by COVID-19. The resulting declines are expected to have a negative impact on PERA's discount rate as well as the value of the Plan's investments. Any impact caused by the resulting declines have not been included in the Schedules as of June 30, 2020.

B. Teachers Retirement Association

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

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 schools or Minnesota State colleges and universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Defined Contribution Plan (DCR) administered by the State of Minnesota.

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

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

Tier I Benefits:

Tier I	Step Rate Formula	Percentage
Basic	1st ten years of service	2.2 percent per year
	All years after	2.7 percent per year

Coordinated	1st ten years if service years are up to July 1, 2006	1.2 percent per year
	1st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are up to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

With these provisions:

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

or

Tier II Benefits:

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

Members first employed after June 30, 1989, receive only the Tier II 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.

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

	June 30, 2018		June 30, 2019		June 30, 2020	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.00%	11.50%	11.00%	11.71%	11.00%	11.92%
Coordinated	7.50%	7.50%	7.50%	7.71%	7.50%	7.92%

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

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

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

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2019
Experience Study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Price Inflation	2.50%
Wage Growth Rate	2.85% before July 1, 2028 and 3.25% after June 30, 2028
Projected Salary Increase	2.85 to 8.85% before July 1, 2028 and 3.25 to 9.25% after June 30, 2028
Cost of Living Adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually

Mortality Assumption

Pre-retirement	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality table, without adjustment.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	35.50%	5.10%
International Equity	17.50%	5.30%
Private Markets	25.00%	5.90%
Fixed Income	20.00%	0.75%
Unallocated Cash	2.00%	0.00%

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year is 2016 is 6 years. The "Difference Between Expected and Actual Experience" and "Changes of Assumptions" and "Changes in Proportion" use the amortization period of 6 years in the schedule presented. The amortization period for "Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of 5 years as required by GASB 68.

<u>Changes in actuarial assumptions since the 2018 valuation:</u>
- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

<u>Discount Rate</u> - The discount rate used to measure the total pension liability was 7.50 percent. There was no change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2019 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

<u>Net Pension Liability</u> - On June 30, 2020, the District reported a liability of $2,581,479 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in

relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.0405% at the end of the measurement period and 0.0384% for the beginning of the year.

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

District's proportionate share of net pension liability	$	2,581,479
State's proportionate share of the net pension liability associated with the District	$	228,535

For the year ended June 30, 2020, the District recognized pension expense of $489,508. It also recognized $17,371 as an increase to pension expense for the support provided by direct aid.

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

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	$	380	$	60,512
Net difference between projected and actual earnings on plan inv.				194,940
Changes in actuarial assumptions		2,157,358		3,243,735
Changes in proportion		181,049		117,238
Contributions paid to TRA subsequent to the measurement date		167,125		
Total	$	2,505,912	$	3,616,425

$167,125 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ending June 30		Pension Expense Amount
2021	$	192,842
2022		31,662
2023		(915,527)
2024		(614,827)
2025		28,212

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

Sensitivity of the Net Pension Liability (NPL) to Changes in the Discount Rate

1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
$ 4,115,508	$ 2,581,479	$ 1,316,694

The District's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis, and Minneapolis School District.

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

Subsequent Events and the COVID-19 Pandemic Subsequent to Year-End
The United States and global markets experienced declines in values resulting from uncertainty caused by COVID-19. The resulting declines are expected to have a negative impact on TRA's discount rate as well as the value of the Plan's investments. Any impact caused by the resulting declines have not been included in the Schedules as of June 30, 2020.

The District recognized total pension expense of $563,269 for all of the pension plans in which it participates.

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups.

Benefits Provided – The District provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan.

Funding Policy - Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. The District provides postemployment healthcare benefits to qualifying retirees.

Employees Covered by Benefit Term – At June 30, 2020, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	1
Active plan members	76
Total Members	77

Total OPEB Liability – The District's total OPEB liability of $207,632 was measured as of July 1, 2019 and was determined by an actuarial valuation as of July 1, 2019.

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

Inflation	2.5 percent
Salary increases	changed from a flat 3.0 percent per year to rates which vary by group
Healthcare Cost Trend Rates	6.5 percent decreasing to 5.0 percent over 6 years

The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale.

The discount rate is based on the estimated yield of 20-year municipal bonds. The overall single discount rate is 3.41%.

In the July 1, 2019 actuarial valuation, the entry age, level percentage of pay actuarial cost method was used.

Changes in the Total OPEB Liability:

		Total OPEB Liability
Balance at 6/30/2019	$	327,926
Changes for the year:		
Service Cost		20,137
Interest Cost		10,863
Assumption Changes		(4,535)
Plan Changes		727
Differences Between Expected and Actual Experience		(89,893)
Benefit Payments		(57,593)
Net Changes		(120,294)
Balance at 6/30/2020	$	207,632

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – 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 one percentage point lower (2.1 percent) or one percentage point higher (4.1 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (2.1%)	Current (3.1%)	1% Increase (4.1%)
$ 217,383	$ 207,632	$ 198,000

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – 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 one percentage point lower (5.5 percent decreasing to 4.0

percent over 6 years) or one percentage point higher (7.5 percent decreasing to 6.0 percent over 6 years) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.5% decreasing to 4.0% over 6 years)	(6.5% decreasing to 5.0% over 6 years)	(7.5% decreasing to 6.0% over 6 years)
$ 194,808	$ 207,632	$ 222,280

<u>OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB</u> – For the year ended June 30, 2020, the District recognized OPEB expense of $15,988. At June 30, 2020, the District reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Assumption change	$	$ 3,779
Differences between expected and actual experience		74,910
Employer contributions paid subsequent to the measurement date	12,657	
Total	$ 12,657	$ 78,689

$12,657 reported as deferred outflows of resources related to OPEB resulting from District contributions to OPEB subsequent to the measurement date will be recognized as a reduction of the total other postemployment benefit liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2021	$ (15,739)
2022	(15,739)
2023	(15,739)
2024	(15,739)
2025	(15,733)

NOTE 8 LONG-TERM LIABILITIES

Changes in the District's long-term liabilities for the year ended June 30, 2020 are as follows:

Summary of Long-Term Liabilities

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
G.O. Bonds	$ 740,000	$	$ 180,000	$ 560,000	$ 190,000
Premium on Bonds	8,531		2,135	6,396	2,135
Severance Payable	276,326	50,816		327,142	
Total Long-Term Liabilities	$ 1,024,857	$ 50,816	$ 182,135	$ 893,538	$ 192,135

Severance payable is generally liquidated by the general fund.

The District's interest expense for the year ended June 30, 2020 was $14,227.

A. G.O. School Building Refunding Bond

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/20	Amounts Due in 2020-2021 Principal	Amounts Due in 2020-2021 Interest
2012	2.50%	2021/23	$ 2,090,000	$ 180,000	$ 560,000	$ 190,000	$ 14,000

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2021	$ 190,000	$ 14,000
2022	190,000	9,250
2023	180,000	4,500
	$ 560,000	$ 27,750

NOTE 9 SEVERANCE PAYABLE

The District has a severance plan for employees. The plan calls for employees to be paid for unused portions of their sick leave upon termination of employment. At June 30, 2020, the estimated liability under this plan was $327,142.

NOTE 10 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2020, is as follows:

Due to / from other funds:

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental	$5,146

The purpose of the interfund loan is to cover the cash shortage in the food service fund.

Interfund Transfers:

Transfer In	Transfer Out	Amount
Nonmajor Governmental	General	$109,083

The purpose of the transfers is to cover the operating deficits in the food service and community service funds.

NOTE 11 CONTINGENCIES

The District receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and aids. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2020.

NOTE 12 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; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

The District has joined together with other school districts in Minnesota in the Northwest Service Cooperative's Minimum Premium Funding Plan (Plan). The Plan is a public entity risk pool established as a health insurance purchasing pool for its members. The agreement for the formation of the Plan provides that the Plan will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $300,000. The pool and its members purchase reinsurance, currently with a $300,000 specific stop loss attachment point and 110% aggregate stop loss attachment point. If the assets of the Plan were to be exhausted, members would not be responsible for the Plan's liabilities. The Northwest Service Cooperative retains the risk of the Plan's liabilities.

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

NOTE 13 NEW PRONOUNCEMENTS

GASB Statement No. 87, Leases, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information* Arrangements provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

Management has not yet determined the effect these Statements will have on the District's financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
REVENUES				
Local Property Tax Levies	$ 1,115,423	$ 1,049,648	$ 1,011,495	$ (38,153)
Other Local & County Revenues	239,733	244,526	367,297	122,771
Revenue From State Sources	4,611,850	4,570,613	4,553,768	(16,845)
Revenue From Federal Sources	145,665	147,626	161,439	13,813
TOTAL REVENUES	6,112,671	6,012,413	6,093,999	81,586
EXPENDITURES				
Current				
Administration	346,855	332,349	333,521	1,172
District Support Services	134,104	178,204	166,741	(11,463)
Elementary & Secondary				
Regular Instruction	2,793,016	2,696,624	2,628,332	(68,292)
Vocational Education Instruction	54,182	6,261	68,760	62,499
Special Education Instruction	740,521	805,602	650,139	(155,463)
Instructional Support Services	56,854	49,808	41,240	(8,568)
Pupil Support Services	967,278	1,033,022	972,830	(60,192)
Sites and Buildings	882,867	741,413	688,705	(52,708)
Fixed Costs	11,275	46,282	61,418	15,136
Capital Outlay	147,270	138,500	116,890	(21,610)
TOTAL EXPENDITURES	6,134,222	6,028,065	5,728,576	(299,489)
Revenues Over (Under) Expenditures	(21,551)	(15,652)	365,423	381,075
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	2,000			
Transfer Out	125,229	(116,590)	(109,083)	7,507
TOTAL OTHER FINANCING SOURCES (USES)	127,229	(116,590)	(109,083)	7,507
Net Change in Fund Balances	105,678	(132,242)	256,340	388,582
Fund Balances - Beginning	4,220,227	4,220,227	4,220,227	
GASB 84 Adjustment - See Note 2	278,661	278,661	278,661	
Fund Balances - Beginning as Restated	4,498,888	4,498,888	4,498,888	
Fund Balances - Ending	$ 4,604,566	$ 4,366,646	$ 4,755,228	$ 388,582

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
Last 10 Years

	2018	2019	2020
Total OPEB Liability			
Service Cost	$ 22,116	$ 22,779	$ 20,137
Interest	13,671	11,921	10,863
Assumption Changes			(4,535)
Plan Changes			727
Differences Between			
Expected and Actual Experience			(89,893)
Benefit Payments	(106,857)	(68,668)	(57,593)
Net Change in Total OPEB Liability	(71,070)	(33,968)	(120,294)
Total OPEB Liability - Beginning	432,964	361,894	327,926
Total OPEB Liability - Ending	$ 361,894	$ 327,926	$ 207,632
Covered Payroll	$ 2,877,191	$ 2,963,507	$ 2,959,751
District's Total OPEB Liability as a Percentage of a Covered Payroll	12.58%	11.07%	7.02%

The District implemented GASB No. 75 for the fiscal year ended June 30, 2018. Information from prior years is not available.

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST 10 YEARS

	Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
PERA						
	2015	$ 76,698	$ 76,698	$	$ 1,022,100	7.50 %
	2016	74,280	74,280		990,396	7.50
	2017	69,546	69,546		927,280	7.50
	2018	71,131	71,131		948,411	7.50
	2019	77,463	77,463		1,032,835	7.50
	2020	72,742	72,742		969,896	7.50
TRA						
	2015	$ 157,926	$ 157,926	$	$ 2,105,689	7.50 %
	2016	155,310	155,310		2,070,810	7.50
	2017	153,014	153,014		2,040,187	7.50
	2018	161,372	161,372		2,144,299	7.53
	2019	178,879	178,879		2,312,667	7.73
	2020	167,125	167,125		2,103,205	7.95

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY
LAST 10 YEARS

	Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)	Total	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA								
	2014	0.0184 %	$ 864,340	$	$ 864,340	$ 964,681	89.60 %	78.70 %
	2015	0.0174	901,758		901,758	1,022,100	88.23	78.19
	2016	0.0160	1,299,121	16,958	1,316,079	990,396	131.17	68.90
	2017	0.0142	906,519	11,411	917,930	927,280	97.76	75.90
	2018	0.0141	782,210	25,724	807,934	948,411	82.48	79.53
	2019	0.0146	807,201	24,999	832,200	1,032,835	78.15	80.23
TRA								
	2014	0.0459 %	$ 2,115,039	$ 148,702	$ 2,263,741	$ 2,094,512	100.98 %	81.50 %
	2015	0.0416	2,573,371	315,631	2,889,002	2,105,689	122.21	76.80
	2016	0.0402	9,588,659	961,689	10,550,348	2,070,810	463.04	44.88
	2017	0.0382	7,625,413	737,253	8,362,666	2,040,187	373.76	51.57
	2018	0.0384	2,411,788	226,561	2,638,349	2,144,299	112.47	78.07
	2019	0.0405	2,581,479	228,535	2,810,014	2,312,667	111.62	78.21

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

See Notes to the Required Supplementary Information

NOTE 1 BUDGETARY DATA

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the District.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level. The annual appropriated budget is not legally binding on the District unless the District has a deficit fund balance which exceeds 2.5% of expenditures.

NOTE 2 DEFINED BENEFIT PLANS

PERA

2019 Changes
Changes in Actuarial Assumptions: The mortality projection scale was changed from MP-2017 to MP-2018.

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

2018 Changes
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.

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 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement 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.

2017 Changes
Changes in Actuarial Assumptions: The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was

changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

Changes in Plan Provisions: The State's contribution for the Minneapolis Employees Retirement Fund equals $16,000,000 in 2017 and 2018, and $6,000,000 thereafter. The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from $21,000,000 to $31,000,000 in calendar years 2019 to 2031. The state's contribution changed from $16,000,000 to $6,000,000 in calendar years 2019 to 2031.

2016 Changes
Changes in Actuarial Assumptions: The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years. The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes
Changes in Plan Provisions: On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions: The assumed post-retirement benefit increase was changed form 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

TRA

Changes in Actuarial Assumptions Since the 2016 Valuation:
- The Cost of Living Adjustment (COLA) was assumed to increase from 2.0 percent annually to 2.5 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5 percent, but remain at 2.0 percent for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4 percent to 0.0 percent, the vested inactive load increased from 4.0 percent to 7.0 percent and the non-vested inactive load increased from 4.0 percent to 9.0 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 general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

Changes in actuarial assumptions since the 2017 valuation:
- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.

- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payment and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

<u>Changes in actuarial assumptions since the 2018 valuation:</u>
- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

NOTE 3 OTHER POSTEMPLOYMENT BENEFITS

Plan Changes:
- The new School Secretary/Community Education Coordinator has a GASB 75 subsidy which is the same as MSEA employees.

Assumption Changes:
- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 3.40% to 3.10%.

Method Changes: None

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2020

	Special Revenue Funds				
	Food Service Fund	Community Service Fund	Building Fund	Permanent Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and Investments	$	$ 15,549	$ 3,412	$ 109,775	$ 128,736
Current Property Taxes Receivable		7,647			7,647
Delinquent Property Taxes Receivable		920			920
Due From Department of Education		2,922			2,922
Inventory	5,146				5,146
TOTAL ASSETS	$ 5,146	$ 27,038	$ 3,412	$ 109,775	$ 145,371
LIABILITIES					
Salaries Payable	$	$ 6,560	$	$	$ 6,560
Due To Other Funds	5,146				5,146
TOTAL LIABILITIES	5,146	6,560			11,706
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Delinquent Taxes		920			920
Property Taxes Levied - Subs. Years		14,879			14,879
TOTAL DEFERRED INFLOWS OF RESOURCES		15,799			15,799
FUND BALANCES					
Fund Balance:					
Nonspendable: Inventory	5,146				5,146
Nonspendable: Scholarships				100,000	100,000
Restricted for Community Service		4,679			4,679
Restricted for Scholarships				9,775	9,775
Restricted for Building Fund			3,412		3,412
Unassigned	(5,146)				(5,146)
TOTAL FUND BALANCES		4,679	3,412	109,775	117,866
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 5,146	$ 27,038	$ 3,412	$ 109,775	$ 145,371

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

	Special Revenue Funds				
	Food Service Fund	Community Service Fund	Building Fund	Permanent Fund	Total Nonmajor Governmental Funds
REVENUES					
Local Property Tax Levies	$	$ 14,236	$	$	$ 14,236
Other Local & County Revenues		7,042		3,877	10,919
Revenue From State Sources	12,413	29,887			42,300
Revenue From Federal Sources	177,074				177,074
Sale/Other Conversion of Asset	38,575				38,575
TOTAL REVENUES	228,062	51,165		3,877	283,104
EXPENDITURES					
Current					
Community Education and Services		104,316			104,316
Pupil Support Services	282,703				282,703
Fixed Costs				3,640	3,640
TOTAL EXPENDITURES	282,703	104,316		3,640	390,659
Revenues Over (Under) Expenditures	(54,641)	(53,151)		237	(107,555)
OTHER FINANCING SOURCES					
Transfers In	54,641	54,442			109,083
TOTAL OTHER FINANCING SOURCES	54,641	54,442			109,083
Net Change in Fund Balances		1,291		237	1,528
Fund Balances - Beginning		3,388	3,412	260,118	266,918
GASB 84 Adjustment - See Note 2				(150,580)	(150,580)
Fund Balances - Beginning as Restated		3,388	3,412	109,538	116,338
Fund Balances - Ending	$	$ 4,679	$ 3,412	$ 109,775	$ 117,866

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2020

	UFARS Balance Beginning of Year as Restated	Revenues	Expenditures	Transfers	UFARS Balance End of Year	Reclassify	Balance End of Year
General Fund							
Nonspendable	$ 106,793	$	$	$ (98,808)	$ 7,985	$	$ 7,985
Restricted for:							
Student Activities	128,081	95,763	80,813		143,031		143,031
Scholarships	150,580	20,315	25,500		145,395		145,395
Achievement and Integration		11,278	1,163		10,115		10,115
Safe Schools		9,701	4,500		5,201		5,201
Long-Term Facilities Maint.	(26,636)	122,289	126,716		(31,063)	31,063	
Operating Capital	490	72,821	73,311				
Committed for Severance	255,000				255,000		255,000
Unassigned	3,884,580	5,761,832	5,416,573	(10,275)	4,219,564	(31,063)	4,188,501
Food Service Fund							
Nonspendable	4,161			985	5,146		5,146
Restricted: Food Service		228,062	282,703	54,641			
Unassigned	(4,161)			(985)	(5,146)		(5,146)
Community Service Fund							
Restricted for:							
Community Education		16,547	20,315	3,768			
ECFE		22,122	35,248	13,126			
School Readiness		11,205	48,753	37,548			
Community Service	3,388	1,291			4,679		4,679
Building Fund							
Restricted: Building Fund	3,412				3,412		3,412
Debt Service Fund							
Restricted: Debt Service	53,666	186,276	198,525		41,417		41,417
Permanent Fund							
Nonspendable	100,000				100,000		100,000
Restricted: Scholarships	9,538	3,877	3,640		9,775		9,775

BradyMartz

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Education
Independent School District No. 363
Northome, 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. 363 as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated November 5, 2020.

Legal Compliance

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, except as described in the accompanying schedule of findings as item 2020-003. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

Purpose of the 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 communication is not suitable for any other purpose.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

November 5, 2020

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

To the Board of Education
Independent School District No. 363
Northome, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 363, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 5, 2020.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as item 2020-002 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings as item 2020-001 to be a significant deficiency.

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.*

The District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

November 5, 2020

2020-001 FINDING

Criteria
Generally, a system of internal control contemplates separation of duties that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition
Lack of sufficient segregation of duties.

Cause
Size and budget constraints limiting the number of personnel within the accounting department.

Effect
The design of the internal control over financial reporting that could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation
The areas should be reviewed periodically and consideration given to improving the segregation of duties.

Views of Responsible Officials and Planned Corrective Actions
The District will review segregation of duties on an annual basis.

2020-002 FINDING

Criteria
An appropriate system of internal control requires the District to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition
The District's payroll liability accounts were not reconciled during the year. The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. However, the District currently does not prepare the financial statements, including the accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The District has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause
Payroll liabilities were not reconciled due to oversight by the staff. The District elected to have thee auditors assist with the preparation of the financial statements for efficiency.

Effect
Failure to reconcile payroll liability accounts could result in misstatement of liabilities and expenses. There is an increased risk of material misstatement to the District's financial statements.

Recommendation
The District's staff should reconcile payroll liability accounts on a monthly basis. We also recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures. As a compensating control, the District should establish an internal control policy to document the annual review of the financial statement and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will review the payroll liabilities on a monthly basis. The financial statement preparation will be reviewed on an annual basis.

2020-003 FINDING

Criteria
Minnesota Statute Section 471.425 requires that governing boards which have regularly scheduled meetings at least once a month, must pay all invoices within 35 days of the date of receipt.

Condition
Out of a sample of 10 invoices that were selected for testing, the District had five invoices that were not paid within 35 days of receipt.

Cause
Oversight by the District staff.

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

Recommendation
The District should pay all invoices within 35 days of receipt.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will pay all invoices within 35 days of receipt.

2020-001 FINDING

Contact Person – Superintendent

Corrective Action Plan – The following steps are being taken to mitigate the risk: the Superintendent will review and approve all journal entries, the board will approve checks, and the Superintendent will review all bank statements before turning the statements over to the business office for reconciliation.

Completion Date – Ongoing

2020-002 FINDING

Contact Person – Superintendent

Corrective Action Plan – Payroll and accounting staff will reconcile payroll liability accounts monthly. The District will establish a policy to document review of financial statements and notes.

Completion Date – Reconciliation of the payroll liabilities will be reviewed monthly. The financial statement recommendation will be ongoing.

2020-003 FINDING

Contact Person – Superintendent

Corrective Action Plan – The District will pay all invoices within 35 days of receipt.

Completion Date – Immediately

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2020

District Name: INDEPENDENT SCHOOL DISTRICT NO. 363 **District Number:** 363

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	6,093,999	6,093,999	
Total Expenditures	5,728,576	5,728,578	(2)
Non Spendable			
460 Non Spendable Fund Balance	7,985	7,985	
Restricted/Reserved:			
401 Student Activities	143,031	143,033	(2)
402 Scholarships	145,395	145,395	
403 Staff Development			
407 Capital Projects Levy			
408 Cooperative Revenue			
413 Project Funded by COP			
414 Operating Debt			
416 Levy Reduction			
417 Taconite Building Maintenance			
424 Operating Capital			
426 $25 Taconite			
427 Disabled Accessibility			
428 Learning & Development			
434 Area Learning Center			
435 Contracted Alt Programs			
436 State Approved Alt Program			
438 Gifted & Talented			
440 Teacher Development and Eval			
441 Basic Skills Programs			
445 Career and Technical Programs			
448 Achievement and Integration	10,115	10,116	(1)
449 Safe Schools Levy	5,201	5,201	
450 Prekindergarten			
451 QZAB Payments			
452 OPEB Liab Not In Trust			
453 Unfunded Sev & Retiremt Levy			
467 LTFM	(31,063)	(31,065)	2
472 Medical Assistance			
Restricted			
464 Restricted Fund Balance			
Committed			
418 Committed for Separation	255,000	255,000	
461 Committed			
Assigned			
462 Assigned Fund Balance			
Unassigned:			
422 Unassigned Fund Balance	4,219,564	4,219,566	(2)
Reconciliation of General	16,577,803	16,577,808	(5)
02 FOOD SERVICE			
Total Revenue	228,062	228,062	
Total Expenditures	282,703	282,703	
Non Spendable			
460 Non Spendable Fund Balance	5,146	5,146	
Restricted/Reserved:			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance			
Unassigned			
463 Unassigned Fund Balance	(5,146)	(5,146)	
Reconciliation of Food Service	510,765	510,765	
04 COMMUNITY SERVICE			
Total Revenue	51,165	51,165	
Total Expenditures	104,316	104,317	(1)
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
426 $25 Taconite			
431 Community Education			
432 E.C.F.E.			
440 Teacher Development and Eval			
444 School Readiness			
447 Adult Basic Education			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance	4,679	4,676	3
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Community Service	160,160	160,158	2

	Audit	UFARS	Variance
06 BUILDING CONSTRUCTION			
Total Revenue			
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
407 Capital Projects Levy			
413 Projects Funded By COP			
467 LTFM			
Restricted			
464 Restricted Fund Balance	3,412	3,413	(1)
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Building Construction	3,412	3,413	(1)
07 DEBT SERVICE			
Total Revenue	186,276	186,276	
Total Expenditures	198,525	198,525	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
425 Bond Refundings			
451 QZAB Payments			
Restricted			
464 Restricted Fund Balance	41,417	41,413	4
Unassigned:			
463 Unassigned Fund Balance			
	426,218	426,214	4
08 TRUST			
Total Revenue	3,877	3,877	
Total Expenditures	3,640	3,640	
Unassigned:			
402 Restricted Fund Balance	109,775	109,776	(1)
Reconciliation of Trust	117,292	117,293	(1)
20 INTERNAL SERVICE			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of Internal Service			
25 OPEB REVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Revocable Trust			
45 OPEB IRREVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Irrevocable Trust			
47 OPEB DEBT SERVICE FUND			
Total Revenue			
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted			
425 Bond Refunding			
464 Restricted Fund Balance			
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of OPEB Debt Service			