INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2021

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
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ROSTER OF SCHOOL OFFICIALS

June 30, 2021

Brian Dreher	Chairperson
Ralph Lewis	Vice-Chairperson
Scott Mai	Treasurer
Teresa Rud	Clerk
Bob Stueven	Director
Douglas Jourdan	Director
Jeremy Tammi	Superintendent

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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 roster of school officials, 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.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2021 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

October 5, 2021

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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, 2021. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

The general fund balance decreased $45,381 during the 2020-2021 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 $2,050,244 on June 30, 2021 (see details in Table A-1). This was an decrease of 13.6 percent from the prior year.

Table A-1
Statement of Net Position

	2021	2020	Total Percentage Change
Current and Other Assets	$ 5,931,820	$ 5,884,666	0.8 %
Capital Assets	3,016,664	3,190,325	(5.4)
Total Assets	8,948,484	9,074,991	(1.4)
Deferred Outflows of Resources	1,599,165	2,636,714	(39.4)
Long-Term Liabilities	4,241,985	4,297,715	(1.3)
Other Liabilities	774,900	640,087	21.1
Total Liabilities	5,016,885	4,937,802	1.6
Deferred Inflows of Resources	3,480,520	4,400,634	(20.9)
Net Position			
Net Investment in Capital Assets	2,642,403	2,623,929	0.7
Restricted	550,144	457,188	20.3
Unrestricted	(1,142,303)	(707,848)	(61.4)
Total Net Position	$ 2,050,244	$ 2,373,269	(13.6) %

Change in Net Position

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

Table A-2
Change in Net Position

	2021	2020	Total Percentage Change
Revenues			
Program Revenues			
Charges for Services	$ 20,493	$ 51,884	(60.5) %
Operating Grants and Contributions	1,613,776	1,378,474	17.1
Capital Grants and Contributions	200,686	116,608	72.1
General Revenues			
Property Taxes	1,204,064	1,158,787	3.9
Unrestricted State Aid	3,299,343	3,490,870	(5.5)
Other Sources	145,738	372,921	(60.9)
Total Revenues	6,484,100	6,569,544	(1.3)
Expenses			
Administration	308,237	333,521	(7.6)
District Support Services	193,851	166,741	16.3
Elementary & Secondary Regular Instruction	3,024,294	2,973,208	1.7
Vocational Education Instruction	43,500	68,760	(36.7)
Special Education Instruction	739,739	650,139	13.8
Community Education and Services	80,195	104,317	(23.1)
Instructional Support Services	51,524	41,240	24.9
Pupil Support Services	1,497,974	1,370,576	9.3
Sites and Buildings	624,549	701,249	(10.9)
Fixed Costs	61,775	65,533	(5.7)
Interest on Long-Term Debt	9,886	14,227	(30.5)
Depreciation - Unallocated	171,601	171,602	(0.0)
Total Expenses	6,807,125	6,661,113	2.2
Change in Net Position	(323,025)	(91,569)	(452.8)
Net Position - Beginning	2,373,269	2,464,838	(3.7)
Net Position - Ending	$ 2,050,244	$ 2,373,269	(13.6) %

The District’s total revenues were $6,484,100 for the year ended June 30, 2021. Property taxes and state aid payments accounted for 87 percent of total revenue for the year.

The total cost of all programs and services was $6,807,125. The District’s expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position $323,025 over last year. For the year ended June 30, 2021, 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 $299,993. 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.

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 2021	Total Cost of Services 2020	Total Percentage Change	Net Cost of Services 2021	Net Cost of Services 2020	Total Percentage Change
Expenses						
Administration	$ 308,237	$ 333,521	(7.6) %	$ 308,237	$ 331,339	(7.0) %
District Support Services	193,851	166,741	16.3	193,851	166,741	16.3
Elementary & Secondary						
Regular Instruction	3,024,294	2,973,208	1.7	2,524,836	2,578,262	(2.1)
Vocational Education Instruction	43,500	68,760	(36.7)	23,754	55,325	(57.1)
Special Education Instruction	739,739	650,139	13.8	207,130	116,455	77.9
Community Education and Services	80,195	104,317	(23.1)	49,820	68,118	(26.9)
Instructional Support Services	51,524	41,240	24.9	11,365	1,178	864.8
Pupil Support Services	1,497,974	1,370,576	9.3	840,981	905,108	(7.1)
Sites and Buildings	624,549	701,249	(10.9)	568,934	640,259	(11.1)
Fixed Costs	61,775	65,533	(5.7)	61,775	65,533	(5.7)
Interest on Long-Term Debt	9,886	14,227	(30.5)	9,886	14,227	(30.5)
Depreciation - Unallocated	171,601	171,602	(0.0)	171,601	171,602	(0.0)
	$ 6,807,125	$ 6,661,113	2.2 %	$ 4,972,170	$ 5,114,147	(2.8) %

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 6/30/21	Fund Balance 6/30/20	Increase (Decrease)	Percentage Decrease
Governmental Funds				
General	$ 4,709,847	$ 4,755,228	$ (45,381)	(1.0) %
Debt Service Fund	45,045	41,417	3,628	8.8

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

	2021	2020	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	$ 1,055,136	$ 1,011,495	$ 43,641	4.3 %
Interest Earnings	17,459	215,724	(198,265)	(91.9)
Other	134,263	151,573	(17,310)	(11.4)
State Sources	4,324,656	4,553,768	(229,112)	(5.0)
Federal Sources	402,606	161,439	241,167	149.4
Total General Fund Revenue	$ 5,934,120	$ 6,093,999	$ (159,879)	(2.6) %

Total general fund revenue decreased by $159,879 or 2.6 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

	2021	2020	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 3,180,783	$ 3,144,644	$ 36,139	1.1 %
Employee Benefits	810,876	758,114	52,762	7.0
Purchased Services	1,232,402	1,260,940	(28,538)	(2.3)
Supplies and Materials	481,676	383,705	97,971	25.5
Capital Expenditures	141,338	116,890	24,448	20.9
Other Expenditures	76,931	64,283	12,648	19.7
Total General Fund Expenditures	$ 5,924,006	$ 5,728,576	$ 195,430	3.4 %

Total general fund expenditures increased $195,430 or 3.4 percent from the previous year.

General Fund Budgetary Highlights

The District adopted its original budget in June 2020. During the year ended June 30, 2021, the District revised its budget.

The District's final budget for the general fund anticipated that revenues and other financing sources would exceed expenditures and other financing uses by $385,992, the actual results for the year show a $45,381 deficit.

Capital Assets and Debt Administration

Capital Assets

Note 3 to the financial statements presents an analysis of capital assets transactions occurring during the year ended June 30, 2021. Additions totaling $152,746 consisted of a floor scrubber, a water softener, an oven, smartboards, and a new retaining wall. The District disposed of one vehicle totaling $28,664.

Long-Term Debt

At year-end, the District had $724,665 of long-term debt consisting of bonded indebtedness net of related premiums and severance payable. Note 6 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.
- Uncertainty of future COVID-19 funding.

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, 2021

GOVERNMENTAL ACTIVITIES	
ASSETS	
Cash and Investments	$ 5,285,703
Property Taxes Receivable, Net of Allowance	243,297
Due From Other MN School Districts	8,525
Due From Department of Education	99,178
Due From Federal Government - DOE	28,958
Due From Other Governmental Units	215,761
Prepaid Expense	48,092
Inventory	2,306
Capital Assets	
Land	193,500
Other Capital Assets, Net of Depreciation	2,823,164
TOTAL ASSETS	8,948,484
DEFERRED OUTFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan	1,584,444
Other Postemployment Benefit	14,721
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,599,165
LIABILITIES	
Accounts Payable	67,530
Salaries Payable	178,483
Due to Other MN School Districts	148,533
Payroll Deductions	149,805
Interest Payable	3,854
Unearned Revenue	12,060
Long-Term Liabilities Due Within One Year	214,635
Long-Term Liabilities	
Bonds, Net Unamortized Premium	374,261
Severance Payable	350,404
Total Other Postemployment Benefit Liability	227,292
Net Pension Liability	3,504,663
Less Amounts Due Within One Year	(214,635)
Total Long-Term Liabilities	4,241,985
TOTAL LIABILITIES	5,016,885
DEFERRED INFLOWS OF RESOURCES	
Property Taxes Levied - Subs. Years	490,342
Cost Sharing Defined Benefit Pension Plan	2,927,228
Other Postemployment Benefit	62,950
TOTAL DEFERRED INFLOWS OF RESOURCES	3,480,520

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2021

NET POSITION	
Net Investment in Capital Assets	2,642,403
Restricted	
Student Activities	146,630
Scholarships	148,043
Achievement and Integration	10,115
Safe Schools	6,638
Long-Term Facilities Maint.	17,552
Operating Capital	59,436
Community Education	1,723
Community Service	5,383
Debt Service	41,186
Building	1,412
Permanent Fund - Nonexpendable	100,000
Permanent Fund - Expendable	12,026
Unrestricted	(1,142,303)
TOTAL NET POSITION	$ 2,050,244

See Notes to the Financial Statements

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INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021

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	$ 308,237	$	$	$	$ (308,237)
District Support Services	193,851				(193,851)
Elementary & Secondary Regular Instruction	3,024,294	9,569	437,500	52,389	(2,524,836)
Vocational Education Instruction	43,500		19,746		(23,754)
Special Education Instruction	739,739	617	531,992		(207,130)
Community Education and Services	80,195	1,913	28,462		(49,820)
Instructional Support Services	51,524		40,159		(11,365)
Pupil Support Services	1,497,974	8,394	555,917	92,682	(840,981)
Sites and Buildings	624,549			55,615	(568,934)
Fixed Costs	61,775				(61,775)
Interest on Long-Term Debt	9,886				(9,886)
Depreciation - Unallocated	171,601				(171,601)
TOTAL GOVERNMENTAL ACTIVITIES	$ 6,807,125	$ 20,493	$ 1,613,776	$ 200,686	(4,972,170)

General Revenues	
Taxes	
Property Taxes, Levied for General Purposes	1,056,229
Property Taxes, Levied for Community Education and Services	14,192
Property Taxes, Levied for Debt Services	133,643
Unrestricted State Aid	3,299,343
Unrestricted Investment Earnings	18,973
Gain on Sale of Capital Assets	501
Other General Revenue	126,264
TOTAL GENERAL REVENUES	4,649,145
Change in Net Position	(323,025)
Net Position - Beginning	2,373,269
Net Position - Ending	$ 2,050,244

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2021

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	$ 5,044,043	$ 115,475	$ 126,185	$ 5,285,703
Current Property Taxes Receivable	128,156	122,132	5,878	256,166
Delinquent Property Taxes Receivable	7,527	1,888	716	10,131
Due From Other MN School Districts	8,525			8,525
Due From Department of Education	89,095	7,178	2,905	99,178
Due From Federal Government-DOE			28,957	28,957
Due From Other Governmental Units	215,761			215,761
Due From Other Funds	31,215			31,215
Prepaid Expense	48,092			48,092
Inventory			2,307	2,307
TOTAL ASSETS	$ 5,572,414	$ 246,673	$ 166,948	$ 5,986,035
LIABILITIES				
Accounts Payable	$ 67,481	$	$ 49	$ 67,530
Salaries Payable	178,483			178,483
Severance Payable	22,500			22,500
Due To Other MN School Districts	148,533			148,533
Payroll Deductions	149,805			149,805
Due To Other Funds			31,215	31,215
Unearned Revenue	12,060			12,060
TOTAL LIABILITIES	578,862		31,264	610,126
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Delinquent Taxes	7,527	1,888	716	10,131
Property Taxes Levied - Subs. Years	276,178	199,740	14,424	490,342
TOTAL DEFERRED INFLOWS OF RESOURCES	283,705	201,628	15,140	500,473
FUND BALANCES				
Fund Balance:				
Nonspendable: Prepaid Expense	48,092			48,092
Nonspendable: Inventory			2,307	2,307
Nonspendable: Scholarships			100,000	100,000
Restricted for Student Activities	146,630			146,630
Restricted for Achievement and Integration	10,115			10,115
Restricted for Safe Schools	6,638			6,638
Restricted for Long-Term Facilities Maint.	17,552			17,552
Restricted for Operating Capital	59,436			59,436
Restricted for Community Education			1,723	1,723
Restricted for Community Service			5,383	5,383
Restricted for Debt Service		45,045		45,045
Restricted for Scholarships	148,043		12,026	160,069
Restricted for Building Fund			1,412	1,412
Committed for Severance	255,000			255,000
Unassigned	4,018,341		(2,307)	4,016,034
TOTAL FUND BALANCES	4,709,847	45,045	120,544	4,875,436
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 5,572,414	$ 246,673	$ 166,948	$ 5,986,035

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, 2021

Total fund balances - governmental funds	$	4,875,436
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		11,686,398
Less accumulated depreciation		(8,669,734)
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.		1,599,165
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		(370,000)
Premium on bonds		(4,261)
Severance payable		(327,904)
Total other postemployment benefit liability		(227,292)
Net pension liability		(3,504,663)
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.		(2,990,178)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.		10,131
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.		(3,854)
Net position - governmental activities	$	2,050,244

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, 2021

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local Property Tax Levies	$ 1,055,136	$ 136,323	$ 14,396	$ 1,205,855
Other Local & County Revenues	151,722		5,164	156,886
Revenue From State Sources	4,324,656	71,780	29,827	4,426,263
Revenue From Federal Sources	402,606		278,377	680,983
Sale/Other Conversion of Asset			8,844	8,844
TOTAL REVENUES	5,934,120	208,103	336,608	6,478,831
EXPENDITURES				
Current				
Administration	308,237			308,237
District Support Services	193,851			193,851
Elementary & Secondary Regular Instruction	2,719,632			2,719,632
Vocational Education Instruction	43,500			43,500
Special Education Instruction	739,739			739,739
Community Education and Services			80,195	80,195
Instructional Support Services	51,524			51,524
Pupil Support Services	1,028,929		294,833	1,323,762
Sites and Buildings	636,956			636,956
Fixed Costs	60,300		1,000	61,300
Debt Service				
Principal		190,000		190,000
Interest and Fees		14,475		14,475
Capital Outlay	141,338		13,898	155,236
TOTAL EXPENDITURES	5,924,006	204,475	389,926	6,518,407
Revenues Over (Under) Expenditures	10,114	3,628	(53,318)	(39,576)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	501			501
Transfers In			55,996	55,996
Transfers Out	(55,996)			(55,996)
TOTAL OTHER FINANCING SOURCES (USES)	(55,495)		55,996	501
Net Change in Fund Balances	(45,381)	3,628	2,678	(39,075)
Fund Balances - Beginning	4,755,228	41,417	117,866	4,914,511
Fund Balances - Ending	$ 4,709,847	$ 45,045	$ 120,544	$ 4,875,436

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, 2021

Total net change in fund balances - governmental funds	$	(39,075)
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		152,245
Depreciation expense		(326,407)
The gain on the disposal of capital assets increases net position.		501
Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.		190,000
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.		4,114
Change in net pension liability		(115,983)
Change in deferred outflows and inflows of resources related to net pension liability		(184,010)
Change in deferred outflows and inflows of resources related to other postemployment benefit liability		17,803
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		(19,660)
Severance payable		(762)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		(1,791)
Change in net position - governmental activities	$	(323,025)

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 their purposes are 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 2020 which are not payable until 2021, 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 2020.

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 DEPOSITS AND INVESTMENTS

The District maintains a cash account at its depository bank. The District considers certificates of deposit to be cash.

The District's interest income for the year ended June 30, 2021, was $18,973.

The pooled cash and investment account is comprised entirely of cash accounts.

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.

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

<u>Custodial Credit Risk - Deposits</u> - 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, 2021, the District was not exposed to custodial credit risk.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2021, 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	26,661		536,741
Buildings	9,105,067	26,850		9,131,917
Equipment	1,753,669	99,235	28,664	1,824,240
Total Capital Assets, Being Depreciated	11,368,816	152,746	28,664	11,492,898
Less Accumulated Depreciation For:				
Land Improvements	430,626	8,521		439,147
Buildings	6,800,049	194,819		6,994,868
Equipment	1,141,316	123,067	28,664	1,235,719
Total Accumulated Depreciation	8,371,991	326,407	28,664	8,669,734
Total Capital Assets, Being Depreciated, Net	2,996,825	(173,661)		2,823,164
Governmental Activities Capital Assets, Net	$ 3,190,325	$ (173,661)	$	$ 3,016,664

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

Elementary & Secondary Regular Instruction	$ 3,003
Pupil Support Services	112,699
Sites and Buildings	39,104
	154,806
Unallocated	171,601
Total Depreciation Expense	$ 326,407

NOTE 4 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 of Minnesota (PERA). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

General Employees Retirement Plan
The General Employees Retirement Plan covers certain full-time and part-time employees of the District. 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.

Benefit increases are provided to benefit recipients each January. 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. 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 2021 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, 2021, were $76,263. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2021, the District reported a liability of $815,382 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. 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 $25,109. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's 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, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0136% at the end of the measurement period and 0.0146% for the beginning of the period.

District's proportionate share of net pension liability	$	815,382
State of Minnesota's proportionate share of the net pension liability associated with the District		25,109
Total	$	840,491

For the year ended June 30, 2021, the District recognized pension expense of ($1,193) for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized $2,185 as grant revenue for its proportionate share of the State of Minnesota's pension expense for the annual $16 million contribution.

At June 30, 2021, 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	$	7,970	$	3,085
Difference between projected and actual investment earnings		11,570		
Changes in actuarial assumptions				31,158
Changes in proportion		15,556		49,387
Contributions paid to PERA subsequent to the measurement date		76,263		
Total	$	111,359	$	83,630

The $76,263 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, 2022. 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
2022	$	(58,460)
2023		(9,438)
2024		(337)
2025		19,701

<u>Actuarial Assumptions</u> – The total pension liability in the June 30, 2020, actual valuation was determined using an individual entry-age normal cost actuarial cost method and the following actuarial assumptions:

Inflation	2.25% per year
Active Member Payroll Growth	3.00% 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 Pub-2010 General Employee Mortality table 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, 2020 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

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

Changes in Actuarial Assumptions:
- The price inflation assumption was decreased from 2.50% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions:
- Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

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 Stocks	17.50%	5.30%
Cash	2.00%	0.00%

Discount Rate – The discount rate used to measure the total pension liability in 2020 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%)
$ 1,306,775	$ 815,382	$ 410,023

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

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 benefit calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

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

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

Contribution Rate - Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal years ended June 30, 2019, June 30, 2020, and June 30, 2021 were:

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

The following is a reconciliation of employer contributions in TRA's fiscal year 2020 ACFR "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 ACFR Statement of Changes in Fiduciary Net Position	$ 425,223
Add employer contributions not related to future contribution efforts	(56)
Deduct TRA's contributions not included in allocation	(508)
Total employer contributions	424,659
Total non-employer contributions	35,587
Total contributions reported in *Schedule of Employer and Non-Employer Allocations*	$ 460,246

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

Actuarial Assumptions - The total pension liability in the June 30, 2020 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, 2020
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 2020 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 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.

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

Net Pension Liability - On June 30, 2021, the District reported a liability of $2,689,281 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to 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 0.0364% at the end of the measurement period and 0.0405% 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	$	2,689,281
State's proportionate share of the net pension liability associated with the District	$	225,653

For the year ended June 30, 2021, the District recognized pension expense of $389,752. It also recognized $20,671 as an increase to pension expense for the support provided by direct aid.

On June 30, 2021, 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	$	53,931	$	43,886
Net difference between projected and actual earnings on plan inv.		33,422		
Changes in actuarial assumptions		1,065,436		2,379,391
Changes in proportion		144,036		420,321
Contributions paid to TRA subsequent to the measurement date		176,260		
Total	$	1,473,085	$	2,843,598

$176,260 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, 2022. 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
2022	$ 27,127
2023	(920,062)
2024	(619,362)
2025	23,677
2026	(58,153)

Pension Liability Sensitivity - 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%)
$ 4,117,260	$ 2,689,281	$ 1,512,698

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.

The District recognized total pension expense of $388,559 for all of the pension plans in which it participates.

NOTE 5 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, 2021, 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 $227,292 was measured as of July 1, 2020 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	6.25 percent decreasing to 5.0 percent over 5 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 2.40%.

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 6/30/2020	$ 207,632
Changes for the year:	
Service Cost	22,494
Interest Cost	6,901
Assumption Changes	5,424
Benefit Payments	(15,159)
Net Changes	19,660
Balance at 6/30/2021	$ 227,292

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 (1.4 percent) or one percentage point higher (3.4 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (1.4%)	Current (2.4%)	1% Increase (3.4%)
$ 237,677	$ 227,292	$ 216,981

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 (5.25 percent decreasing to 4.0 percent over 5 years) or one percentage point higher (7.25 percent decreasing to 6.0 percent over 5 years) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.25% decreasing to 4.0% over 5 years)	(6.25% decreasing to 5.0% over 5 years)	(7.25% decreasing to 6.0% over 5 years)
$ 211,456	$ 227,292	$ 245,545

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2021, the District recognized OPEB expense of $14,560. At June 30, 2021, 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	$ 4,519	$ 3,023
Differences between expected and actual experience		59,927
Employer contributions paid subsequent to the measurement date	10,202	
Total	$ 14,721	$ 62,950

$10,202 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, 2022. 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
2022	$ (14,835)
2023	(14,835)
2024	(14,835)
2025	(14,829)
2026	903

NOTE 6 LONG-TERM LIABILITIES

Changes in the District's long-term liabilities for the year ended June 30, 2021 are as follows:

Summary of Long-Term Liabilities

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
G.O. Bonds	$ 560,000	$	$ 190,000	$ 370,000	$ 190,000
Premium on Bonds	6,396		2,135	4,261	2,135
Severance Payable	327,142	23,262		350,404	22,500
Total Long-Term Liabilities	$ 893,538	$ 23,262	$ 192,135	$ 724,665	$ 214,635

Severance payable is generally liquidated by the general fund.

The District's interest expense for the year ended June 30, 2021 was $9,886.

A. G.O. School Building Refunding Bond

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/21	Amounts Due in 2021-2022 Principal	Interest
2012	2.50%	2022/23	$ 2,090,000	$ 190,000	$ 370,000	$ 190,000	$ 9,250

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2022	$ 190,000	$ 9,250
2023	180,000	4,500
	$ 370,000	$ 13,750

NOTE 7 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, 2021, the estimated liability under this plan was $350,404.

NOTE 8 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2021, is as follows:

Due to / from other funds:

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental	$31,215

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	$55,996

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

NOTE 9 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, 2021.

NOTE 10 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 11 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.

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32 provides additional guidance for determining whether a primary government is financially accountable for a potential component unit. This Statement requires that the financial burden criterion in paragraph 7 of Statement No. 84, Fiduciary Activities, be applicable to only defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement No. 67, Financial Reporting for Pension Plans, or paragraph 3 of Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, respectively. This Statement (1) requires that a Section 457 plan be classified as either a pension plan or an other employee benefit plan depending on whether the plan meets the definition of a pension plan and (2) clarifies that Statement 84, as amended, should be applied to all arrangements organized under IRC Section 457 to determine whether those arrangements should be reported as fiduciary activities. The requirements of this Statement that (1) exempt primary governments that perform the duties that a governing board typically performs from treating the absence of a governing board the same as the appointment of a voting majority of a governing board in determining whether they are financially accountable for defined contribution pension plans, defined contribution OPEB plans, or other employee benefit plans and (2) limit the applicability of the financial burden criterion in paragraph 7 of Statement 84 to defined benefit pension plans and defined benefit OPEB plans that are administered through trusts that meet the criteria in paragraph 3 of Statement 67 or paragraph 3 of Statement 74, respectively, are effective immediately. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021.

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, 2021

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
REVENUES				
Local Property Tax Levies	$ 1,103,585	$ 1,103,585	$ 1,055,136	$ (48,449)
Other Local & County Revenues	112,600	122,710	151,722	29,012
Revenue From State Sources	4,800,163	4,800,163	4,324,656	(475,507)
Revenue From Federal Sources	144,000	331,291	402,606	71,315
TOTAL REVENUES	6,160,348	6,357,749	5,934,120	(423,629)
EXPENDITURES				
Current				
Administration	310,714	359,185	308,237	(50,948)
District Support Services	162,991	180,847	193,851	13,004
Elementary & Secondary Regular Instruction	2,581,192	2,647,551	2,719,632	72,081
Vocational Education Instruction	6,260	12,965	43,500	30,535
Special Education Instruction	696,864	794,692	739,739	(54,953)
Instructional Support Services	43,042	53,755	51,524	(2,231)
Pupil Support Services	1,075,082	1,088,629	1,028,929	(59,700)
Sites and Buildings	666,379	670,404	636,956	(33,448)
Fixed Costs	152,000	117,658	60,300	(57,358)
Capital Outlay	165,500	45,978	141,338	95,360
TOTAL EXPENDITURES	5,860,024	5,971,664	5,924,006	(47,658)
Revenues Over (Under) Expenditures	300,324	386,085	10,114	(375,971)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets			501	501
Transfer Out	(111,733)	(93)	(55,996)	(55,903)
TOTAL OTHER FINANCING SOURCES (USES)	(111,733)	(93)	(55,495)	(55,402)
Net Change in Fund Balances	188,591	385,992	(45,381)	(431,373)
Fund Balances - Beginning	4,755,228	4,755,228	4,755,228	
Fund Balances - Ending	$ 4,943,819	$ 5,141,220	$ 4,709,847	$ (431,373)

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	2021
Total OPEB Liability				
Service Cost	$ 22,116	$ 22,779	$ 20,137	$ 22,494
Interest	13,671	11,921	10,863	6,901
Assumption Changes			(4,535)	5,424
Plan Changes			727	
Differences Between				
Expected and Actual Experience			(89,893)	
Benefit Payments	(106,857)	(68,668)	(57,593)	(15,159)
Net Change in Total OPEB Liability	(71,070)	(33,968)	(120,294)	19,660
Total OPEB Liability - Beginning	432,964	361,894	327,926	207,632
Total OPEB Liability - Ending	$ 361,894	$ 327,926	$ 207,632	$ 227,292
Covered Payroll	$ 2,877,191	$ 2,963,507	$ 2,959,751	$ 3,048,544
District's Total OPEB Liability				
as a Percentage of a Covered Payroll	12.58%	11.07%	7.02%	7.46%

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
	2021	76,263	76,263		1,016,840	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
	2021	176,260	176,260		2,161,589	8.15

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
	2020	0.0136	815,382	25,109	840,491	969,896	84.07	79.06
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
	2020	0.0364	2,689,281	225,653	2,914,934	2,103,205	127.87	75.48

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

2020 Changes
Changes in Actuarial Assumptions: The price inflation assumption was decreased from 2.50% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule of 90 and early retirements. Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table, with adjustments. The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019. The assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% Joint & Survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% Joint & Survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the Life annuity option was adjusted accordingly.

Changes in Plan Provisions: Augmentation for current privatized members was reduced to 2.0% for the period July 1, 2020 through December 31, 2023 and 0.0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

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 2018 valuation:
- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% 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.

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.

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.

NOTE 3 OTHER POSTEMPLOYMENT BENEFITS

Plan Changes: None.

Assumption Changes:
-The discount rate was changed from 3.10% to 2.40%.

Method Changes: None

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2021

	Special Revenue Funds				Total
	Food Service Fund	Community Service Fund	Building Fund	Permanent Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and Investments	$	$ 12,747	$ 1,412	$ 112,026	$ 126,185
Current Property Taxes Receivable		5,878			5,878
Delinquent Property Taxes Receivable		716			716
Due From Department of Education		2,905			2,905
Due From Federal Government - DOE	28,957				28,957
Inventory	2,307				2,307
TOTAL ASSETS	$ 31,264	$ 22,246	$ 1,412	$ 112,026	$ 166,948
LIABILITIES					
Accounts Payable	$ 49	$	$	$	$ 49
Due To Other Funds	31,215				31,215
TOTAL LIABILITIES	31,264				31,264
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Delinquent Taxes		716			716
Property Taxes Levied - Subs. Years		14,424			14,424
TOTAL DEFERRED INFLOWS OF RESOURCES		15,140			15,140
FUND BALANCES					
Fund Balance:					
Nonspendable: Inventory	2,307				2,307
Nonspendable: Scholarships				100,000	100,000
Restricted for Community Education		1,723			1,723
Restricted for Community Service		5,383			5,383
Restricted for Scholarships				12,026	12,026
Restricted for Building Fund			1,412		1,412
Unassigned	(2,307)				(2,307)
TOTAL FUND BALANCES		7,106	1,412	112,026	120,544
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 31,264	$ 22,246	$ 1,412	$ 112,026	$ 166,948

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, 2021

	Special Revenue Funds				Total
	Food Service Fund	Community Service Fund	Building Fund	Permanent Fund	Total Nonmajor Governmental Funds
REVENUES					
Local Property Tax Levies	$	$ 14,396	$	$	$ 14,396
Other Local & County Revenues		1,913		3,251	5,164
Revenue From State Sources	695	29,132			29,827
Revenue From Federal Sources	278,377				278,377
Sale/Other Conversion of Asset	8,844				8,844
TOTAL REVENUES	287,916	45,441		3,251	336,608
EXPENDITURES					
Current					
Community Education and Services		80,195			80,195
Pupil Support Services	294,833				294,833
Fixed Costs				1,000	1,000
Capital Outlay	11,898		2,000		13,898
TOTAL EXPENDITURES	306,731	80,195	2,000	1,000	389,926
Revenues Over (Under) Expenditures	(18,815)	(34,754)	(2,000)	2,251	(53,318)
OTHER FINANCING SOURCES					
Transfers In	18,815	37,181			55,996
TOTAL OTHER FINANCING SOURCES	18,815	37,181			55,996
Net Change in Fund Balances		2,427	(2,000)	2,251	2,678
Fund Balances - Beginning		4,679	3,412	109,775	117,866
Fund Balances - Ending	$	$ 7,106	$ 1,412	$ 112,026	$ 120,544

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2021

	UFARS Balance Beginning of Year	Revenues	Expenditures	Transfers	Sale of Capital Assets	UFARS Balance End of Year
General Fund						
Nonspendable	$ 7,985	$	$	$ 40,107	$	$ 48,092
Restricted for:						
Student Activities	143,031	54,154	50,555			146,630
Scholarships	145,395	22,548	19,900			148,043
Achievement and Integration	10,115					10,115
Safe Schools	5,201	1,437				6,638
Long-Term Facilities Maint.	(31,063)	141,006	92,391			17,552
Operating Capital		70,094	10,658			59,436
Committed for Severance	255,000					255,000
Unassigned	4,219,564	5,644,881	5,750,502	(96,103)	501	4,018,341
Food Service Fund						
Nonspendable	5,146			(2,839)		2,307
Restricted: Food Service		287,916	306,731	18,815		
Unassigned	(5,146)			2,839		(2,307)
Community Service Fund						
Restricted for:						
Community Education		11,792	10,069			1,723
ECFE		22,761	48,473	25,712		
School Readiness		10,184	21,653	11,469		
Community Service	4,679	704				5,383
Building Fund						
Restricted: Building Fund	3,412		2,000			1,412
Debt Service Fund						
Restricted: Debt Service	41,417	208,103	204,475			45,045
Permanent Fund						
Nonspendable	100,000					100,000
Restricted: Scholarships	9,775	3,251	1,000			12,026

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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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 5, 2021.

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

Purpose of 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

October 5, 2021

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BradyMartz

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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 5, 2021.

Internal Control Over Financial Reporting

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

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

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

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

October 5, 2021

2021-001 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 and oversight. We noted the following during out audit:

- Student Activity Accounts
  - The Board of Education is not reviewing and approving the disbursements.
  - The bank statements are not reviewed by the Superintendent.
  - The journal entries are not reviewed and approved by the Superintendent.
- Revenues and expenses were understated because both the revenues and expenses were coded to the same account.
- The District's delinquent taxes receivable balance of $10,131 does not agree with the County's balance of $22,053.

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

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.

- The Board of Education should review and approve all disbursements.
- The Superintendent should review the bank statements and bank reconciliations monthly.
- The Superintendent should review and approve all journal entries monthly.
- All revenue must be reported as revenue.
- All expenses must be reported as expenses.
- The Superintendent should contact the county to reconcile the difference.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will implement immediately.

2021-002 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 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
The District elected to not allocate resources for the preparation of the financial statements.

Effect
There is an increased risk of material misstatement to the District's financial statements.

Recommendation
We recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures and consider preparing them in the future. As a compensating control, the District should establish an internal control policy to document the annual review of the financial statement and schedules 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 financial statement preparation on an annual basis.

2021-001 FINDING

Contact Person – Superintendent

Corrective Action Plan – The student activity accounting will follow the same procedures as the other school district bank accounts; checks will be approved by the Board of Education and the Superintendent will review the bank statements and reconciliations as well as review and approve the journal entries. The District will report revenue in revenue accounts and expenses in expense accounts. With the exception of the student activity accounts, the following steps are being taken to mitigate risk: the Superintendent will review and approve all journal entries, the Board of Education 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

2021-002 FINDING

Contact Person – Superintendent

Corrective Action Plan – The District will establish a policy to document review of financial statements and notes.

Completion Date – The financial statement recommendation will be ongoing.

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2021

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

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	5,934,120	5,934,120	
Total Expenditures	5,924,006	5,924,005	1
Non Spendable			
460 Non Spendable Fund Balance	48,092	48,092	
Restricted/Reserved:			
401 Student Activities	146,630	146,632	(2)
402 Scholarships	148,043	148,044	(1)
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	59,436	59,436	
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	6,638	6,638	
450 Prekindergarten			
451 QZAB Payments			
452 OPEB Liab Not In Trust			
453 Unfunded Sev & Retiremt Levy			
467 LTFM	17,552	17,550	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	4,018,341	4,018,344	(3)
Reconciliation of General	16,567,973	16,567,977	(4)
02 FOOD SERVICE			
Total Revenue	287,916	287,916	
Total Expenditures	306,731	306,731	
Non Spendable			
460 Non Spendable Fund Balance	2,307	2,306	1
Restricted/Reserved:			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance			
Unassigned			
463 Unassigned Fund Balance	(2,307)	(2,306)	(1)
Reconciliation of Food Service	594,647	594,647	
04 COMMUNITY SERVICE			
Total Revenue	45,441	45,441	
Total Expenditures	80,195	80,195	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
426 $25 Taconite			
431 Community Education	1,723	1,723	
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	5,383	5,381	2
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Community Service	132,742	132,740	2

	Audit	UFARS	Variance
06 BUILDING CONSTRUCTION			
Total Revenue			
Total Expenditures	2,000	2,000	
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	1,412	1,413	(1)
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Building Construction	3,412	3,413	(1)
07 DEBT SERVICE			
Total Revenue	208,103	208,103	
Total Expenditures	204,475	204,475	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
425 Bond Refundings			
451 QZAB Payments			
Restricted			
464 Restricted Fund Balance	45,045	45,041	4
Unassigned:			
463 Unassigned Fund Balance			
	457,623	457,619	4
08 TRUST			
Total Revenue	3,251	3,251	
Total Expenditures	1,000	1,000	
Unassigned:			
402 Restricted Fund Balance	112,026	112,027	(1)
Reconciliation of Trust	116,277	116,278	(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			