

FINANCIAL STATEMENTS

**INDEPENDENT SCHOOL DISTRICT NO. 2689
PIPESTONE AREA SCHOOLS
PIPESTONE, MINNESOTA 56164**

FOR THE YEAR ENDING JUNE 30, 2020

**Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
P.O. Box 707
Pipestone, Minnesota 56164**

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Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

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Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

BOARD OF EDUCATION AND ADMINISTRATIVE PERSONNEL
JUNE 30, 2020

BOARD OF EDUCATION

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Jeff Baatz	Chairman (1/1/19-present)	12/31/22
Randy Erdman	Vice Chairman (1/1/19-present)	12/31/20
Lance Oye	Clerk (1/1/19-present)	12/31/20
Katie Wiese	Treasurer (1/1/19-present)	12/31/20
Marcy Pals	Director (1/1/19-present)	12/31/20
Brad Carson	Director (1/1/19-present)	12/31/22
Amy Nelson	Director (1/1/19-present)	12/31/22

ADMINISTRATIVE PERSONNEL

Kevin Enerson	Superintendent
Jacque Kennedy	Business Manager

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CERTIFIED PUBLIC ACCOUNTANTS

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Marshall, Minnesota 56258
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David W. Friedrichsen, CPA
Daryl J. Kanthak, CPA
Blake R. Klinsing, CPA
Amy L. Mollberg, CPA

WITH THE FIRM

David L. Meulebroeck, CPA

INDEPENDENT AUDITOR'S REPORT

To The Board of Education
Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Independent School District No. 2689, Pipestone Area Schools, Pipestone, Minnesota, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financials 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 of material misstatement.

The prior year partial comparative information has been derived from the District's financial statements for the year ended June 30, 2019, and in our report dated October 16, 2019, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

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 risk 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 and each major fund of the Independent School District No. 2689, Pipestone Area Schools, Pipestone, Minnesota as of June 30, 2020, and the respective changes in financial position, and the respective budgetary comparison for General Fund and the Major Special Revenue Funds (Food Service and Community Service) for the year ended in conformity with accounting principles generally accepted in the United States of America.

Report on Partial Comparative Information

We have previously audited the district's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 16, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Implementation of GASB 84

As discussed in Note 16 to the financial statements, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 84, Fiduciary Activities. Our opinion is not modified with respect to this matter.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 8-15, the Schedule of District's Proportionate Share of the Net Pension Liability, Schedule of District Contributions Defined Benefit Pension Plans and Schedule of Changes in the District's Net OPEB Liability and Related Ratios on pages 63-65 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 Independent School District No. 2689's basic financial statements. The introductory section and combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

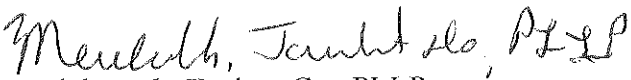
The combining and individual fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected 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 and individual fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2020, on our consideration of the Independent School District No. 2689'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 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Independent School District No. 2689's internal control over financial reporting and compliance.


Meulebroeck, Taubert Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

November 13, 2020

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MANAGEMENT'S DISCUSSION AND ANALYSIS
FISCAL YEAR ENDED JUNE 30, 2020

This section of the Independent School District No. 2689's annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the other components of the District's annual financial report.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 -- *Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments* issued in June 1999. Certain comparative information between the current year and the prior year is presented in the MD&A.

Financial Highlights

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

- Net position increased by \$1,196,143, or 15.6% over June 30, 2019 due primarily to the GASB 68 required adjustment for TRA and PERA obligations and the building construction project.
- Fund Balance increased by \$25,020,125, or 441.5% over June 30, 2019 due in part to bond proceeds for construction of the new building. Construction expenses will continue for the next two years.
- Total governmental revenues increased by \$895,619 or 5.2% in comparison to fiscal year 2019, while governmental expenditures increased \$4,152,508 or 24.1% in comparison to fiscal year 2019 due in part to expenditures relating to the construction of the new building.

Overview of the Financial Statements

The financial section of the annual report consists of four parts -- Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include District-wide financial statements and fund financial statements and the notes to the financial statements.

Government-Wide Statements

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

The two government-wide statements report the District's net position and how it has changed. Net position -- the difference between the District's assets and liabilities -- is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. You also need to consider other nonfinancial factors, however, such as changes in the District's property tax base, pupil enrollment, and the condition of school facilities.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Fund Financial Statements

The fund financial statements include more detailed information about a District's individual funds.

The District maintains the following funds:

Governmental Funds - The District's services are included in this type of fund, which generally focuses 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 provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's activities. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information (reconciliation schedules) immediately following the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

Fiduciary Funds – The district is the trustee, or fiduciary, for assets that belong to others. The district is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The student activity fund is reported as an agency fund. All of the district's fiduciary activities are reported in a separate Statement of Cash Receipts and Disbursements. We exclude these activities from the district-wide financial statements because the district cannot use these assets to finance its operations.

Financial Analysis of the District As A Whole

As noted, net position may serve over time as a useful indicator of a government's financial position. In the case of the Independent School District No. 2689, assets exceeded liabilities by \$8,878,876 at the close of the most recent fiscal year. This was an increase of \$1,196,143 or 15.6% from the previous year total of \$7,682,733.

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

Assets	<u>2020</u>	<u>2019</u>
Current and other assets	37,010,493	10,678,195
Capital assets, net of depreciation	<u>20,091,804</u>	<u>15,244,427</u>
Total Assets	57,102,297	25,922,622
Deferred Outflows of Resources		
Related to OPEB	46,797	
Related to Pensions	<u>3,976,129</u>	<u>7,559,487</u>
Total Deferred Outflows of Resources	<u>4,022,926</u>	<u>7,559,487</u>
Total Assets and Deferred Outflows of Resources	<u>61,125,223</u>	<u>33,482,109</u>
Liabilities		
Current and other liabilities	4,273,273	1,854,020
Long-term liabilities, including due within one year	<u>36,281,728</u>	<u>10,392,888</u>
Total Liabilities	40,555,001	12,246,908
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year	3,494,523	3,101,230
Related to OPEB	15,477	
Related to Pensions	<u>8,181,346</u>	<u>10,451,238</u>
Total Deferred Inflows of Resources	11,691,346	13,552,468
Net Position		
Net Investment in capital assets	14,509,559	13,012,427
Restricted	2,262,957	1,848,902
Unrestricted	<u>(7,893,640)</u>	<u>(7,178,596)</u>
Net Position	<u>8,878,876</u>	<u>7,682,733</u>
Total Liabilities, Deferred Inflows of Resources & Net Position	<u>61,125,223</u>	<u>33,482,109</u>

The District's financial position is the product of numerous factors. Therefore, it is important to view the net position as a starting point to evaluate future years' results, rather than to just focus on the current balance.

Table 2 presents a condensed version of the change in net position of the District.

Table 2
Change in Net Position
For the year ended June 30, 2020

Revenues	2020	2019
Program Revenues		
Charges for Services	559,973	664,835
Operating Grants and Contributions	4,112,564	3,811,358
General Revenues		
Property Taxes	2,682,262	2,497,922
Unrestricted Federal and State Aid	9,729,237	9,721,918
Earnings on Investments	481,539	99,463
Bond Premium	128,197	
Other	437,109	300,150
Total revenues	18,130,881	17,095,646
 Expenses		
District and School Administration	862,352	914,932
District Support Services	337,737	414,364
Regular Instruction	7,364,664	2,371,548
Vocational Instruction	302,795	306,060
Exceptional Instruction	1,968,816	2,234,661
Instructional Support Services	594,030	658,340
Pupil Support Services	1,421,155	1,410,963
Site, Buildings, and Equipment	1,949,234	2,416,243
Fiscal and Other Fixed Cost Programs	89,147	88,298
Food Service	780,593	804,134
Community Service	448,084	427,812
Interest and Fiscal Charges on		
Long-term Liabilities	903,436	70,939
Total expenses	17,022,043	12,118,294
 Change in net position	1,108,838	4,977,352
 Beginning net position, as originally stated	7,682,733	2,705,381
Change in Accounting Principle	87,305	
Beginning net position, as restated	7,770,038	2,705,381
Ending net position	<u>8,878,876</u>	<u>7,682,733</u>

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

The district's total revenue consisted of program revenues of \$4,672,537, property taxes of \$2,682,262, federal and state aid not restricted to specific purposes of \$9,729,237, unrestricted investment earnings of \$481,539, bond premium of \$128,197 and other revenues of \$437,109.

The cost of all governmental activities this year was \$17,022,043.

- The users of the district programs paid for \$559,973 or 3.3% of the total costs.
- Operating grants and contributions consisting of federal and state aids restricted for specific purposes and donations totaled \$4,112,564 or 24.2% of total costs.
- The state government subsidized certain programs with aid not restricted for specific purposes. This totaled \$9,729,237 or 57.2% of total costs.

Figure A and Figure B show further analysis of these revenue sources and expenditure functions.

Figure A - Sources of Revenue for Fiscal Year 2020

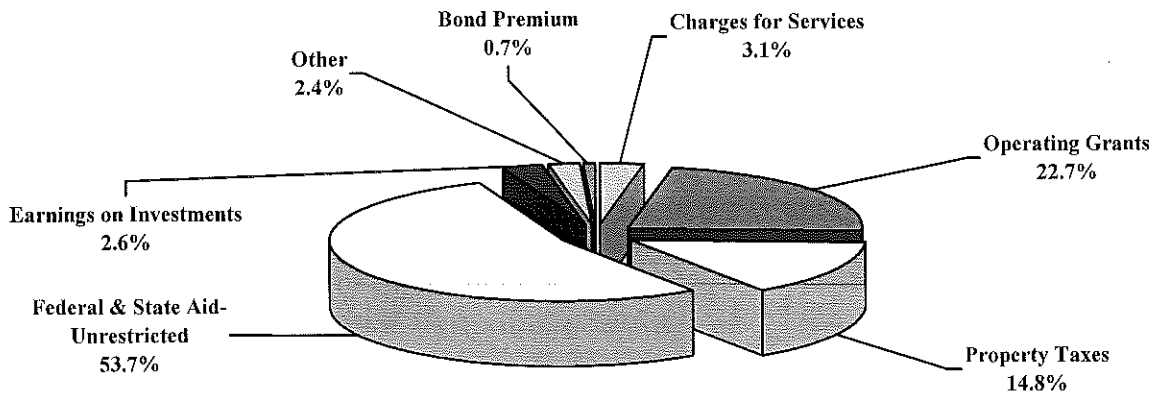
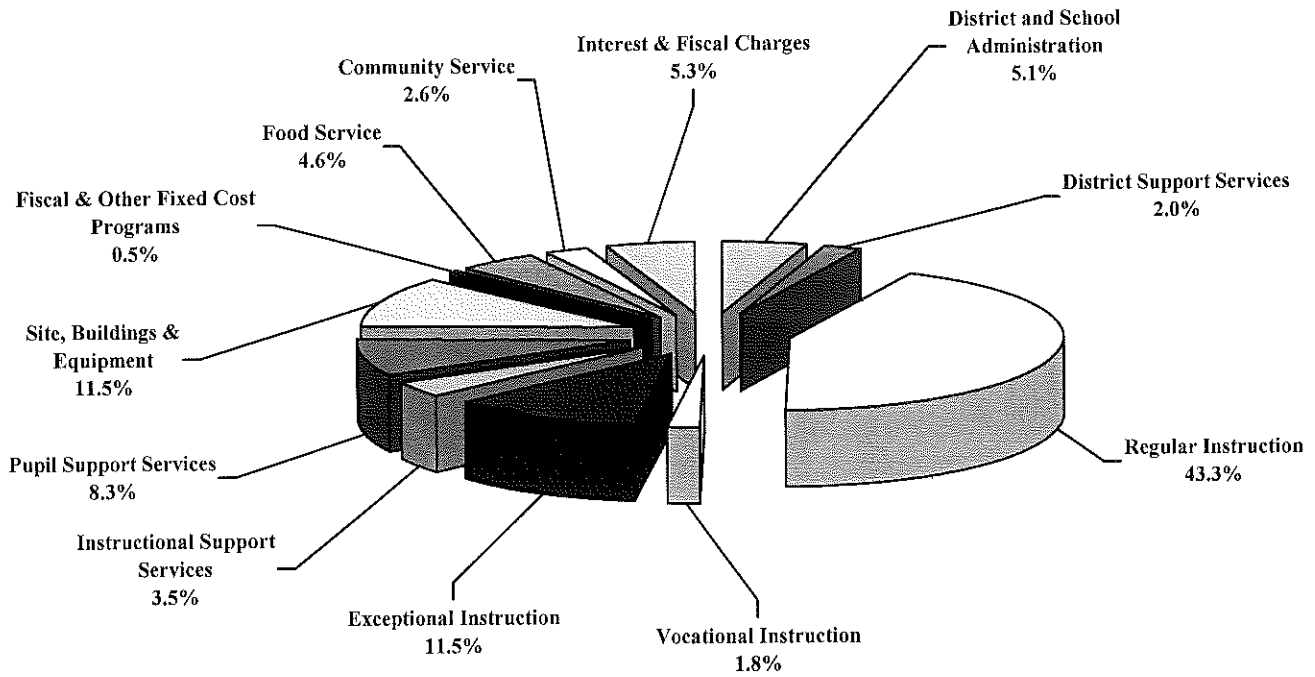


Figure B - Expenses for Fiscal Year 2020



Financial Analysis of the District's Funds (Fund Financial Statements)

Fund Balance

The financial performance of the district as a whole is reflected in its governmental funds as well. As the district completed the year, the governmental funds reported a combined fund balance of \$30,687,681, which is an increase of \$24,932,820 (offset by \$87,305 due to a change in accounting principle) over the prior year fund balance of \$5,667,556. The General Fund increase of \$1,145,886 is mainly due to increased revenue. The Food Service Fund had an increase of \$152,083, which was due mainly to increased Federal revenue. The Community Service Fund had an increase of \$49,389. The Capital Projects Fund had an increase of \$23,550,235, due to bond proceeds for the new building project. The Debt Service Fund had an increase of \$35,227.

Revenues and Expenditures

Revenues of the district's governmental funds totaled \$18,011,460 while total expenditures were \$21,360,603. A summary of the revenues and expenditures reported on the governmental financial statements is as follows:

	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	14,624,344	13,478,458	-0-	1,145,886
Food Service Fund	931,499	779,416	-0-	152,083
Community Service Fund	497,473	448,084	-0-	49,389
Capital Projects Fund	387,247	5,118,975	28,281,963	23,550,235
Debt Service Fund	<u>1,570,897</u>	<u>1,535,670</u>	-0-	<u>35,227</u>
Total	<u>18,011,460</u>	<u>21,360,603</u>	<u>28,281,963</u>	<u>24,932,820</u>

General Fund Budgetary Analysis

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to as the original budget. During the year, the District might amend that budget for known changes in circumstances such as legislative funding. For fiscal year 2020, the District did revise the budget. The district's budget anticipated that expenditures would exceed revenues and other financing sources (uses) by \$16,019. The actual results for the year showed revenues exceeding expenditures by \$1,145,886.

- Actual general fund revenues exceeded the budget by \$519,163 primarily due to differences in state aids and other local and county revenues.
- Actual general fund expenditures were less than budget by \$642,742 primarily due to over budgeting expenditures for various items, including salaries, supplies, equipment purchases, travel and transportation, fuel and building improvements.

Capital Assets

Table 3 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal year ending June 30, 2020. More detailed information about the district's capital assets is presented in Note 6.

**Table 3
 Capital Assets**

	<u>2020</u>	<u>2019</u>	Increase (Decrease)
Construction in Progress	5,158,975		5,158,975
Land	272,240	272,240	
Land Improvements	3,019,252	2,831,301	187,951
Buildings and Improvements	19,859,470	19,657,636	201,834
Equipment	5,058,087	4,999,778	58,309
Pupil Transportation Vehicles	203,931	203,931	
Less: Accumulated Depreciation	(13,480,151)	(12,720,459)	(759,692)
Total	<u>20,091,804</u>	<u>15,244,427</u>	<u>4,847,377</u>
Depreciation Expense	<u>759,692</u>	<u>769,465</u>	<u>(9,773)</u>

Capital asset activity for the current fiscal year includes Paulsen Field fiber optics, middle school lockers, auditorium audio system, boiler burner, paving, tuckpointing, wall pads in wrestling room and construction in progress of the new elementary school and tennis court fence.

Long-Term Liabilities

In fiscal year 2020, long-term debt obligations were repaid in the amount of \$1,510,000, lease payments were paid in the amount of \$71,000, the net severance liability decreased by \$18,557, the net OPEB liability decreased by \$237, and the net pension liability decreased by \$51,301. Pension benefits payable total \$7,481,605 at June 30, 2020. The District added a general obligation bond issue for the construction of a new elementary school building. The amount issued was \$25,415,000. More detailed information about the district's long-term liabilities is presented in Note 9.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Factors Bearing on the District's Future

With the exception of voter-approved excess operating referendum, the District is dependent on the State of Minnesota for the vast majority of its funding. Recent experience shows uncertainty in state and federal funding.

Contacting the District's Management

This financial report is designed to provide 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 Independent School District No. 2689 at 1401 7th St. SW, Pipestone, Minnesota 56164.

STATEMENT OF NET POSITION
JUNE 30, 2020

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Cash and Investments	32,666,863	7,424,146
Receivables:		
Property Taxes	2,058,242	1,799,402
Governmental Units	1,935,133	1,319,095
Other	284,605	35,745
Prepaid Expenses	65,650	99,807
Capital Assets:		
Non Depreciable	5,431,215	272,240
Depreciable - net of accumulated depreciation	14,660,589	14,972,187
Total Assets	57,102,297	25,922,622
 <u>Deferred Outflows of Resources</u>		
Related to OPEB	46,797	
Related to Pensions	3,976,129	7,559,487
Total Deferred Outflows of Resources	4,022,926	7,559,487
Total Assets and Deferred Outflows of Resources	61,125,223	33,482,109
 <u>Liabilities</u>		
Salaries Payable	642,101	673,195
Accounts Payable	2,053,461	1,096,080
Accrued Interest	853,513	8,557
Due to Other Governmental Units	78,238	62,616
Unearned Revenue	32,129	13,572
Long Term Liabilities:		
Portion Due Within One Year	613,831	1,598,736
Portion Due in More Than One Year	28,275,955	736,841
Pension Benefit Payable	7,481,605	7,532,906
Net OPEB Liability	524,168	524,405
Total Liabilities	40,555,001	12,246,908
 <u>Deferred Inflows of Resources</u>		
Property Taxes Levied for Subsequent Years	3,494,523	3,101,230
Related to OPEB	15,477	
Related to Pensions	8,181,346	10,451,238
Total Deferred Inflows of Resources	11,691,346	13,552,468
 <u>Net Position</u>		
Net Investment in Capital Assets	14,509,559	13,012,427
Restricted for:		
General Fund State Mandated Purposes	1,084,839	907,483
Food Service	499,014	346,931
Community Service	311,336	261,947
Debt Service	367,768	332,541
Unrestricted	(7,893,640)	(7,178,596)
Total Net Position	8,878,876	7,682,733
Total Liabilities, Deferred Inflows of Resources and Net Position	61,125,223	33,482,109

See accompanying notes to the financial statements.

**STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2020**

Functions	2020				Net (Expense)	2019
	Expenses	Program Revenues			Revenue and	Net (Expense)
		Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Position	Revenue and Changes in Net Position
				Total Governmental Activities	Total Governmental Activities	
Governmental Activities						
District and School Administration	862,352			(862,352)	(914,932)	
District Support Services	337,737			(337,737)	(414,364)	
Regular Instruction	7,364,664	147,369	1,821,389	(5,395,906)	(839,274)	
Vocational Instruction	302,795			(302,795)	(306,060)	
Exceptional Instruction	1,968,816	60,979	1,538,174	(369,663)	(379,781)	
Instructional Support Services	594,030			(594,030)	(658,340)	
Pupil Support Services	1,421,155		12,536	(1,408,619)	(1,389,552)	
Site, Buildings and Equipment	1,949,234			(1,949,234)	(2,416,243)	
Fiscal and Other Fixed Cost Programs	89,147			(89,147)	(88,298)	
Food Service	780,593	240,838	668,610	128,855	66,962	
Community Service	448,084	110,787	71,855	(265,442)	(231,280)	
Interest and Fiscal Charges on						
Long-term Liabilities	903,436			(903,436)	(70,939)	
Total	<u>17,022,043</u>	<u>559,973</u>	<u>4,112,564</u>	<u>(12,349,506)</u>	<u>(7,642,101)</u>	
General Revenues						
Property Taxes Levied for:						
General Purposes				1,522,162	1,366,795	
Community Service				141,870	144,797	
Debt Service				1,018,230	986,330	
Federal and State Aid Not Restricted to Specific Purposes				9,729,237	9,721,918	
Earnings on Investments				481,539	99,463	
Bond Premium				128,197		
Miscellaneous				437,109	300,150	
Total General Revenues				<u>13,458,344</u>	<u>12,619,453</u>	
Change in Net Position				1,108,838	4,977,352	
Net Position - Beginning, As Originally Stated				7,682,733	2,705,381	
Change in Accounting Principle				87,305		
Net Position - Beginning				<u>7,770,038</u>	<u>2,705,381</u>	
Net Position - Ending				<u>8,878,876</u>	<u>7,682,733</u>	

See accompanying notes to the financial statements.

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020

	2020					2019	
	Major Funds					Total	Total
	General	Food Service	Community Service	Capital Projects	Debt Service	Governmental Funds	Governmental Funds
<u>Assets</u>							
Cash and Investments	6,524,538	516,903	353,866	24,334,357	937,199	32,666,863	7,424,146
Current Property Taxes Receivable	747,292		51,639		1,236,950	2,035,881	1,768,266
Delinquent Property Taxes Receivable	10,094		704		11,563	22,361	31,136
Accounts Receivable	11,733	21,463				33,196	33,120
Interest Receivable	13,753			237,656		251,409	2,625
Due From Other Funds							107,163
Due From Department of Education	1,501,872		7,012		54,229	1,563,113	1,096,339
Due From Federal Government Through the Department of Education	144,529	81,540	9,274			235,343	113,558
Due From Other Governmental Units	72,827	5,775	58,075			136,677	109,198
Prepaid Expenses	65,650					65,650	66,997
Total Assets	<u>9,092,288</u>	<u>625,681</u>	<u>480,570</u>	<u>24,572,013</u>	<u>2,239,941</u>	<u>37,010,493</u>	<u>10,752,548</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>							
<u>Liabilities</u>							
Salaries Payable	597,163		44,938			642,101	673,195
Accounts Payable	92,983	94,538	10,350	1,349,492		1,547,363	572,255
Due to Other Funds							107,163
Due to Other Governmental Units	78,238					78,238	62,616
Payroll Deductions	506,098					506,098	523,825
Unearned Revenue		32,129				32,129	13,572
Total Liabilities	<u>1,274,482</u>	<u>126,667</u>	<u>55,288</u>	<u>1,349,492</u>	<u>-0-</u>	<u>2,805,929</u>	<u>1,952,626</u>
<u>Deferred Inflows of Resources</u>							
Unavailable Revenue-Delinquent Taxes	10,094		704		11,562	22,360	31,136
Property Taxes Levied for Subsequent Years	<u>1,520,670</u>		<u>113,242</u>		<u>1,860,611</u>	<u>3,494,523</u>	<u>3,101,230</u>
Total Deferred Inflows of Resources	<u>1,530,764</u>	<u>-0-</u>	<u>113,946</u>	<u>-0-</u>	<u>1,872,173</u>	<u>3,516,883</u>	<u>3,132,366</u>
<u>Fund Balances</u>							
Fund Balance-Nonspendable	65,650					65,650	66,997
Fund Balance-Restricted	1,084,839	499,014	311,336	23,222,521	367,768	25,485,478	1,848,902
Fund Balance-Committed	85,020					85,020	103,577
Fund Balance-Assigned	22,729					22,729	18,846
Fund Balance-Unassigned	<u>5,028,804</u>					<u>5,028,804</u>	<u>3,629,234</u>
Total Fund Balances	<u>6,287,042</u>	<u>499,014</u>	<u>311,336</u>	<u>23,222,521</u>	<u>367,768</u>	<u>30,687,681</u>	<u>5,667,556</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>9,092,288</u>	<u>625,681</u>	<u>480,570</u>	<u>24,572,013</u>	<u>2,239,941</u>	<u>37,010,493</u>	<u>10,752,548</u>

See accompanying notes to the financial statements.

RECONCILIATION OF GOVERNMENTAL FUND BALANCES TO
NET POSITION OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2020

	2020	2019
Total Governmental Fund Balances	30,687,681	5,667,556
Amounts reported in governmental activities in the statement of net position are different because:		
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds		
Cost of Capital Assets	33,571,955	27,964,887
Less: Accumulated Depreciation	(13,480,151)	(12,720,460)
	20,091,804	15,244,427
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as unavailable revenue.		
	22,360	31,136
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		
	(853,513)	(8,557)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources related to Pensions	3,976,129	7,559,487
Deferred Outflows of Resources - OPEB	46,797	
Deferred Inflows of Resources related to Pensions	(8,181,346)	(10,451,238)
Deferred Inflows of Resources - OPEB	(15,477)	
	(4,173,897)	(2,891,751)
Long-term liabilities that pertain to governmental funds are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net assets. Balances at year-end are:		
Severance Payable	(85,020)	(103,577)
Bonds Payable	(26,066,000)	(2,232,000)
Bond Premium	(2,738,766)	
Deferred Amount on Refunded Debt		32,810
Pension Benefits Payable	(7,481,605)	(7,532,906)
Net OPEB Liability	(524,168)	(524,405)
	(36,895,559)	(10,360,078)
Net Position of Governmental Activities	8,878,876	7,682,733

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	2020					2019	
	Major Funds					Total	Total
	General	Food Service	Community Service	Capital Projects	Debt Service	Governmental Funds	Governmental Funds
Revenues							
Local Property Tax Levies	1,530,938		141,870		1,018,230	2,691,038	2,518,117
Other Local and County Revenues	498,997	22,051	272,299	387,247	10,378	1,190,972	733,051
Revenue from State Sources	12,147,878	48,051	71,855		542,289	12,810,073	12,700,576
Revenue from Federal Sources	401,895	620,559	9,274			1,031,728	832,700
Sales and Other Conversion of Assets	44,636	240,838	2,175			287,649	331,397
Total Revenues	14,624,344	931,499	497,473	387,247	1,570,897	18,011,460	17,115,841
Expenditures							
Current:							
District and School Administration	862,352					862,352	914,932
District Support Services	337,737					337,737	414,364
Regular Instruction	6,127,498					6,127,498	6,295,332
Vocational Instruction	302,795					302,795	306,060
Exceptional Instruction	1,968,816					1,968,816	2,234,661
Community Education and Services			448,084			448,084	427,812
Instructional Support Services	594,030					594,030	658,340
Pupil Support Services	1,404,148	779,416				2,183,564	2,240,879
Site, Buildings and Equipment	1,791,935			5,118,975		6,910,910	2,088,059
Fiscal and Other Fixed Cost Programs	89,147					89,147	88,298
Debt Service:							
Principal					1,510,000	1,510,000	1,495,000
Interest and Fiscal Charges					25,670	25,670	44,358
Total Expenditures	13,478,458	779,416	448,084	5,118,975	1,535,670	21,360,603	17,208,095
Excess Revenues (Expenditures)							
Before Other Financing Sources (Uses)	1,145,886	152,083	49,389	(4,731,728)	35,227	(3,349,143)	(92,254)
Other Financing Sources (Uses)							
Bond Proceeds				25,415,000		25,415,000	
Bond Premium				2,866,963		2,866,963	
	-0-	-0-	-0-	28,281,963	-0-	28,281,963	-0-
Net Change in Fund Balance	1,145,886	152,083	49,389	23,550,235	35,227	24,932,820	(92,254)
Fund Balance-Beginning	5,053,851	346,931	261,947	(327,714)	332,541	5,667,556	5,759,810
Change in Accounting Principle	87,305					87,305	
Fund Balance-Beginning, restated	5,141,156	346,931	261,947	(327,714)	332,541	5,754,861	5,759,810
Fund Balance-Ending	6,287,042	499,014	311,336	23,222,521	367,768	30,687,681	5,667,556

See accompanying notes to the financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2020**

	2020		2019	
Net Change in Governmental Fund Balances	24,932,820		(92,254)	
Amounts reported for the governmental activities in the statement of activities are different because:				
Governmental funds report capital outlays as expenditures, however, in statement of activities, assets with an initial, individual cost of more than \$10,000 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period				
Capital Outlay	5,607,069		346,578	
Depreciation Expense	<u>(759,692)</u>		<u>(769,465)</u>	
		4,847,377		(422,887)
Governmental funds report long-term debt proceeds as financing sources, while repayment of long-term debt principal is reported as an expenditure. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues. The net effect of these differences is as follows:				
Bond Proceeds	(25,415,000)			
Bond Premium	(2,866,963)			
Amortization of Bond Premium	128,197			
Lease Payments	71,000		68,000	
Repayment of Bond Principal	1,510,000		1,495,000	
Interest Expense - General Obligation Bonds	(844,956)		6,229	
Amortization of Deferred Amount on Refunded Debt	(32,810)		(32,810)	
Severance Payments	<u>17,736</u>		<u>36,839</u>	
		(27,432,796)		1,573,258
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for current period's expenditures, and therefore deferred in the funds.				
		(8,776)		(20,195)
In the statement of activities, severance benefits 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 actually paid).				
Severance	821		2,270	
OPEB	31,320			
Pension Benefits	<u>(1,313,466)</u>		<u>(9,647,965)</u>	
		(1,281,325)		(9,645,695)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.				
Change in Pension Benefits	51,301		13,600,930	
Change in Net OPEB liability	<u>237</u>		<u>(15,805)</u>	
		51,538		13,585,125
Change in Net Position of Governmental Activities		<u><u>1,108,838</u></u>		<u><u>4,977,352</u></u>

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<u>Revenues</u>				
Local Property Tax Levies	1,519,271	1,519,271	1,530,938	11,667
Other Local and County Revenues	374,094	374,094	498,997	124,903
Revenue from State Sources	11,876,700	11,876,700	12,147,878	271,178
Revenue from Federal Sources	319,415	333,516	401,895	68,379
Sales and Other Conversion of Assets	1,600	1,600	44,636	43,036
Total Revenues	<u>14,091,080</u>	<u>14,105,181</u>	<u>14,624,344</u>	<u>519,163</u>
<u>Expenditures</u>				
District and School Administration	996,460	939,876	862,352	(77,524)
District Support Services	348,407	353,707	337,737	(15,970)
Regular Instruction	6,040,844	6,013,745	6,127,498	113,753
Vocational Instruction	264,954	264,954	302,795	37,841
Exceptional Instruction	2,417,302	2,379,603	1,968,816	(410,787)
Instructional Support Services	735,160	727,283	594,030	(133,253)
Pupil Support Services	1,521,822	1,521,822	1,404,148	(117,674)
Site, Building and Equipment	1,690,949	1,829,010	1,791,935	(37,075)
Fiscal and Other Fixed Cost Programs	91,200	91,200	89,147	(2,053)
Total Expenditures	<u>14,107,098</u>	<u>14,121,200</u>	<u>13,478,458</u>	<u>(642,742)</u>
Net Change in Fund Balance	<u>(16,018)</u>	<u>(16,019)</u>	1,145,886	<u>1,161,905</u>
Fund Balance-Beginning			5,053,851	
Change in Accounting Principle			87,305	
Fund Balance-Beginning, restated			<u>5,141,156</u>	
Fund Balance-Ending			<u>6,287,042</u>	

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR FOOD SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Other Local and County Revenues	19,157	19,157	22,051	2,894
Revenue from State Sources	63,300	63,300	48,051	(15,249)
Revenue from Federal Sources	485,500	485,500	620,559	135,059
Sales and Other Conversion of Assets	<u>337,000</u>	<u>337,000</u>	<u>240,838</u>	<u>(96,162)</u>
Total Revenues	904,957	904,957	931,499	26,542
<u>Expenditures</u>				
Pupil Support Services	<u>920,105</u>	<u>920,105</u>	<u>779,416</u>	<u>(140,689)</u>
Total Expenditures	<u>920,105</u>	<u>920,105</u>	<u>779,416</u>	<u>(140,689)</u>
Net Change in Fund Balance	<u>(15,148)</u>	<u>(15,148)</u>	152,083	<u>167,231</u>
Fund Balance-Beginning			<u>346,931</u>	
Fund Balance-Ending			<u>499,014</u>	

See accompanying notes to the financial statements.

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR COMMUNITY SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<u>Revenues</u>				
Local Property Tax Levies	131,870	131,870	141,870	10,000
Other Local and County Revenues	267,484	267,484	272,299	4,815
Revenue from State Sources	69,676	69,676	71,855	2,179
Revenue from Federal Sources			9,274	9,274
Sales and Other Conversion of Assets	2,000	2,000	2,175	175
Total Revenues	<u>471,030</u>	<u>471,030</u>	<u>497,473</u>	<u>26,443</u>
<u>Expenditures</u>				
Community Education and Services	<u>459,875</u>	<u>459,875</u>	<u>448,084</u>	<u>(11,791)</u>
Total Expenditures	<u>459,875</u>	<u>459,875</u>	<u>448,084</u>	<u>(11,791)</u>
Net Change in Fund Balance	<u>11,155</u>	<u>11,155</u>	49,389	<u>38,234</u>
Fund Balance-Beginning			<u>261,947</u>	
Fund Balance-Ending			<u>311,336</u>	

See accompanying notes to the financial statements.

STATEMENT OF FIDUCIARY ASSETS
AGENCY FUND
JUNE 30, 2020

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Cash and Investments	<u>345</u>	<u>345</u>
 <u>Liabilities and Net Position</u>		
<u>Liabilities</u>		
Unearned Revenue	345	345
 <u>Net Position</u>		
Total Liabilities and Net Position	<u>-0-</u> <u>345</u>	<u>-0-</u> <u>345</u>

See accompanying notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 **Summary of Significant Accounting Policies**

A. **Basis of Presentation**

The financial statements of Independent School District No. 2689 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. **Financial Reporting Entity**

Independent School District 2689, Pipestone, was formed and operates pursuant to applicable Minnesota laws and statutes. The District operates under an elected seven member Board of Education form of government. The Board has control over all activities related to the public school education in the District.

As required by generally accepted accounting principles, these financial statements present the District and its component units, entities for which the government is considered to be financially accountable.

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

As of July 1, 2019, the student activity accounts of the District have been taken under board control and will not be reported separately.

C. **Basic Financial Statements 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, except for the fiduciary funds. The Fiduciary Funds are only reported in the Statements of Fiduciary Net Position at the fund financial statement level.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 **Summary of Significant Accounting Policies - continued**

C. Basic Financial Statements Presentation - continued

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

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: expendable trust, and agency. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

Proprietary funds are used to report business-type activities carried on by a school district. No activities of the District were determined to be of this nature, so no proprietary funds are present in the financial statements.

D. Basis of Accounting and Measurement Focus

The accounting and financial reporting treatment applied to a fund 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, as are proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Property taxes are recognized as revenues in the year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized as revenue as soon as 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. Revenues are recognized as soon as they are both 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. Revenues are considered to be

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 **Summary of Significant Accounting Policies - continued**

D. **Basis of Accounting and Measurement Focus - continued**

available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered to be available if collected within 60 days of fiscal year-end. Federal revenue is recorded in the year in which the related expenditure is made. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Other miscellaneous revenues (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

All major revenues are susceptible to accrual. Property tax revenues for all funds, which are payable by property owners on a calendar-year basis, are recognized as revenues in the fiscal years for which they apply according to Minnesota Statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year.

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

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 is as follows:

Governmental Funds

General Fund

The General Fund includes all financial transactions relating to the administration, instruction, maintenance, transportation, and capital expenditures of the District, which are not accounted for in other funds.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 **Summary of Significant Accounting Policies - continued**

D. **Basis of Accounting and Measurement Focus - continued**

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted for expenditures for specified purposes. These funds include the Food Service and Community Service funds.

The Food Service fund is used to account for food service revenues and expenditures.

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

Capital Projects Fund

The Capital Projects Fund is used to record all operations of the District's new building project.

Debt Service Fund

Debt Service Funds account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

Agency Fund

The Agency Fund is used to account for donations specifically used to apply to food service accounts and community education fees. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations.

E. **Budgets and Budgetary Accounting**

The budgeted amounts included in the statement of revenues and expenditures were accounted for and presented 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 generally accepted accounting principles. The budgets are prepared by the school personnel and approved by the school board. Encumbrances are not considered in the budget process or in the regular district accounting.

Once a budget is approved, school personnel can amend it with approval by the school board. Amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end as dictated by law. Individual amendments were not material in relation to the original appropriations. All budget appropriations lapse at year-end.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 Summary of Significant Accounting Policies – continued

F. Cash and Temporary Investments

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

Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

The school District uses the average cash balance method of allocating investment income to the various funds.

G. Accounts Receivable

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

H. Inventories

Inventories consist of expendable supplies held for consumption and are stated at moving, weighted average cost. Inventory of the General Fund is recorded as expenditure when items are issued from central stores. Accordingly inventory items on hand at the school are not included in inventory.

I. Prepaid Items

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

J. Property Tax Recognition

The levy certification is made in December of each year. The tax levy is collectible as of January 2nd of the following year and the taxes are due to the county treasurer in May and October of each year. The taxes levied during the fall of the year are recognized in the subsequent fiscal year for the school district.

Current taxes receivable includes the amount of Homestead Market Value Credit Aid, Disparity Reduction Aid, and School Building Bond Ag Credit to be received after July 1, 2020, and will be recognized as revenue during the fiscal year ending June 30, 2021. The delinquent taxes receivable are reserved as 100% uncollectible except for the amount received during the first sixty days of the subsequent fiscal year.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 **Summary of Significant Accounting Policies - continued**

K. **Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded at their estimated fair market value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$10,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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 or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for buildings and improvements, and 5 to 20 years for equipment and vehicles. Land is not depreciated.

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.

L. **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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bond issuance costs, if material, are also reported as deferred charges and amortized over the term of the related debt.

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 or discounts on debt issuances are reported as other financing sources or uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M. **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial 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 will not be recognized as an outflow of resources (expenditure/expense) until then. The District has two types, Related to pensions and Related to OPEB Obligations, which arise only under a modified accrual basis of accounting that qualifies for reporting in this category.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 **Summary of Significant Accounting Policies - continued**

M. **Deferred Outflows/Inflows of Resources - continued**

In addition to liabilities, the statement of financial 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, Property Taxes Levied for Subsequent Years, Related to Pensions, and Related to OPEB, which arise only under a modified accrual basis of accounting, that qualify for reporting in this category. Accordingly, the items, unavailable revenue, are reported only in the governmental funds balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

N. **Fund Equity**

Fund balance is divided into five classifications based primarily on the extent to which the district is bound to observe constraints imposed upon the use of the resources in the governmental funds. The following are the five fund balance categories used by the district:

Non-Spendable Fund Balance

Fund balance amounts that are not in a spendable form or are legally or contractually required to be maintained intact.

Restricted Fund Balance

Fund balance amounts that can be spent only for specific purposes imposed by laws or regulations, external resource providers, constitutional provisions or enabling legislation.

Committed Fund Balance

Fund balance amounts that can be used only for the specific purpose determined by a formal action of the government's highest level of decision making authority.

The District's highest level of decision making authority is the district school board. In order to establish, modify or rescind a committed fund balance amount, the school board would need to approve the action at a school board meeting.

Assigned Fund Balance

Fund balance amounts that are intended to be used by the government for a specific purpose, but do not meet the criteria to be classified as restricted or committed.

The District school board has delegated the authority to assign fund balance amounts to the business manager and/or superintendent. Assigned amounts or changes to assigned amounts are presented to the school board for review.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 **Summary of Significant Accounting Policies - continued**

N. **Fund Equity - continued**

Unassigned Fund Balance

Fund balance amounts that are available for any purpose. These amounts represent the remaining fund balance in the General Fund that has not been classified as non-spendable, restricted, committed or assigned. Also for funds other than the general fund, unassigned fund balance is used to report a deficit fund balance.

The school district will strive to maintain a fund balance of between 25% and 34% of total operating expenditures to fund balance. The fund balance shall be defined as the sum of the restricted, committed, assigned and unassigned fund balances in the General Fund, Food Service Fund and the Community Service Fund. Total operating expenditures will include the expenditures in the funds noted above.

If resources from more than one fund balance classification could be spent, the school district established the following order for resource use: non-spendable fund balance, restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance. Journal entries at the end of the fiscal year may be used to accomplish this.

O. **Net Position**

Net position represents the difference between assets and liabilities in the District-wide and Fiduciary Fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the District-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

P. **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's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 1 **Summary of Significant Accounting Policies - continued**

Q. **Certain Comparative Data and Reclassifications**

Certain comparative total data for the prior year have been presented in the District-wide and fund financial statements in order to provide an understanding of the changes in the financial position and operations. Such comparative total data does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

R. **Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

S. **Subsequent Events**

Subsequent events have been evaluated through December 16, 2020, which is the date the financial statements were available to be issued.

Note 2 **Cash and Investments**

A. **Deposits**

Minnesota Stat. 118A.02 and 118A.04 authorize the District to designate a depository for public funds and to invest in certificates of deposit. Minnesota Stat. 118A.03 requires that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged shall be at least ten percent more than the amount on deposit plus accrued interest at the close of the financial institution's banking day, not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standby letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 2 Cash and Investments - continued

A. Deposits - continued

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2020, none of the District's bank balance of \$2,670,525 (includes student activity fund account) was exposed to custodial credit risk because it was not insured and properly collateralized with securities held by the pledging financial institution's trust department or agent in the district's name.

B. Investments

Minnesota Stat. 118A.04 and 118A.05 generally authorize the following types of investments as available to the District:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minnesota Stat. 118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) bankers' acceptances of United States banks;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 2 Cash and Investments - continued

B. Investments - continued

The District's investments are potentially subject to various risks including the following:

Custodial Credit Risk

The risk that in the event of a failure of the counter party to an investment transaction, a district will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Credit Risk

The risk that an issuer or other counter party to an investment will not fulfill its obligations to the holder of the investment.

Concentration of Credit Risk

The risk of loss that may be caused by the District's investment in a single issuer.

Interest Rate Risk

The risk that changes in the market interest rates will adversely affect the fair value of an investment.

The District has no internal policies that limit deposits on investment choices or address these potential risks beyond the statutory limitations described above.

	<u>Credit Risk</u>		<u>Concentration</u>	<u>Interest</u>	
	<u>Credit</u>	<u>Rating</u>	<u>Risk</u>	<u>Rate Risk</u>	<u>Carrying</u>
	<u>Rating</u>	<u>Agency</u>	<u>Over 5%</u>	<u>Maturity</u>	<u>Value</u>
			<u>of Portfolio</u>	<u>Date</u>	
Investment Pools:					
MN Trust					
Investment Shares Portfolio	AAA	S & P	39.87%	N/A	2,303,173
Certificate of Deposit	AAA	S & P	25.44%	11/17/20-1/25/22	1,469,587
Savings Deposit	AAA	S & P	34.69%	N/A	<u>2,004,421</u>
Total Investments					5,777,181
Checking & Money Market Accounts (not including Agency Funds)					26,886,472
Petty Cash					<u>3,210</u>
Total Cash and Investments					<u>32,666,863</u>

The MN Trust Investment Shares Portfolio is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 3 Due From Department of Education

Amounts due from the Department of Education are aids and reimbursements receivable for the fiscal years as follows:

	June 30	
General Fund	2020	2019
General Education Aid	1,187,919	916,228
Other State Aids	25,506	13,912
Special Education	288,447	104,886
Total General Fund	1,501,872	1,035,026
<u>Special Revenue Funds</u>		
Community Service Fund		
Other State Credits	7,012	6,751
<u>Debt Service Fund</u>		
Other State Credits	54,229	54,562
Total All Funds	1,563,113	1,096,339

Note 4 Due From Federal Government Through the Department of Education

Amounts due from the federal government through the Department of Education are as follows:

	June 30	
General Fund	2020	2019
Title I	105,162	80,743
Title II		18,741
Other	39,367	
Total General Fund	144,529	99,484
<u>Special Revenue Funds</u>		
Food Service Fund		
Summer Food Program	81,540	14,074
<u>Community Service Fund</u>		
Other State Credits	9,274	
Total Special Revenue Funds	90,814	14,074
Total All funds	235,343	113,558

Independent School District No. 2689
 Pipestone Area Schools
 Pipestone, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 5 Due From Other Governmental Units

Amounts due from Other Governmental Units are as follows:

	June 30	
<u>General Fund</u>	<u>2020</u>	<u>2019</u>
SW/WC Service Coop	14,151	7,898
SW Health & Human Services	16,667	13,400
City of Pipestone	11,898	10,431
ISD 581 – Edgerton	23,100	
State of MN	5,977	13,818
CEM	1,034	
Pipestone Area Coalition		710
Total General Fund	72,827	46,257
<u>Special Revenue Funds</u>		
<u>Food Service Fund</u>		
Blue Mound Learning Center	5,775	6,320
<u>Community Service Fund</u>		
Pipestone County Medical Center		228
City of Pipestone	58,075	56,393
Total Community Service Fund	58,075	56,621
Total Special Revenue Funds	63,850	62,941
Total All Funds	136,677	109,198

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 6 **Capital Assets**

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

	<u>Balance</u> <u>7/01/19</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/20</u>
Capital assets not depreciated				
Land	272,240			272,240
Construction in Progress	<u> </u>	<u>5,158,975</u>		<u>5,158,975</u>
Total capital assets not depreciated	272,240	5,158,975	-0-	5,431,215
Capital assets depreciated				
Land Improvements	2,831,301	187,951		3,019,252
Buildings	19,657,636	201,834		19,859,470
Equipment	4,999,778	58,309		5,058,087
Pupil Transportation Vehicles	<u>203,931</u>			<u>203,931</u>
Total Capital assets depreciated	27,692,646	448,094	-0-	28,140,740
Less accumulated depreciation for				
Land Improvements	1,453,398	139,425		1,592,823
Buildings	6,890,330	393,756		7,284,086
Equipment	4,253,928	209,504		4,463,432
Pupil Transportation Vehicles	<u>122,803</u>	<u>17,007</u>		<u>139,810</u>
Total accum depreciation	<u>12,720,459</u>	<u>759,692</u>	<u>-0-</u>	<u>13,480,151</u>
Total capital assets depreciated-net	<u>14,972,187</u>	<u>(311,598)</u>	<u>-0-</u>	<u>14,660,589</u>
Net Capital Assets	<u>15,244,427</u>	<u>4,847,377</u>	<u>-0-</u>	<u>20,091,804</u>

Depreciation expense of \$759,692 for the year ended June 30, 2020 was charged to the following governmental functions:

Regular Instruction	25,115
Pupil Support Services	17,007
Sites, Buildings, and Equipment	716,393
Food Service	<u>1,177</u>
Total	<u>759,692</u>

Independent School District No. 2689
 Pipestone Area Schools
 Pipestone, Minnesota

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 7 **Due to Other Governmental Units**
 Amounts due to Other Governmental Units are as follows:

	June 30	
<u>General Fund</u>	<u>2020</u>	<u>2019</u>
City of Pipestone		171
ISD 991 - SW/WC Service Coop	63,424	35,561
MN West		65
New Dominion School	1,418	9,203
MN Employment & Economic Dev		1,909
Pipestone County Medical Center	2,146	4,871
Pipestone County Sheriff's Office	<u>11,250</u>	<u>10,836</u>
Total General Fund	<u>78,238</u>	<u>62,616</u>

Note 8 **Unearned Revenue**
 Unearned revenues are as follows:

	June 30	
<u>Special Revenue Funds</u>	<u>2020</u>	<u>2019</u>
<u>Food Service Fund</u>		
Lunch Sales	<u>32,129</u>	<u>13,572</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 9 Long-Term Liabilities

A. Severance Payable

Contract employees who are at least 55 years of age and who have completed 15 years of teaching with at least ten years of service with Independent School District 2689 are eligible to receive an early retirement incentive payment. The maximum payment amount is limited to 100 days of pay calculated at the daily rate of pay during the last year of service, excluding pay for additional assignments. Payments will be paid in the following manner: one-third the amount due to the employee will be paid in July following retirement, one-third of the amount due to the employee will be paid the following January, and the remaining one-third will be paid in January one year later. The Board approves a maximum of five teachers in any given fiscal year.

The District estimates its vested severance pay obligations to be \$85,020 and \$103,577 at June 30, 2020 and 2019, respectively and the amount is designated in the fund balance of the General fund at those dates.

B. General Obligation School Building Refunding Bonds

On May 23, 2013, Pipestone Area Schools issued general obligation bonds of \$8,830,000 with an interest rate ranging from 1 to 1.7 percent. Proceeds from the 2013 bonds were used as a crossover refunding of \$8,690,000 of the Series 2004A bonds with an interest rate of 4 to 5 percent. The Series 2004A bonds matured annually on March 1, 2010 through 2020, and were callable on March 1, 2014. The 2013A refunding bonds were issued at a premium, and after paying issuance costs of \$43,320, the net proceeds were \$8,763,142. The net proceeds from the issuance of the refunding bonds were used to purchase U.S. Treasury Securities and those securities were deposited into an irrevocable trust with an escrow agent to provide debt service payments until the Series 2004A bonds were called on March 1, 2014.

The following is a summary of the bond transactions of the District for the year ending June 30, 2020:

Bonds Payable at July 1	1,510,000
Net Bonds Issued (Redeemed)	<u>(1,510,000)</u>
Bonds Payable at June 30	<u><u>-0-</u></u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 9 Long-Term Liabilities - continued

C. General Obligation School Building Bond, Series 2019A

On August 22, 2019 the District issued general obligation bonds of \$25,415,000 with an interest rate ranging from 5.0% to 3.0%. Proceeds will be used for the construction of a new elementary school to be built on the site of the existing middle-high school location. Terms of the bond call for annual principal payments and semi-annual interest payments on February 1 and August 1 from February 1, 2020 to February 1, 2040.

The annual requirements to amortize the bonds outstanding as of June 30, 2020 including interest payments, are listed below:

Year Ended	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2021	395,000	1,440,730	1,835,730
2022	855,000	979,600	1,834,600
2023	900,000	936,850	1,836,850
2024	940,000	891,850	1,831,850
2025	990,000	844,850	1,834,850
2026-2030	5,745,000	3,430,500	9,175,500
2031-2035	7,190,000	1,977,000	9,167,000
2036-2040	<u>8,400,000</u>	<u>771,000</u>	<u>9,171,000</u>
Total	<u>25,415,000</u>	<u>11,272,380</u>	<u>36,687,380</u>

D. Lease-Purchase Agreement

On July 25, 2017 the District entered into a Lease-Purchase Agreement for the construction of tennis courts on the District property as follows:

\$790,000 Lease-Purchase Agreement, due in
 semi-annual payments of \$91,814 to \$93,867
 from February 2, 2018 to August 1, 2027,
 interest rate of 3.15%.

\$651,000

The annual requirements to amortize the Lease-Purchase Agreement outstanding as of June 30, 2020, including interest payments, are listed below.

Year Ended	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>June 30</u>			
2021	73,000	19,357	92,357
2022	75,000	17,026	92,026
2023	77,000	14,632	91,632
2024	80,000	12,159	92,159
2025	82,000	9,608	91,608
2026-2028	<u>264,000</u>	<u>12,663</u>	<u>276,663</u>
Total	<u>651,000</u>	<u>85,445</u>	<u>736,445</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 9 Long-Term Liabilities - continued

D. Changes in Long-Term Liabilities

	<u>Balance</u> <u>7/01/19</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>6/30/20</u>	<u>Due Within</u> <u>One Year</u>
GO Refunding Bonds					
Series 2013A	1,510,000		1,510,000	-0-	
GO School Bldg Bonds					
Series 2019A		25,415,000		25,415,000	395,000
Lease-Purchase					
Agreement	722,000		71,000	651,000	73,000
Bond Premium		2,866,963	128,197	2,738,766	139,852
Severance	<u>103,577</u>		<u>18,557</u>	<u>85,020</u>	<u>5,979</u>
Total	<u>2,335,577</u>	<u>28,281,963</u>	<u>1,727,754</u>	<u>28,889,786</u>	<u>613,831</u>

Note 10 Fund Balances

Non-Spendable Fund Balance

The District has the following non-spendable fund balances as of June 30, 2020:

General Fund

Prepaid Items	<u>65,650</u>
Total Funds	<u>65,650</u>

Restricted Fund Balance

The District has various restricted fund balances that are based on state requirements to track certain program funding, to provide funding for long-term debt requirements, or for other requirements. The District has the following restricted fund balances as of June 30, 2020:

General Fund

Student Activities	106,730
Staff Development	259,074
Operating Capital	48,931
Learning and Development	10,474
Gifted and Talented	210,110
Basic Skills	241,386
Achievement and Integration	3,971
Safe Schools	72,562
Basic Skills Ext Time	34,047
Restricted	7,315
Long Term Facility Maintenance	<u>90,239</u>
Total General Fund	1,084,839

Special Revenue Funds

Food Service Fund

Restricted	499,014
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NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 10 **Fund Balances - continued**

Restricted Fund Balance – continued

Community Service Fund

Community Education	206,959
Early Childhood and Family Education	136,966
Learning Readiness	(38,262)
Restricted	<u>5,673</u>
Total Community Service Fund	<u>311,336</u>
Total Special Revenue funds	<u>810,350</u>

Capital Projects Fund

Restricted	23,222,521
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Debt Service Fund

Restricted	<u>367,768</u>
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Total All Funds	<u>25,485,478</u>
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Committed Fund Balance

The District has the following committed fund balances as of June 30, 2020:

General Fund

Severance	<u>85,020</u>
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Assigned Fund Balance

The District has the following assigned fund balances as of June 30, 2020:

General Fund

Health Cost Management	529
Athletic Help Fund	16,537
Help Fund	4,614
Elem Help	(110)
Arrow Way	<u>1,159</u>
Total General Fund	<u>22,729</u>

Unassigned Fund Balance

The District has the following unassigned fund balances as of June 30, 2020:

<u>General Fund</u>	<u>5,028,804</u>
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Stabilization Amounts

Amounts formally set aside by the governmental unit for use in emergency situations such as revenue shortages or budgetary imbalances.

The District has no stabilization amounts as of June 30, 2020.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 11 Defined Benefit Pension Plans

A. Public Employees Retirement Association (PERA)

1. Plan Description

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

General Employees Retirement Plan (GERF)

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

2. 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.

General Employees Plan Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 1.2% of average salary for each of the first ten years of service and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA)-continued

2. Benefits Provided – continued

for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

3. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.5% for Coordinated Plan members. The District’s contributions to the GERF for the year ended June 30, 2020, were \$119,590. The District’s contributions were equal to the required contributions for each year as set by state statute.

4. Pension Costs

At June 30, 2020, the District reported a liability of \$1,260,561 for its proportionate share of the GERF’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 \$39,165. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportionate share of the net pension liability was based on the District’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019 relative to the total employer contributions received from all of PERA’s participating employers. The District’s proportionate share was 0.0228 percent at the end of the measurement period and 0.0237 percent for the beginning of the period.

District’s proportionate share of the net pension liability	1,260,561
State of Minnesota’s proportionate share of the net pension liability associated with the District	<u>39,165</u>
Total	<u>1,299,726</u>

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA)-continued

4. Pension Costs - continued

For the year ended June 30, 2020, the District recognized pension expense of \$111,356 for its proportionate share of GERP's pension expense. In addition, the District recognized an additional \$2,933 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$36,027	
Changes in actuarial assumptions		\$103,462
Difference between projected and actual investment earnings		\$118,792
Changes in proportion		\$166,211
Contributions paid to PERA subsequent to the measurement date	\$119,590	
Total	\$155,617	\$388,465

\$119,590 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2020	(\$186,507)
2021	(\$129,203)
2022	(\$38,760)
2023	\$2,031
2024	\$0

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

5. Actuarial Assumptions

The total pension liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions:

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

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

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

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

General Employees Fund

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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

5. Actuarial Assumptions - continued

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	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
International Equity	17.5%	5.90%
Cash Equivalents	2.0%	0.00%
Total	100%	

6. Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 11 Defined Benefit Pension Plans - continued

A. Public Employees Retirement Association (PERA) - continued

7. 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 1 percentage point lower or 1 percentage point higher than the current discount rate:

Sensitivity Analysis (In Thousands)		
<i>Net Pension Liability (Asset) at Different Discount Rates</i>		
	General Employees Fund	
1% Lower	6.50%	2,072,294
Current Discount Rate	7.50%	1,260,561
1% Higher	8.50%	590,314

8. Pension Plan Fiduciary Net Position

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

B. Teachers Retirement Association

1. 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 school, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State colleges and universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Define Contribution Plan (DCR) administered by the State of Minnesota.

2. 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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

2. Benefits Provided - continued

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 as described.

Tier I Benefits

<u>Tier 1</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	First ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2 percent per year
	First 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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

2. Benefits Provided - continued

for Coordinated members and 2.7 for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, for favorable to the members, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan (A-1) 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 which 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.

3. Contribution Rate

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

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

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 11 Defined Benefit Pension Plans - continued
B. Teachers Retirement Association - continued
3. Contribution Rate – continued

Employer contributions reported in TRA’s CAFR	<i>In thousands</i>
Statement of Changes in Fiduciary Net Position	\$403,300
Add employer contributions not related to future contribution efforts	(688)
Deduct TRA’s contributions not included in allocations	<u>(486)</u>
Total employer contributions	\$402,126
Total non-employer contributions	<u>35,588</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u>\$437,714</u>

Amounts reported in the allocation schedules may not precisely agree with the 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.

4. Actuarial Assumptions

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

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 11 Defined Benefit Pension Plans - continued
B. Teachers Retirement Association - continued
4. Actuarial Assumptions – continued

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation Date	July 1, 2019
Experience Study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.5%
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 20, 2028
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.
Mortality Assumptions	
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 expenses 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:

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

4. Actuarial Assumptions – continued

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Geometric Mean)
Domestic Equity	35.5%	5.10%
International Equity	17.5%	5.30%
Private Markets	25.0%	5.90%
Fixed Income	20%	0.75%
Unallocated Cash	2%	0.00%
Total	100%	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is six years. The *Difference between expected and actual experience*, *Changes of Assumptions*, and *Changes in Proportion* use the amortization period of 6 years in the schedule presented. The amortization period for *Net difference between projected and actual investment earnings on pension plan investments* is five years as required by GASB 68.

Changes in actuarial assumptions since the 2018 valuation:

- The cost of living adjustment (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 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.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

4. Actuarial Assumptions – continued

- 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.

5. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. This is an increase from the discount rate at the prior measurement date of 5.12 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2019 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be depleted and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR).

6. Net Pension Liability

On June 30, 2020, the District reported a liability of \$6,221,044 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.0976% at the end of the measurement period and 0.0990% 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	\$6,221,044
State’s proportionate share of the net pension Liability associated with the District	\$550,350

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 11 Defined Benefit Pension Plans - continued

B. Teachers Retirement Association - continued

6. Net Pension Liability - continued

For the year ended June 30, 2020, the District recognized pension expense of \$515,798. It also recognized \$41,833 as an increase to pension expense for the support provided by direct aid.

On June 30, 2019, 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 economic experience		\$126,317
Net difference between projected and actual earnings on plan inv.		\$454,171
Change in assumptions	\$3,293,407	\$6,963,589
Changes in proportion	\$99,809	\$248,804
Contributions paid to TRA subsequent to measurement date	\$427,296	
Total	\$3,820,512	\$7,792,881

\$427,296 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 ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in the pension expense as follows:

2020	\$1,035,710
2021	\$(2,541,615)
2022	\$(1,483,856)
2023	\$(1,388,081)
2024	\$(21,824)

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 11 Defined Benefit Pension Plans – continued

B. Teachers Retirement Association - continued

7. Pension Liability Sensitivity

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

Sensitivity of Net Pension Liability (NPL) to changes in the discount rate		
1 percent decrease (6.50%)	Current (7.50%)	1 percent increase (8.50%)
\$9,917,866	\$6,221,044	\$3,173,070

The Employer’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.

8. 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.

9. Subsequent Events and the COVID-19 Pandemic Subsequent to Year-End

The United States and global markets experienced declines in values resulting from uncertainty caused by COVID-19. The resulting declines are expected to have a negative impact on TRA’s discount rate as well as the value of the Plan’s investments. Any impact caused by the resulting declines have not been included in the Schedules as of June 30, 2019.

Note 12 Other Postemployment Benefits

The District has implemented Governmental Accounting Standards Board (GASB), Statement No. 75, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.

General Information about the OPEB Plan

Plan Description

The District provides a single-employer defined benefit healthcare plan to eligible retirees and their spouses.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 12 Other Postemployment Benefits – continued

Benefits Provided

The plan offers medical insurance benefits. Benefits are provided through a third-party insurer. Retirees and their spouses contribute to the healthcare plan at the same cost as District employees.

Employees covered by benefit terms

At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	9
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>155</u>
	<u>164</u>

Contributions

The contribution requirements of the plan members and the District are established and may be amended by the Board of Education. For the year ended June 30, 2019, the District's average contribution rate was 8.0 percent of covered-employee payroll.

Net OPEB Liability

The District's net OPEB liability was measured as of June 30, 2020, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019.

Actuarial Assumptions

- The health care trend rates were changed to better anticipate short term and long term medical increases
- The mortality tables were updated from RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 3.40% to 3.10%.
- These changes decreased the liability \$7,560.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 12 Other Postemployment Benefits – continued

Changes in the Net OPEB Liability

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a)-(b)
Balances at 7/1/2019	524,405	-0-	524,405
Changes for the year:			
Service cost	35,106		35,106
Interest cost	18,430		18,430
Assumption Changes	(7,560)		(7,560)
Differences between Expected and Actual Experience	(11,013)		(11,013)
Benefit Payment	(35,200)	-0-	(35,200)
Net changes	(237)		(237)
Balances at 6/30/2019	<u>524,168</u>	-0-	<u>524,168</u>

Sensitivity of the net OPEB liability to changes in discount rate

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.1 percent) or 1-percentage-point higher (4.1 percent) than the current discount rate:

	1% Decrease (2.1%)	Discount Rate (3.1%)	1% Increase (4.1%)
Net OPEB liability	\$548,932	\$524,168	\$499,972

Sensitivity of the net OPEB liability to changes in healthcare cost trend rates

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.5 percent decreasing to 4.0 percent) or 1-percentage-point higher (7.5 percent decreasing to 6.0 percent) than the current healthcare cost trend rates:

	1% Decrease (5.5% decreasing To 4.0%)	Healthcare Cost Trend Rates (6.5% decreasing to 5.0%)	1% Increase (7.5% decreasing to 6.0%)
Net OPEB Liability	\$485,889	\$524,168	\$568,521

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 12 Other Postemployment Benefits – continued
OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the District recognized OPEB expense of \$50,440. At June 30, 2020, the District reported deferred outflow of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Gains		\$9,177
Assumption Changes		\$6,300
Contributions paid to plan subsequent to measurement date	\$46,797	
	<u>\$46,797</u>	<u>\$15,477</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

June 30, 2021	(\$3,096)
June 30, 2022	(\$3,096)
June 30, 2023	(\$3,096)
June 30, 2024	(\$3,096)
June 30, 2025	(\$3,093)

Note 13 Vacation and Sick Leave

Under the terms of contracts, certain employees accrue vacation at varying rates, which can be carried over to future years. The majority of vacation leave is lost if not taken each year, therefore a liability for accrued vacation is not recorded in the financial statements. Vacation pay is charged to operations when taken by the employees of the district.

Substantially all District employees are entitled to sick leave at various rates. Upon termination or retirement, employees are not entitled to receive compensation for their accrued sick leave. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the financial statements.

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2020

Note 14 **Risk Management**

The District is exposed to various risk of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; employee health and dental; and natural disasters. Risks of loss associated with workers' compensation claims are insured through participation in the Minnesota School Boards Association Insurance Trust. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

The Minnesota School Boards Association Insurance Trust is a public entity risk pool currently operated as a common risk management and insurance program for member school districts. The district pays an annual premium based on its annual payroll and an experience modification factor for workers' compensation coverage.

Note 15 **Excess Expenditures over Budget Appropriations**

The following governmental funds had excess expenditures over budget appropriations:

Capital Projects	997,420
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The excess expenditures were due to the expenditures for the construction of a new school building. Program needs will be monitored in the future to alleviate expenditure excesses in these funds.

Note 16 **Change in Accounting Principle**

For the year ended June 30, 2020, the District implemented GASB Statement No. 84, *Fiduciary Activities*. As a result, the District moved the student activity accounts in the amount of \$87,305 to the general fund and governmental activities.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
DEFINED BENEFIT PENSION PLANS
JUNE 30, 2020

Actuarial Valuation Date	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable) (b)	Total (a+b)	District's Covered- Employee Payroll (c)	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA							
June 30, 2014	0.0354%	1,662,915		1,662,915	1,860,279	89.4%	78.7%
June 30, 2015	0.0318%	1,648,041		1,648,041	1,887,731	87.3%	78.2%
June 30, 2016	0.0297%	2,411,493	31,508	2,443,001	1,923,321	127.0%	68.9%
June 30, 2017	0.0243%	1,551,296	19,509	1,570,805	1,487,907	105.6%	75.9%
June 30, 2018	0.0237%	1,314,779	43,167	1,357,946	1,616,067	84.0%	79.5%
June 30, 2019	0.0228%	1,260,561	39,165	1,299,726	1,594,533	81.5%	80.2%
TRA							
June 30, 2014	0.0112%	5,156,271		5,156,271	5,107,987	100.9%	81.5%
June 30, 2015	0.0103%	6,346,825		6,346,825	5,238,958	121.1%	76.8%
June 30, 2016	0.0996%	23,756,976	2,384,641	26,141,617	5,182,320	504.4%	44.9%
June 30, 2017	0.0981%	19,582,540	1,893,280	21,475,820	5,281,646	406.6%	51.6%
June 30, 2018	0.0990%	6,218,127	584,205	6,802,332	5,469,213	124.4%	78.1%
June 30, 2019	0.0976%	6,221,044	550,350	6,771,394	5,542,101	112.3%	78.1%

See Note 11, Defined Benefit Pension Plans, for more information

Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
DEFINED BENEFIT PENSION PLANS
JUNE 30, 2020

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a - b)	Covered- Employee Payroll (d)	Contributions as a Percentage of Covered- Employee Payroll (b/d)
<u>Pensions</u>					
PERA					
June 30, 2014	134,731	134,731	-0-	1,860,279	7.2%
June 30, 2015	138,002	138,094	(92)	1,887,731	7.3%
June 30, 2016	138,146	138,146	-0-	1,887,731	7.3%
June 30, 2017	111,593	111,593	-0-	1,487,907	7.5%
June 30, 2018	121,205	121,205	-0-	1,616,067	7.5%
June 30, 2019	119,590	119,590	-0-	1,594,533	7.5%
TRA					
June 30, 2014	357,559	357,559	-0-	5,107,987	7.0%
June 30, 2015	390,392	389,399	993	5,238,958	7.4%
June 30, 2016	388,674	388,674	-0-	5,182,320	7.5%
June 30, 2017	396,123	396,123	-0-	5,281,646	7.5%
June 30, 2018	410,191	410,191	-0-	5,469,213	7.5%
June 30, 2019	427,296	427,296	-0-	5,542,101	7.7%

See Note 11, Defined Benefit Pension Plans, for more information

Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF CHANGES IN THE DISTRICT'S
NET OPEB LIABILITY AND RELATED RATIOS
JUNE 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total OPEB liability			
Service Cost	35,106	36,384	35,324
Interest Cost	18,430	17,881	16,992
Assumption Changes	(7,560)		
Differences between Expected and Actual Experience	(11,013)		
Benefit Payments	<u>(35,200)</u>	<u>(38,460)</u>	<u>(16,183)</u>
Net change in total OPEB liability	(237)	15,805	36,133
Total OPEB liability - beginning	<u>524,405</u>	<u>508,600</u>	<u>472,467</u>
Total OPEB liability - ending	<u><u>524,168</u></u>	<u><u>524,405</u></u>	<u><u>508,600</u></u>
Covered-employee payroll	6,567,764	6,614,006	6,421,365
District's Net OPEB liability as a percentage of covered-employee payroll	7.98%	7.93%	7.92%

See Note 12, Other Postemployment Benefits, for more information.

Multi-year trend information is not available at this time.
 The District will report the above RSI information prospectively as the information becomes available.

GENERAL FUND
BALANCE SHEET
JUNE 30, 2020

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Cash	3,116,530	4,040,662
Investments	3,408,008	1,814,242
Current Property Taxes Receivable	747,292	715,586
Delinquent Property Taxes Receivable	10,094	15,141
Accounts Receivable	11,733	11,014
Interest Receivable	13,753	2,625
Due from Other Funds		107,163
Due From Department of Education	1,501,872	1,035,026
Due From Federal Government Through the Department of Education	144,529	99,484
Due From Other Governmental Units	72,827	46,257
Prepaid Expenses	65,650	66,997
Total Assets	<u>9,092,288</u>	<u>7,954,197</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Salaries Payable	597,163	621,795
Accounts Payable	92,983	254,601
Due to Other Governmental Units	78,238	62,616
Accrued Payroll Liabilities	506,098	523,825
Total Liabilities	<u>1,274,482</u>	<u>1,462,837</u>
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue-Delinquent Taxes	10,094	15,141
Property Taxes Levied for Subsequent Years	1,520,670	1,422,368
Total Deferred Inflows of Resources	<u>1,530,764</u>	<u>1,437,509</u>
<u>Fund Balances</u>		
Fund Balance-Nonspendable	65,650	66,997
Fund Balance-Restricted	1,084,839	907,483
Fund Balance-Committed	85,020	103,577
Fund Balance-Assigned	22,729	18,846
Fund Balance-Unassigned	5,028,804	3,956,948
Total Fund Balances	<u>6,287,042</u>	<u>5,053,851</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>9,092,288</u>	<u>7,954,197</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2020

	Year Ended June 30			
	2020			2019
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
County Apportionment	25,266	30,833	5,567	21,094
Local Tax Levy	1,479,605	1,479,854	249	1,337,742
Miscellaneous Tax Revenue	14,400	20,251	5,851	28,154
Total Local Property Tax Levy	<u>1,519,271</u>	<u>1,530,938</u>	<u>11,667</u>	<u>1,386,990</u>
<u>Other Local and County Revenues</u>				
Admissions	66,000	63,718	(2,282)	64,582
Fees	44,700	30,779	(13,921)	49,041
Gifts and Bequests	12,500	8,783	(3,717)	9,583
Interest Income	53,628	50,397	(3,231)	48,904
Medical Assistance Revenue	32,000	60,979	28,979	71,252
Other Miscellaneous Income	126,166	233,772	107,606	129,599
Rent of Facilities	16,000	13,317	(2,683)	17,459
Tuition from Other Minnesota School Districts	23,100	37,252	14,152	7,898
Total Other Local and County Revenues	<u>374,094</u>	<u>498,997</u>	<u>124,903</u>	<u>398,318</u>
<u>Revenue From State Sources</u>				
Disparity	14,000	17,690	3,690	14,816
Education Homestead Credit	17,600	22,106	4,506	17,506
Endowment Fund Apportionment	44,598	51,824	7,226	47,837
General Education Aid	10,080,634	10,306,020	225,386	10,080,809
Other State Aids	199,868	273,185	73,317	119,443
Special Education	1,520,000	1,477,053	(42,947)	1,740,117
Total Revenue From State Sources	<u>11,876,700</u>	<u>12,147,878</u>	<u>271,178</u>	<u>12,020,528</u>
<u>Revenue From Federal Sources</u>				
Title Programs	259,156	291,386	32,230	297,711
Federal Aid Programs	74,360	110,509	36,149	55,765
Total Revenue From Federal Sources	<u>333,516</u>	<u>401,895</u>	<u>68,379</u>	<u>353,476</u>
<u>Sales and Other Conversion of Assets</u>				
Insurance Recovery	1,000	42,333	41,333	383
Sales of Material	600	2,303	1,703	623
Total Sales and Other	<u>1,600</u>	<u>44,636</u>	<u>43,036</u>	<u>1,006</u>
Conversion of Assets	<u>1,600</u>	<u>44,636</u>	<u>43,036</u>	<u>1,006</u>
Total Revenues	<u>14,105,181</u>	<u>14,624,344</u>	<u>519,163</u>	<u>14,160,318</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2020

	Year Ended June 30			
	2020			2019
<u>Expenditures</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
<u>District and School Administration</u>				
<u>Administration</u>				
Dues and Membership	9,985	9,107	(878)	11,983
Fixed Charges and Employee Benefits	222,638	204,639	(17,999)	220,999
Other	43,416	795	(42,621)	
Professional Services	52,500	42,439	(10,061)	72,471
Salaries	577,212	569,818	(7,394)	573,951
Supplies	26,625	29,920	3,295	27,685
Travel and Transportation	6,000	4,134	(1,866)	6,458
Utilities	1,500	1,500		1,385
Total Administration	<u>939,876</u>	<u>862,352</u>	<u>(77,524)</u>	<u>914,932</u>
<u>District Support Services</u>				
Dues and Membership		119	119	
Equipment	2,306	3,406	1,100	2,306
Fixed Charges and Employee Benefits	60,748	57,933	(2,815)	60,656
Other	15,050	10,727	(4,323)	91,502
Professional Services	54,324	55,318	994	36,982
Rentals and Leases	61,111	50,676	(10,435)	67,972
Repairs and Maintenance		290	290	
Salaries	155,168	155,176	8	154,044
Supplies	5,000	4,092	(908)	902
Total District Support Services	<u>353,707</u>	<u>337,737</u>	<u>(15,970)</u>	<u>414,364</u>
<u>Regular Instruction</u>				
<u>District Wide</u>				
Dues and Memberships		1,795	1,795	244
Fixed Charges and Employee Benefits	66,014	57,663	(8,351)	57,775
Instructional Supplies	16,815	4,579	(12,236)	6,810
Professional Services	3,600	4,416	816	2,581
Rent	200	90	(110)	285
Repair and Maintenance		1,520	1,520	4,054
Salaries	357,648	373,943	16,295	396,395
Supplies	1,406	106,846	105,440	5,045
Travel and Transportation	3,481	1,884	(1,597)	2,941
Total District Wide	<u>449,164</u>	<u>552,736</u>	<u>103,572</u>	<u>476,130</u>
<u>Elementary School</u>				
Dues and Membership		565	565	565
Equipment		9,012	9,012	9,012
Fixed Charges and Employee Benefits	432,633	440,322	7,689	464,002
Instructional Supplies	103,999	87,576	(16,423)	206,016
Reimbursements to other MN Districts	11,095	4,076	(7,019)	616
Professional Services		5,208	5,208	11,794
Salaries	1,569,987	1,804,642	234,655	1,799,629
Supplies	21,760	8,699	(13,061)	12,596
Travel and Transportation	6,427	5,282	(1,145)	9,610
Total Elementary School	<u>2,145,901</u>	<u>2,365,382</u>	<u>219,481</u>	<u>2,513,840</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2020

	Year Ended June 30			2019 Actual
	2020	Variance with		
<u>Expenditures - continued</u>	<u>Budget</u>	<u>Actual</u>	<u>Final Budget</u>	
<u>Regular Instruction - continued</u>				
<u>Middle School</u>				
Equipment		798	798	798
Fixed Charges and Employee Benefits	283,011	263,575	(19,436)	272,813
Instructional Supplies	58,021	59,011	990	29,761
Professional Services				9,080
Reimbursements to other MN Districts	10,359	1,488	(8,871)	1,356
Salaries	1,009,580	1,001,881	(7,699)	999,670
Supplies	5,266	5,634	368	6,150
Travel and Transportation	7,118	2,174	(4,944)	8,167
Total Middle School	<u>1,373,355</u>	<u>1,334,561</u>	<u>(38,794)</u>	<u>1,327,795</u>
<u>Secondary School</u>				
Dues and Memberships	2,330	635	(1,695)	2,534
Equipment	41,038	29,955	(11,083)	82,688
Fixed Charges and Employee Benefits	278,819	235,349	(43,470)	247,675
Instructional Supplies	65,369	62,478	(2,891)	67,151
Professional Services	55,150	29,054	(26,096)	37,775
Reimbursements to Other Agencies/Districts	124,656	160,305	35,649	125,004
Reimbursements to Other MN Districts		2,842	2,842	6,078
Rentals and Leases	1,500		(1,500)	1,355
Repair and Maintenance	17,494	12,045	(5,449)	8,878
Salaries	1,275,235	1,171,875	(103,360)	1,204,708
Supplies	52,761	85,627	32,866	75,752
Travel and Transportation	130,973	84,654	(46,319)	117,969
Total Secondary School	<u>2,045,325</u>	<u>1,874,819</u>	<u>(170,506)</u>	<u>1,977,567</u>
Total Regular Instruction	<u>6,013,745</u>	<u>6,127,498</u>	<u>113,753</u>	<u>6,295,332</u>
<u>Vocational Instruction</u>				
Equipment	2,000		(2,000)	
Fixed Charges and Employee Benefits	46,559	47,544	985	43,245
Instructional Supplies	26,592	19,586	(7,006)	49,152
Rentals and Leases	8,568	8,400	(168)	8,400
Salaries	165,717	218,963	53,246	193,103
Supplies	757	569	(188)	494
Travel and Transportation	14,761	7,655	(7,106)	11,495
Utilities		78	78	171
Total Vocational Instruction	<u>264,954</u>	<u>302,795</u>	<u>37,841</u>	<u>306,060</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2020

	Year Ended June 30			
	2020		2019	
<u>Expenditures - continued</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
<u>Exceptional Instruction</u>				
Equipment				1,571
Fixed Charges and Employee Benefits	263,932	211,866	(52,066)	232,692
Instructional Supplies	13,127	9,807	(3,320)	22,202
Professional Services	318,349	210,914	(107,435)	330,976
Reimbursements to Other Agencies/Districts	154,237	81,261	(72,976)	154,066
Reimbursements to Other MN Districts	436,687	443,405	6,718	355,571
Salaries	1,178,833	985,984	(192,849)	1,118,986
Supplies	2,436	2,549	113	2,913
Travel and Transportation	12,002	23,030	11,028	15,684
Total Exceptional Instruction	<u>2,379,603</u>	<u>1,968,816</u>	<u>(410,787)</u>	<u>2,234,661</u>
<u>Instructional Support Services</u>				
Dues	3,715	5,079	1,364	4,738
Equipment	55,530	22,195	(33,335)	21,291
Fixed Charges and Employee Benefits	71,325	55,052	(16,273)	85,863
Instructional Supplies	41,777	57,833	16,056	48,915
Professional Services	88,428	121,407	32,979	85,917
Repair and Maintenance	5,340	16,744	11,404	7,784
Salaries	298,864	218,900	(79,964)	290,352
Supplies	79,765	56,102	(23,663)	59,032
Travel and Transportation	82,039	40,218	(41,821)	53,948
Utilities	500	500		500
Total Instructional Support	<u>727,283</u>	<u>594,030</u>	<u>(133,253)</u>	<u>658,340</u>
<u>Pupil Support Services</u>				
Fixed Charges and Employee Benefits	67,897	58,738	(9,159)	44,301
Insurance	3,961		(3,961)	
Instructional Supplies		250	250	55
Other				27,424
Professional Services	43,668	49,375	5,707	45,109
Reimbursements to Other MN Districts	50,394	44,797	(5,597)	31,654
Rentals and Leases				105
Repair and Maintenance				102
Salaries	246,024	232,356	(13,668)	206,279
Supplies	3,833	24,402	20,569	9,467
Travel and Transportation	1,106,045	994,230	(111,815)	1,073,426
Total Pupil Support Services	<u>1,521,822</u>	<u>1,404,148</u>	<u>(117,674)</u>	<u>1,437,922</u>

GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2020

	Year Ended June 30			
	2020			2019
<u>Expenditures - continued</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
<u>Site, Building and Equipment</u>				
Building Improvements	334,756	333,167	(1,589)	222,402
Dues and Memberships	1,400	767	(633)	1,300
Equipment	22,000	35,908	13,908	147,389
Fixed Charges and Employee Benefits	160,178	203,621	43,443	173,400
Fuel	88,087	59,830	(28,257)	89,772
Lease Interest	21,625	21,625		23,814
Lease Principle	71,000	71,000		68,000
Professional Services	14,900	12,595	(2,305)	31,485
Reimbursements to Other MN Districts	33,600	41,110	7,510	
Repair and Maintenance	132,800	132,444	(356)	164,737
Salaries	361,350	339,382	(21,968)	348,642
Site and Ground Acquisition	162,625	162,603	(22)	75,098
Supplies	79,430	76,491	(2,939)	85,976
Travel and Transportation		717	717	1,811
Utilities	345,259	300,675	(44,584)	326,519
Total Site, Building and Equipment	<u>1,829,010</u>	<u>1,791,935</u>	<u>(37,075)</u>	<u>1,760,345</u>
<u>Fixed Cost Programs</u>				
Property Insurance	91,200	89,147	(2,053)	88,298
Total Fixed Cost Programs	<u>91,200</u>	<u>89,147</u>	<u>(2,053)</u>	<u>88,298</u>
Total Expenditures	<u>14,121,200</u>	<u>13,478,458</u>	<u>(642,742)</u>	<u>14,110,254</u>
Excess Revenues (Expenditures)	<u>(16,019)</u>	1,145,886	<u>1,161,905</u>	50,064
Fund Balance-July 1		5,053,851		5,003,787
Change in Accounting Principle		87,305		
Fund Balance-July 1, restated		<u>5,141,156</u>		<u>5,003,787</u>
Fund Balance-June 30		<u>6,287,042</u>		<u>5,053,851</u>

ALL SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET

JUNE 30, 2020

	Food Service	Community Service	Total (Memo Only)	
			2020	2019
<u>Assets</u>				
Cash and Investments	516,903	353,866	870,769	726,550
Current Property Taxes Receivable		51,639	51,639	56,102
Delinquent Property Taxes Receivable		704	704	349
Accounts Receivable	21,463		21,463	22,106
Due from Department of Education		7,012	7,012	6,751
Due from Federal Government Through the Department of Education	81,540	9,274	90,814	14,074
Due from other Governmental Units	5,775	58,075	63,850	62,941
Total Assets	<u>625,681</u>	<u>480,570</u>	<u>1,106,251</u>	<u>888,873</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>				
<u>Liabilities</u>				
Salaries Payable		44,938	44,938	51,400
Accounts Payable	94,538	10,350	104,888	97,103
Unearned Revenue	32,129		32,129	13,572
Total Liabilities	<u>126,667</u>	<u>55,288</u>	<u>181,955</u>	<u>162,075</u>
<u>Deferred Inflows of Resources</u>				
Unavailable Revenue-Delinquent Taxes		704	704	349
Property Taxes Levied for Subsequent Years Expenditures		113,242	113,242	117,571
Total Deferred Inflows of Resources	<u>-0-</u>	<u>113,946</u>	<u>113,946</u>	<u>117,920</u>
<u>Fund Balances</u>				
Fund Balance-Restricted	499,014	311,336	810,350	608,878
Total Fund Balances	<u>499,014</u>	<u>311,336</u>	<u>810,350</u>	<u>608,878</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>625,681</u>	<u>480,570</u>	<u>1,106,251</u>	<u>888,873</u>

SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2020

<u>Revenues</u>	<u>Food Service</u>	<u>Community Service</u>	Total (Memo Only)	
			<u>2020</u>	<u>2019</u>
Local Property Tax Levy		141,870	141,870	144,797
Other Local and County Revenues	22,051	272,299	294,350	318,319
Revenue from State Sources	48,051	71,855	119,906	134,424
Revenue from Federal Sources	620,559	9,274	629,833	479,224
Other	240,838	2,175	243,013	330,391
Total Revenues	<u>931,499</u>	<u>497,473</u>	<u>1,428,972</u>	<u>1,407,155</u>
<u>Expenditures</u>				
Community Education and Services		448,084	448,084	427,812
Pupil Support Services	779,416		779,416	802,957
Total Expenditures	<u>779,416</u>	<u>448,084</u>	<u>1,227,500</u>	<u>1,230,769</u>
Excess Revenues (Expenditures)	152,083	49,389	201,472	176,386
Fund Balance-July 1	<u>346,931</u>	<u>261,947</u>	<u>608,878</u>	<u>432,492</u>
Fund Balance-June 30	<u><u>499,014</u></u>	<u><u>311,336</u></u>	<u><u>810,350</u></u>	<u><u>608,878</u></u>

FOOD SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Year Ended June 30</u>			<u>2019</u>
	<u>2020</u>	<u>2020</u>	<u>Variance with</u>	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Final Budget</u>	<u>Actual</u>
<u>Other Local and County Revenues</u>				
Interest Income	19,157	21,941	2,784	19,928
Miscellaneous		110	110	5,000
Total Other Local and County Revenues	<u>19,157</u>	<u>22,051</u>	<u>2,894</u>	<u>24,928</u>
<u>Revenue From State Sources</u>				
Breakfast Reimbursement	32,400	25,925	(6,475)	33,176
Lunch Reimbursement	30,300	22,084	(8,216)	29,745
Summer Food Service Program	600	42	(558)	580
Total Revenue From State Sources	<u>63,300</u>	<u>48,051</u>	<u>(15,249)</u>	<u>63,501</u>
<u>Revenue From Federal Sources</u>				
Breakfast Reimbursement	125,000	94,143	(30,857)	125,403
Commodities	60,000	53,235	(6,765)	52,607
COVID		3,588	3,588	
Lunch Reimbursement	267,500	205,075	(62,425)	266,842
Summer Food Service Program	33,000	264,518	231,518	34,372
Total Revenue From Federal Sources	<u>485,500</u>	<u>620,559</u>	<u>135,059</u>	<u>479,224</u>
<u>Sales and Other Conversion of Assets</u>				
Lunch and Breakfast Sales	337,000	240,838	(96,162)	328,371
Total Revenues	<u>904,957</u>	<u>931,499</u>	<u>26,542</u>	<u>896,024</u>
<u>Expenditures</u>				
<u>Pupil Support Services</u>				
Commodities	60,000	53,235	(6,765)	52,607
Equipment	35,000	4,145	(30,855)	18,904
Fixed Charges and Employee Benefits				424
Professional Services	790,000	688,927	(101,073)	703,058
Repairs and Maintenance	10,000	14,004	4,004	8,523
Supplies	23,725	18,786	(4,939)	18,759
Travel and Transportation	1,380	319	(1,061)	682
Total Expenditures	<u>920,105</u>	<u>779,416</u>	<u>(140,689)</u>	<u>802,957</u>
Excess Revenues (Expenditures)	<u>(15,148)</u>	152,083	<u>167,231</u>	93,067
Fund Balance-July 1		<u>346,931</u>		<u>253,864</u>
Fund Balance-June 30		<u>499,014</u>		<u>346,931</u>

COMMUNITY SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Year Ended June 30</u>			<u>2019</u>
	<u>2020</u>	<u>2020</u>	<u>Variance with</u>	
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Final Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	131,870	141,870	10,000	144,797
Total Local Property Tax Levy	131,870	141,870	10,000	144,797
<u>Other Local and County Revenues</u>				
Fees	33,700	27,317	(6,383)	26,590
Gifts and Bequests		200	200	7,500
Interest Income	10,534	11,576	1,042	14,217
Other Miscellaneous Income	140,600	151,911	11,311	148,085
Tuition from Patrons	82,650	81,295	(1,355)	96,999
Total Other Local and County Revenues	267,484	272,299	4,815	293,391
<u>Revenue From State Sources</u>				
Disparity	2,800	2,686	(114)	2,979
Market Value Credits	3,300	3,356	56	3,519
Other State Aids	63,576	65,813	2,237	64,425
Total Revenue From State Sources	69,676	71,855	2,179	70,923
<u>Revenue From Federal Sources</u>				
COVID		9,274	9,274	
<u>Sales and Other Conversion of Assets</u>				
Sales of Materials	2,000	2,175	175	2,020
Total Sales and Other Conversion of Assets	2,000	2,175	175	2,020
Total Revenues	471,030	497,473	26,443	511,131
<u>Expenditures</u>				
<u>Community Education and Services</u>				
Dues and Memberships	600	546	(54)	538
Equipment	650		(650)	3,500
Fixed Charges	66,840	61,821	(5,019)	62,312
Instructional Supplies	33,108	26,569	(6,539)	30,444
Other Non-Education Agencies	17,000	20,180	3,180	24,494
Professional Services	7,600	8,186	586	9,045
Rentals and Leases	25,058	34,973	9,915	27,294
Repair and Maintenance	1,250	315	(935)	1,151
Salaries	287,974	271,906	(16,068)	240,121
Supplies	15,070	20,847	5,777	23,257
Travel and Transportation	3,375	1,649	(1,726)	4,896
Utilities	1,350	1,092	(258)	760
Total Expenditures	459,875	448,084	(11,791)	427,812
Excess Revenues (Expenditures)	11,155	49,389	38,234	83,319
Fund Balance-July 1		261,947		178,628
Fund Balance-June 30		311,336		261,947

CAPITAL PROJECTS FUND
BALANCE SHEET
JUNE 30, 2020

	<u>2020</u>	<u>2019</u>
<u>Assets</u>		
Cash	24,334,357	
Interest Receivable	237,656	
Total Assets	<u>24,572,013</u>	<u>-0-</u>
 <u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Liabilities</u>		
Accounts Payable	1,349,492	220,551
Due to Other Funds		107,163
Total Liabilities	<u>1,349,492</u>	<u>327,714</u>
 <u>Fund Balances</u>		
Fund Balance-Restricted	23,222,521	
Fund Balance-Unassigned		(327,714)
Total Fund Balances	<u>23,222,521</u>	<u>(327,714)</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>24,572,013</u>	<u>-0-</u>

CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Year Ended June 30</u>			<u>2019</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
<u>Revenues</u>				
<u>Other Local and County Revenues</u>				
Interest Income		387,247	387,247	
Total Other Local and County Revenues	-0-	387,247	387,247	-0-
<u>Expenditures</u>				
<u>Site, Building and Equipment</u>				
Building	3,750,000	2,970,286	(779,714)	15
Equipment		34,312	34,312	
Fixed Charges and Employee Benefits				1
Professional Services	371,555	2,114,377	1,742,822	322,700
Salaries				201
Supplies				4,749
Travel and Transportation				48
Total Expenditures	4,121,555	5,118,975	997,420	327,714
Excess Revenues (Expenditures)	(4,121,555)	(4,731,728)	(610,173)	(327,714)
<u>Other Financing Sources (Uses)</u>				
Bond Proceeds	25,676,488	25,415,000	(261,488)	
Bond Premium	2,866,963	2,866,963		
Total Other Financing Sources (Uses)	28,543,451	28,281,963	(261,488)	-0-
Excess Revenues and Other Financing Sources Over Expenditures and Other Uses	24,421,896	23,550,235	(871,661)	(327,714)
Fund Balance-July 1		(327,714)		
Fund Balance-June 30		23,222,521		(327,714)

DEBT SERVICE FUND
BALANCE SHEET
JUNE 30, 2020

<u>Assets</u>	<u>2020</u>	<u>2019</u>
Cash	937,199	842,692
Current Property Taxes Receivable	1,236,950	996,578
Delinquent Property Taxes Receivable	11,563	15,646
Due from Department of Education	54,229	54,562
Total Assets	<u>2,239,941</u>	<u>1,909,478</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>		
<u>Deferred Inflows of Resources</u>		
Unavailable Revenue-Delinquent Taxes	11,562	15,646
Property Taxes Levied for Subsequent Years	1,860,611	1,561,291
Total Liabilities	<u>1,872,173</u>	<u>1,576,937</u>
<u>Fund Balances</u>		
Fund Balance-Restricted	367,768	332,541
Total Fund Balances	<u>367,768</u>	<u>332,541</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>2,239,941</u>	<u>1,909,478</u>

DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2020

	<u>Year Ended June 30</u>			<u>2019</u>
	<u>2020</u>	<u>Variance with</u>		
<u>Revenues</u>	<u>Budget</u>	<u>Actual</u>	<u>Final Budget</u>	<u>Actual</u>
<u>Local Property Tax Levy</u>				
Local Tax Levy	641,291	1,018,230	376,939	986,330
Total Local Property Tax Levy	641,291	1,018,230	376,939	986,330
<u>Other Local and County Revenues</u>				
Interest Income	10,364	10,378	14	16,414
Total Other Local and County Revenues	10,364	10,378	14	16,414
<u>Revenue From State Sources</u>				
Disparity Reduction	36,000	35,663	(337)	36,394
Market Value Credits	44,000	44,565	565	43,002
School Building Bond Ag Credit	840,000	462,061	(377,939)	466,228
Total Revenue From State Sources	920,000	542,289	(377,711)	545,624
Total Revenue	1,571,655	1,570,897	(758)	1,548,368
<u>Expenditures</u>				
<u>Fiscal and Other Fixed Cost Programs</u>				
Interest and Fiscal Charges	25,670	25,670		44,358
Principal	1,510,000	1,510,000		1,495,000
Total Expenditures	1,535,670	1,535,670	-0-	1,539,358
Excess Revenues (Expenditures)	35,985	35,227	(758)	9,010
Fund Balance-July 1		332,541		323,531
Fund Balance-June 30		367,768		332,541

UNIFORM FINANCIAL ACCOUNTING & REPORTING STANDARDS
COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2020

	Audit	UFARS	Audit - UFARS
<u>01 GENERAL FUND</u>			
Total Revenues	<u>14,624,344</u>	<u>14,624,344</u>	<u>0</u>
Total Expenditures	<u>13,478,458</u>	<u>13,478,457</u>	<u>1</u>
Nonspendable:			
460 Non Spendable Fund Balance	65,650	65,650	0
Restricted/Reserve:			
401 Student Activities	106,730	106,730	0
403 Staff Development	259,074	259,074	0
424 Operating Capital	48,931	48,931	0
428 Learning & Development	10,474	10,474	0
438 Gifted & Talented	210,110	210,111	-1
441 Basic Skills Programs	241,386	241,386	0
448 Achievement & Integration	3,971	3,971	0
449 Safe Schools Levy	72,562	72,562	0
459 Basic Skills Ext Time	34,047	34,047	0
467 Long Term Facility Maintenance	90,239	90,239	0
Restricted:			
464 Restricted Fund Balance	7,315	7,315	0
Committed:			
418 Committed for Separation	85,020	85,020	0
Assigned:			
462 Assigned Fund Balance	22,729	22,729	0
Unassigned:			
422 Unassigned Fund Balance	5,028,804	5,028,804	0
<u>02 FOOD SERVICE</u>			
Total Revenues	<u>931,499</u>	<u>931,499</u>	<u>0</u>
Total Expenditures	<u>779,416</u>	<u>779,417</u>	<u>-1</u>
Restricted:			
464 Restricted Fund Balance	499,014	499,014	0
<u>04 COMMUNITY SERVICE</u>			
Total Revenues	<u>497,473</u>	<u>497,473</u>	<u>0</u>
Total Expenditures	<u>448,084</u>	<u>448,084</u>	<u>0</u>
Restricted/Reserve:			
431 Community Education	206,959	206,959	0
432 Early Childhood and Family Education	136,966	136,966	0
444 Learning Readiness	(38,262)	(38,262)	0
Restricted:			
464 Restricted Fund Balance	5,673	5,673	0
<u>06 BUILDING CONSTRUCTION</u>			
Total Revenues	<u>387,247</u>	<u>387,247</u>	<u>0</u>
Total Expenditures	<u>5,118,975</u>	<u>5,118,976</u>	<u>1</u>
Restricted			
464 Restricted	23,222,521	23,222,521	0
<u>07 DEBT SERVICE</u>			
Total Revenues	<u>1,570,897</u>	<u>1,570,896</u>	<u>1</u>
Total Expenditures	<u>1,535,670</u>	<u>1,535,670</u>	<u>0</u>
Restricted:			
464 Restricted Fund Balance	367,768	367,768	0

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

To The Board of Education
Independent School District No. 2689
Pipestone Area Schools
Pipestone, 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 and each major fund of the Independent School District No. 2689, Pipestone Area Schools, Pipestone, Minnesota, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Independent School District No. 2689's basic financial statements and have issued our report thereon dated November 13, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Independent School District No. 2689's internal control over financial reporting to determine the auditing 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 Independent School District No. 2689's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Independent School District No. 2689's internal control over financial reporting.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 over financial reporting such that there is a reasonable possibility that a material misstatement of the Independent School District No. 2689's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations, as items 2020-001 and 2020-002 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Independent School District No. 2689's financial statements are free of 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 determination of financial statement amounts. 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 that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that the Independent School District No. 2689 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School District's*. 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 Independent School District No. 2689's noncompliance with the above referenced provisions.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Independent School District No. 2689's Response to Findings

The Independent School District No. 2689's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. The Independent School District No. 2689'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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.



Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

November 13, 2020

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

To The Board of Education
Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the Independent School District No. 2869, Pipestone Area Schools, Pipestone, Minnesota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Independent School District No. 2869's major federal programs for the year ended June 30, 2020. Independent School District No. 2689's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and recommendations.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Independent School District No. 2869's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independent School District No. 2869's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Independent School District No. 2869's compliance.

Opinion on Each Major Federal Program

In our opinion, the Independent School District No. 2869, Pipestone Area Schools, Pipestone, Minnesota, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the Independent School District No. 2869, Pipestone Area Schools, Pipestone, Minnesota, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independent School District No. 2869's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Independent School District No. 2689's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and recommendations as items 2020-003 to be a material weakness.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

Independent School District No. 2689
Pipestone Area Schools
Pipestone, Minnesota

Independent School District No. 2869's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Independent School District No. 2869's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Meulebroeck, Taubert & Co., PLLP

Meulebroeck, Taubert & Co., PLLP
Certified Public Accountants
Pipestone, Minnesota

November 13, 2020

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2020

<u>Federal Grantor/ Pass Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>	<u>Expenditures to Subrecipients</u>
U.S. Department of Agriculture/			
Passed Through Minnesota Department of Children Families and Learning/ Child Nutrition Cluster:			
School Breakfast Program	10.553	94,143 *	None
National School Lunch Program	10.555	258,310 * #	None
Summer Food Service Program for Children	10.559	264,518 *	None
Total Child Nutrition Cluster		<u>616,971</u>	
U.S. Department of Education/			
Passed Through Southwest/West Central Educational Coop			
Carl Perkins	84.048	3,359	None
Special Education-Grants to States (IDEA, Part B)	84.027	61,120	None
Passed Through Minnesota Department of Children, Families and Learning			
Improving Teacher Quality State Grants (Title II, Part A)	84.367	51,535	None
Title I Grants to Local Educational Agencies	84.010	239,851	None
Special Education Preschool Grant, Classroom Engagement Model	84.173A	6,663	None
Elementary and Secondary School Emergency Relief Fund	84.425D	35,601	None
Governor's Emergency Education Relief Fund	84.425C	16,628	None
Total		<u><u>1,031,728</u></u>	

Notes

- 1) * Denotes Major Program
- 2) Major programs were determined using the 40% coverage rules.
All programs are Type B.
- 3) Basis of Presentation
The accompanying schedule of expenditures of federal awards includes the federal grant activity of Independent School District No. 2689 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in preparation of the basic financial statements.
- 4) # Includes \$53,235 of Federal Food Commodities received
- 5) The 10% de-minimis indirect cost rate was not elected.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2020

I. Summary of Auditor's Results

- A. Our report expresses an unqualified opinion on the general purpose financial statements of Independent School District No. 2689, Pipestone Area Schools.
- B. Matters involving internal control over financial reporting were reported in the "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." Items 1999-001 and 2007-001 are material weaknesses.
- C. No instances of noncompliance material to the financial statements of Independent School District 2689 were disclosed during the audit.
- D. Significant deficiencies relating to the audit of the major federal award programs are reported in the "Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with the Uniform Guidance. Item 2020-003 is a material weakness.
- E. The Auditor's Report on compliance for the major federal award programs for Independent School District 2689 expresses an unqualified opinion.
- F. A finding was disclosed that is required to be reported in accordance with the Uniform Guidance.
- G. The major programs are:

<u>Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Summer Food Service Program for Children	10.559

- H. The threshold for distinguishing between Types A and B programs was \$750,000.
- I. Independent School District No. 2689 was not determined to be a low-risk auditee.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2020

II. Financial Statement Audit—Internal Controls

Previously Reported Items Not Resolved

2020-001 Internal Accounting Controls

Criteria: Internal control should include an adequate segregation of duties in the accounting functions.

Condition: Due to a limited number of office personnel, proper segregation of duties in the accounting functions is not always possible.

Cause: This condition is not unusual where staffing size can result in an improper segregation of duties. Management has determined that given the size and resource limitations the desirable level of segregation of duties necessary may not be feasible.

Effect: Without an adequate segregation of duties these are opportunities for errors or fraudulent activities to occur and remain undetected.

Recommendation: We recommend that the District's management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff and encourage additional controls as they become available due to changes in staff, etc.

2020-002 GAAP Financial Statements

Personnel that lack the necessary expertise are responsible for financial statements required to be prepared in accordance with generally accepted accounting principles.

Criteria: Personnel in the District should prepare the financial statements in accordance with generally accepted accounting principles.

Condition: It was determined that the personnel lacked the necessary expertise to prepare the financial statements in accordance with generally accepted accounting principles.

Cause: Personnel in the District do not have the experience or expertise to prepare the financial statements in accordance with generally accepted accounting principles.

Effect: As the District personnel were unable to prepare the financial statements in accordance with generally accepted accounting principles, the District had the audit firm assist with the preparation of the financial statements in accordance with generally accepted accounting principles.

SCHEDULE OF FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED JUNE 30, 2020

III. Major Federal Award Programs—Internal Controls Over Compliance

Previously Reported Items Not Resolved

2020-003 **Internal Accounting Controls**

Criteria: Internal control should include an adequate segregation of duties in the accounting functions.

Condition: Due to a limited number of office personnel, proper segregation of duties in the accounting functions is not always possible.

Cause: This condition is not unusual where staffing size can result in an improper segregation of duties. Management has determined that given the size and resource limitations the desirable level of segregation of duties necessary may not be feasible.

Effect: Without an adequate segregation of duties these are opportunities for errors or fraudulent activities to occur and remain undetected.

Recommendation: We recommend that the District's management be aware of the lack of segregation of the accounting functions and implement oversight procedures to ensure that the internal control policies and procedures are being implemented by staff and encourage additional controls as they become available due to changes in staff, etc.

IV. Corrective Action Plan

2020-003 **Name and Contact Person Responsible For Corrective Action**

Jacque Kennedy, Business Manager

Corrective Action Plan (CAP)

Because it is economically infeasible to hire additional staff to adequately provide for the proper segregation of duties, the District will utilize staff and board members to segregate duties to the extent possible.

Planned completion date for CAP:

Requires ongoing monitoring by District administration.

Plan to monitor completion of CAP:

The Business Manager and Board Members will monitor the internal control system to ensure oversight procedures are functioning as intended.