Independent School District No. 318

Grand Rapids, Minnesota

Financial Statements and Supplementary Information

Year Ended June 30, 2020

WIPFLI

Independent School District No. 318

Year Ended June 30, 2020

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Independent School District No. 318

Year Ended June 30, 2020

School Officials

Elective	Office	Term Expires
Pat Medure	Chair	January 1, 2021
Molly Miskovich	Clerk	January 1, 2021
Malissa Bahr	Treasurer	January 1, 2023
Mindy Nuhring	Director	January 1, 2021
David Marty	Director	January 1, 2023
Sue Zeige	Director	January 1, 2023

Appointive	
Matt Grose	Superintendent, new July 1, 2020
Sean Martinson	Superintendent – Interim, through June 30, 2020

WIPFLI

Independent Auditor's Report

To the School Board
Independent School District No. 318
Grand Rapids, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 318, Grand Rapids, Minnesota (District), 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; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis, pages 4 – 8 information about the District's other postemployment health care plan, page 55, and information about the District's net pension liability, pages 56 and 57, 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, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor governmental funds financial statements and fiscal compliance table, pages 58 through 60, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements. The combining nonmajor governmental funds financial statements, fiscal compliance table, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the combining nonmajor governmental funds financial statements, fiscal compliance table and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2020, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

December 14, 2020
Duluth, Minnesota

Management’s Discussion and Analysis

As management of Independent School District No. 318 (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2020.

Financial Highlights

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

- Net position decreased $4,807,964 or 4.84% percent of the prior year's net position.
- Overall actual revenues in the Statement of Activities were $67,080,028 and expenses were $71,887,990; leaving expenditures exceeding revenues by $4,807,964.
- General Fund fund balance decreased overall from the prior year due to an operating loss, however, a transfer for a prior year capital expenditures reported in the wrong fund and a prior period adjustment to combine the student activities caused the total fund balance to increase.

Overview of the Financial Statements

The financial section of the financial statements 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 supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The *statement of net position* includes all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources. 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.

The *statement of net position* presents information on all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The *statement of activities* presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused compensated absences).

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, state statutes, and to control and manage money for particular purposes. All of the funds of the District can be divided into three categories: *governmental funds, proprietary funds* and *fiduciary funds*.

Governmental funds - Most of the District's basic services are included in governmental funds. Governmental fund financial statements focus on near-term inflows of cash and other financial assets that can readily be converted to cash, as well as the balances at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

Because this information does not encompass the additional long-term focus of the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. A reconciliation is provided to facilitate a comparison between governmental fund financial statements and government-wide financial statements.

Proprietary funds - The District maintains two proprietary funds, both internal service funds, which accumulate and allocate costs internally among the District's various functions. The District's internal service funds are used to account for the District's postemployment benefits and health insurance benefits. Because these services predominately benefit the governmental function, they have been included in the governmental activities in the government-wide financial statements.

Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the employee insurance and employee flex benefit plan. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operation.

Financial Analysis of the District as a Whole

Net position may serve over time as a useful indicator of a district's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources as of June 30, 2020.

Statement of Net Position
June 30,

	2020	2019
Capital assets	$ 131,251,824	$ 75,669,937
Current and other assets	75,846,029	126,388,595
Total assets	207,097,853	202,058,532
Deferred Outflows of Resources	35,245,193	42,892,355
Long-term liabilities	255,527,973	259,402,212
Other liabilities	17,996,331	10,986,261
Total liabilities	273,524,304	270,388,473
Deferred Inflows of Resources	67,286,045	73,980,916
Net position		
Net investment in capital assets	65,503,070	67,709,337
Restricted	13,608,490	4,693,579
Unrestricted (deficit)	(177,578,863)	(171,821,418)
Total net position (deficit)	$ (98,467,303)	$ (99,418,502)

Change in Net Position
For the Years Ended June 30,

	2020	2019
Revenues		
Program revenues		
Charges for service	$ 2,273,800	$ 2,340,047
Operating grants and contributions	11,221,284	9,866,763
Capital grants and contributions	4,260,046	1,047,336
General revenues		
Property taxes	11,850,884	13,610,714
State aids	34,391,265	34,216,434
Other	3,082,747	3,180,306
Total revenues	67,080,026	64,261,600

Change in Net Position (Continued)
For the Years Ended June 30,

	2020	2019
Expenses		
District and school administration	3,127,590	3,232,138
District support services	1,800,223	1,556,691
Regular instruction	31,589,522	18,375,926
Vocational instruction	867,202	811,386
Exceptional instruction	10,675,058	10,259,638
Instructional support services	1,926,854	2,553,801
Pupil support services	4,913,211	4,744,233
Sites, buildings and equipment	8,294,066	4,600,017
Food service	1,724,292	1,831,430
Community service	1,329,831	1,357,183
Interest and fiscal charges on long-term debt	3,196,936	3,164,226
Fiscal and other fixed cost programs	105,080	97,298
Unallocated depreciation expense	2,338,125	2,358,320
Total expenses	71,887,990	54,942,287
Change in net position	(4,807,964)	9,319,313
Beginning of year net position	(99,418,502)	(108,737,815)
Prior period adjustment	199,081	
End of year net position (deficit)	$ (98,467,303)	$ (99,418,502)

Financial Analysis of the District's Funds

While the government-wide presentations are designed to present users with a more complete picture of the District's financial position and results of operation, the traditional fund accounting basis provides users with information that can be used by the District to make decisions in the near-term.

General Fund Budgetary Highlights

The General Fund (which includes the District's general, transportation and capital funds) adopted an original revenue and other financing sources budget of $52,553,355, which was revised to $53,127,174. Actual revenues exceeded both budgets.

The General Fund adopted an original expenditure budget of $52,385,568, which was revised to $56,119,829, to account for construction projects. Due to COVID and students distance learning, expenditures were $1.2M under budget.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues and other financing sources by $2,992,655, the actual results for the year showed expenditures exceeded revenues and other financing sources by $112,173.

- Revenues and other financing sources were $1,676,383 over budget due to a transfer needed to move LTFM funds from fund 06 to fund 01 for bonded projects paid for in the general fund. Taxes were under budget and additional Taconite Aid was received.
- Other local revenue was $500K over budget due to anticipation of less fees collected from other districts due to COVID. While revenues were lower, they were still greater than budget. The school district also collected more

donations in the past due to the Noble Hall field turf project. State Aids were under budget due to being $170K over booked in the prior year and current year Aid less than anticipated.

- Expenditures were $1,204,009 less than anticipated due to the effects of COVID and distance learning. In addition, capital projects were put off until after the fiscal year end.

Capital Asset and Debt Administration

Capital Assets

By the end of fiscal year 2020, the District had invested $187,760,184 in capital assets, including school buildings and technology equipment. Total depreciation expense for the year was $3,447,106. More detailed information about the District's capital assets is presented in Note 3 to the financial statements.

Debt Administration

At June 30, 2020, the District had $91,788,553 in general obligation bonds and capital lease obligations. The District's debt rating from the State of Minnesota Credit Enhancement Program is Aa2. Under current state statues, the District's general obligation bonded debt issuances are subject to a legal limitation of 10 percent of the fair market value of property in the District. The District is within its legal authority for bonded debt.

The District also had $158,340,347 in compensated absences, severance benefits, postemployment health benefits payable, and net pension liability at June 30, 2020.

More detailed information about the District's long-term liabilities is presented in Notes 4, 5 and 9 to the financial statements.

Factors Bearing on the District's Future

The City of Grand Rapids continues to be one of the few northern Minnesota cities showing population growth. Due to the world-wide pandemic, additional parents have decided to home school their children. Home schooled students increased 130 students at the beginning of FY21 school year. In addition, some kindergarten parents delayed their child's start by a year and other parents enrolled their students into other online districts which decreased the school's enrollment. Two new elementary schools opened in Grand Rapids replacing three older buildings. One of these schools is currently being leased to the Boys & Girls Club and is being used as the District's required child care center for over 100+ students. Because of the pandemic, tax revenue collections are down in the State of Minnesota. This budgeting cycle, the legislature will decide how much to increase the General Education Aid. It is being predicted that revenues will be flat because of the State of the State.

The District has had to change its learning style multiple times in FY21. While initially starting in person, the high school and middle school were forced to go to a hybrid model and then full distance learning due to the significant COVID cases in Itasca county. The elementary schools have also had to pivot between teaching/learning models. It is very difficult to budget based on the changing delivery of education.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Business Office, Independent School District No. 318, 820 N.W. First Avenue, Grand Rapids, MN 55744 or call Kara Lundin, Business Manager, (218) 327-5703.

Government-Wide Financial Statements

Independent School District No. 318

Statement of Net Position (Deficit)

June 30, 2020

		Governmental Activities
Assets and Deferred Outflows of Resources		
Current assets		
Cash and temporary cash investments	$	35,965,364
Investments		26,204,346
Current property taxes receivable		6,238,768
Delinquent property taxes receivable		400,409
Accounts receivable		321,086
Due from other Minnesota school districts		403,499
Due from the Minnesota Department of Education		3,959,599
Due from the federal government through the Minnesota Department of Education		719,102
Due from federal government		25,432
Due from other governmental units		1,295,354
Inventory		96,068
Prepaid items		217,002
Total current assets		75,846,029
Capital assets, net of depreciation		
Assets not being depreciated		69,316,295
Assets being depreciated, net		61,935,529
Total capital assets, net of depreciation		131,251,824
Total assets		207,097,853
Deferred outflows of resources		
Items related to OPEB		8,333,974
Items related to pension plans		26,911,219
Total deferred inflows of resources		35,245,193
Total assets and deferred outflows of resources	$	242,343,046

Independent School District No. 318

Statement of Net Position (Deficit) (Continued)

June 30, 2020

		Governmental Activities
Liabilities, Deferred Inflows of Resources, and Net Position		
Current liabilities		
Salaries payable	$	5,159,035
Accounts payable		10,083,632
Accrued interest payable		1,430,740
Due to other Minnesota school districts		167,756
Due to other governments		982
Accrued expenses		72,136
Claims payable		1,065,033
Unearned revenue		17,017
Current portion of long-term liabilities		4,292,036
Total current liabilities		22,288,367
Long-term liabilities		251,235,937
Total liabilities		273,524,304
Deferred inflows of resources		
Property taxes levied for subsequent year's expenditures		13,439,827
Items related to OPEB		16,036,383
Items related to pension plans		37,809,835
Total deferred inflows of resources		67,286,045
Net position (deficit)		
Net investment in capital assets		65,503,070
Restricted		13,608,490
Unrestricted (deficit)		(177,578,863)
Total net position (deficit)		(98,467,303)
Total liabilities, deferred inflow of resources, and net position (deficit)	$	242,343,046

See accompanying notes to financial statements.

Independent School District No. 318

Statement of Activities

For the Year Ended June 30, 2020

		Program Revenues			Net (Expenses) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
District and school administration	$ 3,127,590	$	$	$	$ (3,127,590)
District support services	1,800,223				(1,800,223)
Regular instruction	31,589,522	796,180	2,656,457		(28,136,885)
Vocational instruction	867,202		31,670	969	(834,563)
Exceptional instruction	10,675,058	718,546	6,819,828		(3,136,684)
Instructional support services	1,926,854	140			(1,926,714)
Pupil support services	4,913,211				(4,913,211)
Sites, buildings and equipment	8,294,066		137,968	4,259,077	(3,897,021)
Food service	1,724,292	511,541	1,134,232		(78,519)
Community service	1,329,831	247,393	441,129		(641,309)
Interest and fiscal charges on long-term debt	3,196,936				(3,196,936)
Fiscal and other fixed cost programs	105,080				(105,080)
Unallocated depreciation expense	2,338,125				(2,338,125)
Total governmental activities	$ 71,887,990	$ 2,273,800	$ 11,221,284	$ 4,260,046	(54,132,860)

General revenues	
Taxes	
Property taxes, levied for general purposes	6,445,867
Property taxes, levied for community service	349,955
Property taxes, levied for debt service	5,055,062
State aid-formula grants	34,391,265
Other general revenues	441,249
Investment earnings	2,641,498
Total general revenues	49,324,896
Change in net position	(4,807,964)
Net position (deficit), beginning of the year	(99,418,502)
Prior period adjustment	199,081
Net position (deficit), end of the year	$ (104,027,385)

See accompanying notes to financial statements.

Independent School District No. 318

Governmental Funds – Balance Sheet

June 30, 2020

	General Fund	Building Construction Fund	Postemployment Benefit Debt Service Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets						
Cash and temporary cash investments	$ 11,035,179	$ 18,064,378	$ 3,459,191	$ 2,271,197	$ 802,749	$ 35,632,694
Current property taxes receivable	2,639,372		2,076,441	1,522,955		6,238,768
Delinquent property taxes receivable	202,878		135,179	62,352		400,409
Accounts receivable	314,578	-			6,508	321,086
Due from other Minnesota school districts	380,069				23,430	403,499
Due from the Minnesota Department of Education	3,887,921		3,148	11,853	56,677	3,959,599
Due from the federal government through the Minnesota Department of Education	602,161				116,941	719,102
Due from federal governmental	25,432					25,432
Due from other governmental units	675,010	620,344				1,295,354
Inventory					96,068	96,068
Prepaid expenses	205,507				11,495	217,002
Total assets	$ 19,968,107	$ 18,684,722	$ 5,673,959	$ 3,868,357	$ 1,113,868	$ 49,309,013
Liabilities						
Salaries payable	$ 5,068,513	$	$	$	$ 90,522	$ 5,159,035
Accounts payable	1,072,970	8,975,850			22,522	10,071,342
Due to other Minnesota school districts	107,283				60,473	167,756
Due to other governments	982					982
Accrued expenses	72,129				7	72,136
Unearned revenue	17,017					17,017
Total liabilities	6,338,894	8,975,850			173,524	15,488,268
Deferred Inflows of Resources						
Unavailable revenue - delinquent property taxes	202,878		135,179	62,352		400,409
Property taxes levied for subsequent year's expenditures	5,554,502		4,664,872	3,220,453		13,439,827
Total deferred inflows of resources	5,757,380		4,800,051	3,282,805		13,840,236
Fund balances						
Nonspendable	205,507				107,563	313,070
Restricted	2,282,416	9,708,872	873,908	585,552	832,781	14,283,529
Assigned	1,786,725					1,786,725
Unassigned	3,597,185					3,597,185
Total fund balances	7,871,833	9,708,872	873,908	585,552	940,344	19,980,509
Total liabilities, deferred inflows of resources and fund balances	$ 19,968,107	$ 18,684,722	$ 5,673,959	$ 3,868,357	$ 1,113,868	$ 49,309,013

See accompanying notes to financial statements.

Independent School District No. 318

Governmental Funds – Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit)
June 30, 2020

Total fund balances - governmental funds	$	19,980,509
Amounts reported for governmental activities in the statement of activities are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets		187,760,184
Less accumulated depreciation		(56,508,360)
Long-term liabilities, including bonds, capital leases payable, compensated absences, and severance benefits, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of net position.		
General obligation bonds		(91,345,000)
Capital leases		(443,553)
Compensated absences		(380,544)
Severance benefits		(114,811)
Unamortized bond premium and discounts		(5,399,073)
Other postemployment benefits and the deferred outflows of resources and deferred inflows of resources related to OPEB are only reported in the statement of net position.		
Total OPEB liability		(125,543,193)
Deferred outflows of resources related to OPEB		8,333,974
Deferred inflows of resources related to OPEB		(16,036,383)
The net pension liability and the deferred outflows of resources and inflow of resources of resources related to pensions are only reported in the statement of net position.		
Net pension liability		(32,301,799)
Deferred outflows of resources related to pensions		26,911,219
Deferred inflows of resources related to pensions		(37,809,835)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		400,409
Governmental funds do not report a liability for accrued interest until due and payable.		(1,430,740)
An internal service fund is used by management to charge the costs of OPEB to individual funds. These assets and liabilities of the internal service fund are included in the statement of net position.		19,899,611
Total net position (deficit) - governmental activities	$	(104,027,385)

See accompanying notes to financial statements.

Independent School District No. 318

Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2020

	General Fund	Building Construction Fund	Postemployment Benefit Debt Service Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Local property tax levies	$ 8,829,378	$	$ 4,769,280	$ 2,898,942	$ 349,955	$ 16,847,555
Other local and county revenues	2,596,970	1,291,700			255,728	4,144,398
Revenue from state sources	40,410,401	2,967,377	31,476	118,533	550,407	44,078,194
Revenue from federal sources	2,427,497				1,332,246	3,759,743
Sales and other conversion of assets	49,721	26,769			489,863	566,353
Interest income	76,908	1,234,483		11,099	6,103	1,328,593
Insurance recovery						
Total revenues	54,390,875	5,520,329	4,800,756	3,028,574	2,984,302	70,724,836
Expenditures						
Current						
District and school administration	3,119,587					3,119,587
District support services	1,791,890					1,791,890
Regular instruction	25,191,226					25,191,226
Vocational instruction	862,112					862,112
Exceptional instruction	10,675,058					10,675,058
Community education and services					1,307,121	1,307,121
Instructional support services	2,033,837					2,033,837
Pupil support services	4,284,071				1,724,292	6,008,363
Site, buildings, and equipment	5,021,062	1,279,505				6,300,567
Fiscal and other fixed cost programs	105,080					105,080
Debt service						
Principal	289,811		4,030,000	215,000		4,534,811
Interest and other fiscal costs	27,889		635,865	2,852,897		3,516,651
Capital outlay	1,514,107	59,173,342				60,687,449
Total expenditures	54,915,730	60,452,847	4,665,865	3,067,897	3,031,413	126,133,752
Excess (deficiency) of revenues over expenditures	(524,855)	(54,932,518)	134,891	(39,323)	(47,111)	(55,408,916)
Other financing sources (uses)						
Transfer in	446,709				72,984	519,693
Transfer out	(72,984)	(446,709)				(519,693)
Sale of capital assets	38,957					38,957
Total other financing sources (uses)	412,682	(446,709)			72,984	38,957
Change in fund balances	(112,173)	(55,379,227)	134,891	(39,323)	25,873	(55,369,959)
Fund balances, beginning	7,784,925	65,088,099	739,017	624,875	914,471	75,151,387
Prior period adjustment	199,081					199,081
Fund balances, ending	$ 7,871,833	$ 9,708,872	$ 873,908	$ 585,552	$ 940,344	$ 19,980,509

See accompanying notes to financial statements.

Independent School District No. 318

General Fund – Statement of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual

For the Year Ended June 30, 2020

Total net changes in fund balances - governmental funds	$ (55,369,959)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the costs of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	59,032,193
Depreciation expense	(3,447,106)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities a gain or (loss) is reported for each disposal.	
Loss from disposal of capital assets	(3,200)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Principal payments on general obligations bonds	4,245,000
Principal payments on capital leases	289,810
Amortization of bond premiums/discounts	328,199
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(8,483)
Vested employee benefits are reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year.	
Change in total OPEB liability	(493,478)
Change in deferred outflows of resources related to OPEB	4,192,192
Change in deferred inflows of resources related to OPEB	(3,175,135)
Change in severance benefits	(3,811)
Change in compensated absences	(100,544)
Change in net pension liability	(390,937)
Change in deferred outflows of resources related to pensions	(11,839,354)
Change in deferred inflows of resources related to pensions	9,290,506
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditure, and therefore are deferred in the funds.	(4,996,672)
The net loss of the internal service fund is reported in the statement of activities.	(2,357,185)
Change in net position - governmental activities	$ (4,807,964)

See accompanying notes to financial statements.

Independent School District No. 318

General Fund – Statement of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual

For the Year Ended June 30, 2020

	Budget			Variance
	Original	Final	Actual	Over (Under)
Revenues				
Local property tax levies	$ 7,998,287	$ 7,681,340	$ 8,829,378	$ 1,148,038
Other local and county revenues	1,429,650	2,078,600	2,596,970	518,370
Revenue from state sources	40,533,873	40,929,185	40,410,401	(518,784)
Revenue from federal sources	2,485,045	2,331,549	2,427,497	95,948
Sales and other conversion of assets	42,000	42,000	49,721	7,721
Interest income	55,000	55,000	76,908	21,908
Insurance recovery				
Total revenues	52,543,855	53,117,674	54,390,875	1,273,201
Expenditures				
Current				
District and school administration	3,271,073	3,121,804	3,119,587	(2,217)
District support services	720,128	1,822,431	1,791,890	(30,541)
Regular instruction	25,253,576	26,049,730	25,191,226	(858,504)
Vocational instruction	743,084	744,584	862,112	117,528
Exceptional instruction	10,599,519	10,706,362	10,675,058	(31,304)
Instructional support services	1,743,651	2,004,797	2,033,837	29,040
Pupil support services	4,100,498	4,204,595	4,284,071	79,476
Site, buildings, and equipment	4,773,339	5,018,315	5,021,062	2,747
Fiscal and other fixed cost programs	100,000	100,000	105,080	5,080
Debt service				
Principal	317,700	317,700	289,811	(27,889)
Interest and other fiscal costs			27,889	27,889
Capital outlay	763,000	2,029,511	1,514,107	(515,404)
Total expenditures	52,385,568	56,119,829	54,915,730	(1,204,099)
Excess (deficiency) of revenues over expenditures	158,287	(3,002,155)	(524,855)	2,477,300
Other financing sources (uses)				
Transfers in			446,709	446,709
Transfers out			(72,984)	(72,984)
Sale of capital assets	9,500	9,500	38,957	29,457
Total other financing sources (uses)	9,500	9,500	412,682	403,182
Net change in fund balance	167,787	(2,992,655)	(112,173)	2,880,482
Fund balance, beginning	7,784,925	7,784,925	7,784,925	
Prior period adjustment			199,081	
Fund balance, ending	$ 7,952,712	$ 4,792,270	$ 7,871,833	$ 2,880,482

See accompanying notes to financial statements.

Independent School District No. 318

Proprietary Funds – Internal Service Funds - Statement of Net Position

June 30, 2020

	Postemployment Benefits Revocable Trust Fund	Health Insurance Fund	Total
Assets			
Temporary cash Investments	$	$ 332,670	$ 332,670
Investments	22,192,200	4,012,146	26,204,346
Total assets	$ 22,192,200	$ 4,344,816	$ 26,537,016
Liabilities			
Accounts payable	$	$ 12,290	$ 12,290
Claims payable		1,065,033	1,065,033
Due to other funds	5,560,082		5,560,082
Total liabilities	5,560,082	1,077,323	6,637,405
Net position			
Restricted for OPEB obligations	16,632,118		16,632,118
Unrestricted		3,267,493	3,267,493
Total net position	16,632,118	3,267,493	19,899,611
Total liabilities and net position	$ 22,192,200	$ 4,344,816	$ 26,537,016

See accompanying notes to financial statements.

Independent School District No. 318

Proprietary Funds – Internal Service Funds - Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2020

	Postemployment Benefits Revocable Trust Fund	Health Insurance Fund	Total
Operating revenues			
Contributions from the District and employees	$	$ 11,385,090	$ 11,385,090
Contributions from employees and retirees	279,462		279,462
Total operating revenues	279,462	11,385,090	11,664,552
Operating expenses			
Health care benefits/claims	3,261,055	11,627,050	14,888,105
Administrative costs		446,537	446,537
Total operating expenses	3,261,055	12,073,587	15,334,642
Operating loss	(2,981,593)	(688,497)	(3,670,090)
Nonoperating income			
Investment income	1,239,689	73,216	1,312,905
Net income loss	(1,741,904)	(615,281)	(2,357,185)
Net position, beginning of year	18,374,022	3,882,774	22,256,796
Net position, end of year	$ 16,632,118	$ 3,267,493	$ 19,899,611

See accompanying notes to financial statements.

Independent School District No. 318

Proprietary Funds – Internal Service Funds - Statement of Cash Flows

For the Year Ended June 30, 2020

	Postemployment Benefits Revocable Trust Fund	Health Insurance Fund	Total
Cash flows from operating activities			
Contributions from the District and employees	$	$ 11,385,090	$ 11,385,090
Receipts from retirees and employees	279,462		279,462
Payments for health care premiums	(3,261,055)	(11,587,787)	(14,848,842)
Payments for administrative costs		(446,537)	(446,537)
Net cash used in operating activities	(2,981,593)	(649,234)	(3,630,827)
Cash flows from noncapital financing activities			
Change in amounts due to (from) other funds	2,919,160	(981,904)	1,937,256
Net cash from investing activities			
Proceeds from sales and maturities of investments	4,497,548	3,984,916	8,482,464
Purchase of investments	(5,181,444)	(6,004,266)	(11,185,710)
Trustee fees paid		(15,507)	(15,507)
Investment income received	746,329	59,737	806,066
Net cash provided by investing activities	62,433	(1,975,120)	(1,912,687)
Increase (decrease) in cash		(3,606,258)	(3,606,258)
Cash, beginning of year		3,938,928	3,938,928
Cash, end of year	$	$ 332,670	$ 332,670
Reconciliation of operating loss to net cash used in operating activities			
Operating income (loss)	$ (2,981,593)	$ (688,497)	$ (3,670,090)
Change in assets and liabilities			
Accounts payable		7,757	7,757
Claims payable		31,506	31,506
Net cash used in operating activities	$ (2,981,593)	$ (649,234)	$ (3,630,827)
Noncash investing activities			
Change in fair value of investments	$ 493,360	$ 28,986	$ 522,346

See accompanying notes to financial statements.

Independent School District No. 318

Fiduciary Funds – Statement of Fiduciary Net Position

June 30, 2020

		Custodial Fund
Assets		
Cash and temporary cash investments	$	33,143
Investments		4,625
Total assets	$	37,768
Liabilities		
Accounts payable	$	20,000
Funds held for others		
Total liabilities		20,000
Net position		
Held in trust		17,768
Total liabilities and net position	$	37,768

See accompanying notes to financial statements.

Independent School District No. 318

Fiduciary Funds – Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2020

	Custodial Fund
Additions	
Donations and bequests	$ 24,856
Deductions	
Scholarships awarded	23,850
Pupil support services	1,800
Total deductions	25,650
Change in net position	(794)
Net position	
Beginning of year	18,562
End of year	$ 17,768

See accompanying notes to financial statements.

Note 1 **Summary of Significant Accounting Policies**

Independent School District No. 318 (District) was formed and operates pursuant to applicable Minnesota laws and statutes. The Governing Body consists of a six-member Board elected by voters of the District. Members are elected for four-year terms. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting board for establishing governmental accounting and financial reporting principles.

Reporting Entity

The District's financial statements include all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable or for which the exclusion of would render the financial statements to be misleading. The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that the exclusion would cause the District's financial statements to be misleading or incomplete. Based on criteria established by the Governmental Accounting Standards Board, there are no organizations considered to be component units of the District.

Basic Financial Statement Presentation

The government-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the statement 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 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 the purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function and is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities. Generally, the effect of material inter-fund activity has been removed from the government-wide financial statements.

Separate fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds are reported as a separate column in the fund financial statements. Aggregated information for the remaining non-major governmental funds is reported in a single column in the fund financial statements.

Note 1 Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges to customers for service. Operating expenses for the internal service funds include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The fiduciary funds are presented in the fiduciary fund financial statements by type (trust and custodial). Since by definition these assets are being held for the benefit of a third party (employees and student groups) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements.

Measurement Focus and Basis of Accounting

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

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

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

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

Note 1 Summary of Significant Accounting Policies (Continued)

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The District's internal service fund is used to account for the revocable trust fund established to provide funds needed for future OPEB obligations for employees and retirees.

A general summary of the nature and purpose of each of the funds maintained by the District follows:

Major Governmental Funds

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund accounts for administration, early childhood special education through 12th grade instruction, transporting students to and from school, maintenance of facilities, equipment purchases, health and safety projects, and disabled accessibility projects.

Building Construction Fund - The Building Construction Fund is used to account for financial resources used in the acquisition and construction of major capital facilities.

Debt Service Fund - The Debt Service Fund accounts for the accumulation of resources for the retirement of principal and interest on all general obligation bond indebtedness, other than the District's OPEB bonds. Assets of the Debt Service Fund are restricted to the payment of bond principal and interest.

Postemployment Benefits Debt Service Fund - The Postemployment Benefits Debt Service Fund is used to record levy proceeds and the repayment of the District's OPEB bonds.

Nonmajor Governmental Funds

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specified purposes. The District's has two special revenue funds:

Food Service Fund - is used to account for food service revenues and expenditures. Revenues consist of state and federal aids, grants, and sales to pupils and adults.

Community Service Fund - is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, K-6 extended day programs, or other similar services. Revenues consist of state and federal aids, grants, and program participant fees.

Proprietary Funds

Postemployment Benefits Revocable Trust Fund - This internal service fund is used for reporting resources set aside and held in a revocable trust arrangement for post-employment benefits other than pensions. District contributions to this fund must be expensed to an operating fund.

Health Insurance Fund - This internal service fund is used to account for health benefits for employees who are covered by the self-insured plan of the District.

Note 1 Summary of Significant Accounting Policies (Continued)

Fiduciary Funds

Custodial Fund - These funds are used to account for fiduciary activities that are not required to be reported as another fiduciary fund type. The District includes an employee Flex Benefit Plan as a Custodial Fund.

Budgeting

Formal budgetary accounting is employed as a management control for all funds of the District. For each fund for which a formal budget is adopted, the budget is prepared on the same basis of accounting as the fund financial statements. The budget is adopted through passage of a resolution. The School Board must approve revisions. Legal budgetary control is at the fund account level. The annual budget is not legally binding on the District unless the District has a total deficit in its general fund, which exceeds 2.5 percent of expenditures.

Cash and Investments

Cash and investments of the individual funds are combined to form a pool and are invested to the extent available in various securities as authorized by state law. Investments in state and local government securities are recorded at fair value, based on quoted market price. Negotiable certificates of deposit are recorded at cost, which approximates fair value. Money market accounts and investments in external investment pools are recorded at fair value, based on the fair value of the position in the pool. Earnings from the pooled investments are distributed between the funds based on their prorated portion of monthly cash balances.

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Receivables

All receivables are shown net of any allowance for uncollectible amounts. No allowances for uncollectibles have been recorded. The only receivables not expected to be collected within one year are delinquent property taxes receivable.

Inventory

The District maintains no central stores and, therefore, expenses supply items as purchased. However, inventories for food items have been recorded in the proper funds. The District values its inventories at cost, on a first-in, first-out basis.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Note 1 Summary of Significant Accounting Policies (Continued)

Property Taxes

Property taxes are set by the school board and certified to the county auditor who acts as collecting agent, in December of the year prior to collection. Taxes become a lien on property on the following January 1. Minnesota school districts operate under a levy limitation law that generally limits annual increases in taxes per capita. This law does not cover levies for bonded indebtedness.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The county provides tax settlements to school districts and other taxing districts in January, March, June, and November or December. Portions of the tax levy paid by the state in the form of credits are included in revenue from state sources.

The District also receives revenue from taconite production taxes, which is recognized in the school year received, in accordance with Minnesota Statute §121.904.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as a deferred inflow of resources (property taxes levied for subsequent year). General fund revenue is determined annually by statutory funding formulas. These formulas allocate revenue between property taxes and state aids based on education funding priorities set by the Minnesota State Legislature. Changes in this allocation result in an annual change in property tax revenue recognition referred to as the “tax shift”. In prior years, the amount of shift has varied between 0 and 50 percent.

The following is a summary of tax shift transactions by fund:

	(0.0%) Total Shift June 30, 2019	State Aid Adjustment	Revenue Adjustment	(0.0%) Total Shift June 30, 2020
General Fund	$ 421,332	$	$ 53,819	$ 475,151

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources in the fund based financial statements (unavailable revenue – delinquent taxes) because it is not available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

Capital Assets

Capital assets are recorded at historical cost if purchased, or estimated historical cost for assets where actual historical cost is not available, based on an appraisal performed as of June 30, 2003. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Capital assets are reported in the government-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, ranging from five to fifty years.

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

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

Unearned Revenue

Unearned revenue results when asset recognition criteria have been met, but revenue recognition criteria have not been met. The balance consists primarily of revenue that will be recognized based on future expenditures.

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 so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has reported deferred outflows of resources related to pensions for its proportionate shares of collective deferred outflows of resources related to pensions and the District's contributions to pension plans subsequent to the measurement date of the collective net pension liability. The District has also reported deferred outflows of resources related to OPEB for the District's contributions subsequent to the measurement date of the total OPEB liability.

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 reported unavailable revenue from delinquent property taxes, which arises only under a modified accrual basis of accounting, in the governmental funds balance sheet. The District has also reported property taxes levied for subsequent years expenditures as a deferred inflow of resources in both the governmental funds balance sheet and the statement of net position. The District has also reported deferred inflows of resources for its proportionate share of the collective deferred inflows of resources related to pensions. The District has also reported deferred inflows of resources related to OPEB for changes in assumptions.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenses.

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

Note 1 Summary of Significant Accounting Policies (Continued)

Compensated Absences

Vacation granted and sick pay earned is based on length of service and various bargaining unit contracts. A liability is recorded for earned but unpaid vacation. Unused sick leave enters into the calculation of severance payments for some employees upon termination.

Severance Benefits

Upon retirement, most District employees are entitled to a severance amount based on accumulated unused sick leave, age, years of service and wage rate at the date of retirement, as established by contracts with bargaining units or other employment contracts. These contracts establish the terms and amounts each retiree is eligible to receive and establish when this severance benefit vests, all of which may differ between each bargaining unit and employee group. In the fund financial statements, a liability is recorded for severance pay when the employee retires. In the government-wide financial statements, a liability is recorded for severance pay at the time the employee becomes eligible for retirement.

Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 9.

Other Postemployment Benefits (OPEB)

The District provides postemployment health insurance benefits to some retired employees as established by contracts with bargaining units or other employment contracts. These contracts state the years, age and retiring dates needed to qualify for these postemployment benefits. The contracts also establish the amount the District will contribute towards the purchase of health insurance.

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Balance

In the fund financial statements, governmental funds report fund balance amounts within one of the following categories: nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance consists of amounts that cannot be spent because it is not in spendable form. Restricted fund balance consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions. Committed fund balance consists of amounts that are constrained for specific purposes that are internally imposed by a formal action of the School Board. Assigned fund balance consists of amounts intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed.

The District applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted fund balance is available. The portion of the fund balance not nonspendable, restricted, committed or assigned is reported as unassigned fund balance. If resources from more than one fund balance classification could be spent, the District will strive to spend resources in the following order: nonspendable, restricted, committed, assigned and unassigned.

In accordance with the District's fund balance policy, a majority vote of the School Board is required to commit a fund balance to a specific purpose and subsequently to remove or change any constraint so adopted by the board and the District Business Manager is authorized to assign fund balance to a specific purpose.

The District strives to maintain an unassigned fund balance in the General Fund equal to five percent of the annual budget. At June 30, 2020, the District had met the minimum fund balance goal.

Net Position

Net position represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, in the government-wide, proprietary 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 government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

Use of Estimates

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

Note 1 Summary of Significant Accounting Policies (Continued)

<u>Subsequent Events</u>

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 14, 2020, the date the financial statements were available to be issued. There were no subsequent events identified by the District that are required to be disclosed.

Note 2 Deposits and Investments

<u>Deposits</u>

In accordance with Minnesota Statutes, the District maintains deposits at those depositories authorized by the School Board. Such depositories are members of the Federal Reserve System.

Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. Authorized collateral includes certain notes secured by first mortgages; obligations that are legally authorized investments for debt service funds and certain state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Custodial Credit Risk - Deposits - 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 requires collateral for deposits over FDIC insurance amounts. At June 30, 2020, the District's deposits were not exposed to custodial credit risk.

<u>Investments</u>

The District may also invest idle funds as authorized by Minnesota statutes, as follows: direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States' bank eligible for purchase by the Federal Reserve System; commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; time deposits fully insured by U.S. banks; guaranteed investment contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

The Minnesota School District Liquid Asset Fund (MSDLAF) and MN Trust are regulated by Minnesota Statutes and are external investment pools not registered with the Securities and Exchange Commission (SEC). The District's investment in MSDLAF and MN Trust are measured at net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. MSDLAF and MN Trust are short-term money market portfolios. The portfolios are managed to maintain a dollar-weighted average

Note 2 Deposits and Investments (Continued)

portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of $1.00.

Interest rate risk - Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The District had the following investments at June 30, 2020:

		Maturities		
	Fair Value	Less than 1 Year	1-3 Years	Over 3 Years
Money Market Funds	$ 926,598	$ 926,598	$	$
Mutual Funds	22,146,510	22,146,510		
External Investments Pools	16,642,995	16,642,995		
US Government Issues	7,025,428	6,822,026	203,402	
Commerical paper	3,168,991	3,168,991		
Total	$ 49,910,522	$ 49,707,120	$ 203,402	$

Credit risk - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law limits investments as discussed above. The District has no investment policy that would further limit its investment choices.

S&P or Moody's Rating	Fair Value
AAAm	$ 17,569,593
AA+	7,025,428
A-1	3,168,991
Not rated	22,146,510
Total	$ 49,910,522

Note 2 Deposits and Investments (Continued)

Concentration of credit risk - The concentration risk is the risk of loss that may be caused by the District's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer.

Custodial risk - The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2020, the District's investments were not exposed to custodial risk.

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

The District has the following investments valued at recurring fair value measurements at June 30, 2020:

		Fair Value Measurements Using		
Investments by fair value level		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
US government issue	$ 7,025,428	$	$ 7,025,428	$
Commerical paper	3,168,991		3,168,991	
Mutual funds	22,146,510	22,146,510		
Total debt securities/investment by fair value level	32,340,929	$ 22,146,510	$ 10,194,419	$
Investments measured at the net asset value (NAV)				
External investment pools	16,642,995			
Other Investments				
Money market funds	926,598			
Total investments	$ 49,910,522			

Note 2 **Deposits and Investments (Continued)**

The following table sets forth additional disclosures about the District's investments whose value are estimated using net asset value (NAV) as of June 30, 2020:

	Total	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pool - MSDLAF Liquid Class	$ 4,247,866	$ 0	On Demand	2 P.M. Eastern Time transaction deadline.
External Investment Pool - MSDLAF MAX Class	$ 12,395,129	$ 0	14 days, with the exception of direct investments of funds distributed by the State of Minnesota	24-hour notice
External Investment Pool - MSDLAF + Term	$ -	$ 0	Not Applicable - Early withdrawal may result in substantial early redemption penalties	Not Applicable
Total External Pool Investments	$ 16,642,995			

The District's total cash and investments are as follows:

Deposits	$ 12,296,956
Investments	49,910,522
Total	$ 62,207,478

Presented in the basic financial statements as follows:

Statement of Net Position	
Cash and temporary cash investments	$ 35,965,364
Investments	26,204,346
Statement of Fiduciary Net Position	
Private Purpose Trust Fund	
Cash and temporary cash investments	33,143
Investments	4,625
Total cash and investments	$ 62,207,478

Independent School District No. 318

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2020

Note 3 **Capital Assets**

The following is a summary of capital assets:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Capital assets not being depreciated				
Land	$ 2,696,530	$	$	$ 2,696,530
Construction in progress	10,641,706	56,465,120	487,061	66,619,765
Total capital assets not being depreciated	13,338,236	56,465,120	487,061	69,316,295
Capital assets being depreciated				
Land improvements	4,647,034	14,975		4,662,009
Buildings	97,702,977	1,947,808		99,650,785
Equipment	13,569,757	1,091,351	530,013	14,131,095
Total capital assets being depreciated	115,919,768	3,054,134	530,013	118,443,889
Less accumulated depreciation				
Land improvements	2,537,724	195,071		2,732,795
Buildings	42,751,026	2,162,638		44,913,664
Equipment	8,299,317	1,089,397	526,813	8,861,901
Total accumulated depreciation	53,588,067	3,447,106	526,813	56,508,360
Total capital assets being depreciated, net	62,331,701	(392,972)	3,200	61,935,529
Capital assets, net	$ 75,669,937	$ 56,072,148	$ 490,261	$ 131,251,824

Depreciation is charged to governmental functions as follows:

District and school administration	$ 3,298
District support services	1,398
Regular instruction	143,226
Vocational instruction	5,090
Community education	22,710
Instructional support services	169,928
Pupil support services	704,097
Food service	13,591
Sites, buildings and equipment	45,643
Unallocated	2,338,125
Total	$ 3,447,106

Note 4 Long-Term Obligations

The following is a summary of changes in long-term obligations:

	Balance July 1, 2019	Additions	Reductions	Balance June 30, 2020	Current Portion
General Obligation Bonds					
Taxable OPEB Refunding Bonds, Series 2016A, annual installments of $415,000 to $4,585,000, beginning in 2017 until 2025, plus semi-annual interest at 2.0% to 2.8% beginning in 2017.	$ 25,770,000	$	$ (4,030,000)	$ 21,740,000	$ 4,125,000
School Building Bonds, Series 2018A, annual installments of $3,680,000 to $6,345,000, beginning in 2026 until 2038, plus semi-annual interest at 3.5% to 5.0% beginning in 2019	65,440,000			65,440,000	
General Obligation Facilities Maintenance Bonds, Series 2019A, annual installments of $215,000 to $370,000, beginning in 2020 until 2034, plus semi-annual interest at 3.0% to 5.0% beginning in 2020 until 2034.	4,380,000		(215,000)	4,165,000	220,000
Plus deferred amounts for net premium/discounts	5,727,272		(328,199)	5,399,073	(328,199)
Total General Obligation Bonds	101,317,272		(4,573,199)	96,744,073	4,016,801
Equipment obligation due in annual installments of $13,000, at 0 percent until 2021.	26,000		(13,000)	13,000	13,000
Lease purchase agreement due in annual installments of $61,458 to $117,449, at 4.68 percent interest until 2023.	438,887		(102,229)	336,658	107,070
Lease purchase agreement due in annual installments of $9,646 to $43,551, at 4.79 percent interest until 2021.	168,188		(82,104)	86,084	86,084
Lease purchase agreement due in monthly installments of $7,827 at 2.49 percent interest until 2020.	100,288		(92,477)	7,811	7,811
Compensated absences	280,000	208,042	(107,498)	380,544	61,270
Severance benefits	111,000	40,858	(37,047)	114,811	
Net pension liability	31,910,862	2,790,776	(2,399,839)	32,301,799	
Total OPEB obligation	125,049,715	11,087,027	(10,593,549)	125,543,193	
Total	$ 259,402,212	$ 14,126,703	$ (18,000,942)	$ 255,527,973	$ 4,292,036

Note 4 Long-Term Obligations (Continued)

General Obligation Bonds are paid from the Debt Service Fund and the Postemployment Benefits Debt Service Fund. Equipment obligations and lease purchase agreements are paid from the General Fund. Compensated absences, severance benefits, OPEB obligations, and net pension liability are paid from the General Fund, Food Service Fund and Community Service Fund.

The District entered into lease purchase agreements for the funding for renovation of facilities. The leases qualify as a capital leases for accounting purposes, and therefore, has been recorded at the present value of future minimum lease payments. The value of the assets are included in capital assets at a cost of $2,906,753, less accumulated depreciation of $511,233, for a book value of $2,395,520 at June 30, 2020. The outstanding balance of the leases was $422,741 at June 30, 2020.

The District entered into two lease purchase agreements for the purchase of portable classrooms. The leases qualify as a capital leases for accounting purposes, and therefore, has been recorded at the present value of future minimum lease payments. The value of the assets are included in capital assets at a cost of $1,244,175, less accumulated depreciation of $316,651, for a book value of $927,524 at June 30, 2020. The outstanding balance of the leases is $7,810 at June 30, 2020.

Annual debt service requirements for years ending June 30 are:

	General Obligation Bonds			Equipment Obligation		
	Principal	Interest	Total	Principal	Interest	Total
2021	$ 4,345,000	$ 3,452,665	$ 7,797,665	$ 13,000	$	$ 13,000
2022	4,455,000	3,348,853	7,803,853			
2023	4,585,000	3,240,178	7,825,178			
2024	4,720,000	3,119,428	7,839,428			
2025	4,850,000	2,988,355	7,838,355			
2026 - 2030	22,495,000	12,125,675	34,620,675			
2031 - 2035	27,585,000	6,780,325	34,365,325			
2036 - 2038	18,310,000	1,388,825	19,698,825			
Total	$ 91,345,000	$ 36,444,304	$ 127,789,304	$ 13,000	$	$ 13,000

	Lease Purchase Agreements		
	Principal	Interest	Total
2021	$ 200,964	$ 17,638	$ 218,602
2022	112,139	9,448	121,587
2023	117,450	4,138	121,588
Total	$ 430,553	$ 31,224	$ 461,777

Note 5 Postemployment Healthcare Plan (OPEB)

Plan Description - Independent School District No. 318 (District) administers a single-employer defined benefit health care plan which provides medical benefits to eligible retirees and their dependents in accordance with the terms of the plan. The District has established a Postemployment Benefits Revocable Trust (Trust) to account for the accumulated plan assets available to pay for current and future post-employment health care costs. The Trust does not issue a stand-alone financial report but is included in this report of the District.

Employees covered by benefit terms

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

Active employees electing coverage	451
Actives waiving coverage	161
Retirees electing coverage	405
	1017

The District's total OPEB liability of $125,543,193 was measured as of June 30, 2020 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate		2.50%	
Discount rate		3.13%	
Healthcare trend rates	Fiscal Year Beginning	Not Medicare Eligible	Medicare Eligible
	2020	6.40%	5.10%
	2021	6.20%	5.10%
	2022	5.90%	5.10%
	2023	5.50%	5.20%
	2024-2051	5.20%	5.20%
	2052-2075	Transition to ultimate rate	Transition to ultimate rate
	2076+	4.00%	4.00%

The discount rate was determined using the index rate for 20-Year, tax-exempt, municipal bonds (Fidelity 20-year Municipal GO AA Index).

Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on Scale MP-2015 for teachers and MP-2018 for non-teachers and other adjustments.

Note 5 Postemployment Healthcare Plan (OPEB) (Continued)

Changes in the Total OPEB Liability

Balances at 6/30/2019	$ 125,049,715
Changes for the year:	
Service Cost	2,088,191
Interest	4,527,425
Differnce between expected and actual experience	(6,451,703)
Changes of assumptions	4,471,411
Benefit payments	(4,141,846)
Net changes	493,478
Balances at 6/30/2020	$ 125,543,193

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.13 percent) or 1-percentage point higher (4.13 percent) than the current discount rate:

	1% Decrease 2.13%	Discount Rate 3.13%	1% Increase 4.13%
Total OPEB Liability	$ 146,375,903	$ 125,543,193	$ 108,755,055

Sensitivity of the Total OPEB Liability to Changes in the Health Care Trend Rates

The following presents the total OPEB Liability of the District, as well as what the District's total OPEB liability would be if calculated using healthcare trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare trend rates:

	1% Decrease (5.4% decreasing to 3.0%)	Discount Rate (6.4% decreasing to 4.0%)	1% Increase (7.4% decreasing to 5.0%)
Total OPEB Liability	$ 107,903,679	$ 125,543,193	$ 147,752,183

Note 5 Postemployment Healthcare Plan (OPEB) (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to OPEB

For the year ended June 30, 2020 the District recognized OPEB expense of $3,976,001. The District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differnce between expected and actual liablity	$	$ 5,532,657
Changes of assumptions	3,834,458	10,503,726
Contributions subsequent to the measurement date	4,499,516	
Totals	$ 8,333,974	$ 16,036,383

The amount of $4,499,516 reported as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

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

Year ended June 30	Pension Expense Amount
2021	$ (2,639,615)
2022	(2,639,615)
2023	(2,639,615)
2024	(2,639,615)
2025	(1,235,955)
Thereafter	(407,510)
Total	$ (12,201,925)

Independent School District No. 318

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2020

Note 6 Net Position/Fund Balance

Fund balances were nonspendable for the following purposes at June 30, 2020:

Nonspendable		
General Fund		
Prepaid expenses	$	205,507
Food Service Fund		
Inventory		107,563
Total nonspendable	$	313,070

Net position and fund balances were restricted for the following purposes at June 30, 2020:

	Net Position	Fund Balances
General Fund		
Student activities	$ 168,924	$ 168,924
Operating capital	343,829	343,829
Area learning center	27,745	27,745
Gifted and talented	16,548	16,548
Basic skills	11,698	11,698
Safe school levy	15,146	15,146
LTFM	482,836	482,836
Medical assistance	1,215,690	1,215,690
Total General Fund		2,282,416
Building Construction Fund		
Building construction	8,003,516	8,003,516
LTFM	1,705,356	1,705,356
Total Building Construction Fund		9,708,872
Postemployment Benefit Debt Service Fund		
Debt service	784,421	873,908
Nonmajor governmental funds		
Food Service Fund	427,372	427,372
Community Service Fund		
Community education	326,873	326,873
Community service	78,536	78,536
Total Nonmajor Funds		832,781
Debt Service Fund		
Debt service	0	585,552
Total nonmajor governmental funds		1,845,705
Total restricted	$ 13,608,490	$ 14,710,901

Note 6 Net Position/Fund Balance (Continued)

Fund balances were assigned for the following purposes at June 30, 2020:

General Fund		
Transportation	$	1,643,517
Grants and gifts		143,208
Total assigned	$	1,786,725

The following fund had a fund balance deficit at June 30, 2020:

Restricted		
School readiness	$	(32,903)

The deficit in school readiness is allowed by the Minnesota Department of Education and will be eliminated through future revenues.

Note 7 Interfund Transactions

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

Transfers in/out:

	Transfer Out	Transfer In
General Fund	$ 72,984	$ 446,709
Building Construction Fund	446,709	0
Nonmajor Fund	0	72,984
Total	$ 519,693	$ 519,693

The transfer from the general fund to the food service fund was made to reimburse the food service fund for unallowable costs it covered in the general fund. The transfer from the construction fund to the general fund was made to reimburse construction related expenditures incurred by the general fund.

Note 8 Defined Benefit Pension Plans

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

A. Teachers Retirement Fund (TRA)

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.

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain TRA-covered educational institutions maintained by the state (except those teachers employed by St. Paul schools and Minnesota State Colleges and Universities) are required to be TRA members. Educators first hired by Minnesota State may elect 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 benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

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

Note 8 Defined Benefit Pension Plans (Continued)

Tier I Benefits

Tier I	Step rate formula	Percentage
Basic	1st ten years	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior 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% 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. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated members and 2.7 percent for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans 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 members terminating service are 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.

Note 8 Defined Benefit Pension Plans (Continued)

3. Contribution Rate

Per Minnesota Statutes, Chapter 354 sets the contribution rates for the employees and employers. 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 Schedule of Employer and Non-Employer Pension Allocations.

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$	403,300,000
Add employer contributions not related to future contribution efforts		(688,000)
Deduct TRA's contributions not included in allocation		(486,000)
Total employer contributions		402,126,000
Total nonemployer contributions		35,588,000
Total contributions reported in Schedule of Employer and Non-Employer pension allocations	$	437,714,000

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

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.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information:

Valuation Date	July 1, 2019
Experience Study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Price Inflation	2.50%
Wage growth rate	2.85% before July 1, 2028 and 3.25% thereafter

Note 8 **Defined Benefit Pension Plans (Continued)**

Projected Salary Increase	2.85 to 8.85% before July 1, 2028 and 3.25 to 9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually

Mortality Assumption:

Pre-retirement	RP2014 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	RP2014 white collar annuitant table, male rates setback three years and female rates set back three years, with further adjustments to the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP2014 disables retiree mortality, 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 rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
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 6 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 over a period of 5 years as required by GASB 68.

Note 8 Defined Benefit Pension Plans (Continued)

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

6. Net Pension Liability

At June 30, 2020, the District reported a liability of $25,744,671 for its proportionate share of TRA's 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. The District's proportionate share was 0.4039% at the end of the measurement period and 0.4020% 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:

Note 8 Defined Benefit Pension Plans (Continued)

District's proportional share of net pension liability	$	25,744,671
State's proportional share of net pension liability associated with the District	$	2,278,098

For the year ended June 30, 2020, the District recognized pension expense of $2,215,078. It also recognized $173,163 as an increase to pension expense for the support provided by direct aid.

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

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual economic experience	$	3,177	$	611,091
Net difference between projected and actual earnings on plan investments				2,135,701
Changes in proportion		4,131,497		
Changes in actuarial assumptions		20,038,922		33,748,455
Contributions made to TRA subsequent to the measurement date		1,859,095		
Total	$	26,032,691	$	36,495,247

$1,859,095 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,		Pension Expense Amount
2021	$	2,020,893
2022		548,816
2023		(8,542,180)
2024		(6,321,340)
2025		(27,840)
Total	$	(12,321,651)

7. Pension Liability Sensitivity

The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the liability measured using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

Note 8 Defined Benefit Pension Plans (Continued)

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the TRA net pension liability	$ 41,043,300	$ 25,744,671	$ 13,131,177

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

8. Pension Plan Fiduciary Net Position

Detailed information about TRA'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 #400, St. Paul, Minnesota, 55103-4000; or by calling (651)296-2409 or 1-800-657-3669.

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

The United States and global markets experienced declines in values resulting from uncertainity 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.

B. Public Employee Retirement Association (PERA)

1. Plan Description

All full-time and certain part-time employees of the District other than teachers 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.

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

Note 8 Defined Benefit Pension Plans (Continued)

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.

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 Coordinated Plan member is 1.2% of average salary for each of the first 10 years 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 by 66.

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

3. Contributions

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

Coordinated Plan members were required to contribute 6.5% their annual covered salary in fiscal year 2020; the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2020, were $652,309. The District's contributions were equal to the required contributions as set by state statute.

4. Pension Costs

At June 30, 2020, the District reported a liability of $6,557,128 for its proportionate share of General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $203,024. 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 received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the District's proportion was 0.1186% at the end of the measurement period and 0.1201% for the beginning of the period.

Note 8 Defined Benefit Pension Plans (Continued)

For the year ended June 30, 2020, the District recognized pension expense of $579,247 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional $15,265 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 is proportionate share of the General Employees Plan'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	$ 183,891	$ -
Net difference between projected and actual earnings on plan investments		680,538
Changes in proportion	22,328	110,289
Changes in actuarial assumptions		523,761
Contributions made to PERA subsequent to the measurement date	672,309	
Total	$ 878,528	$ 1,314,588

$672,309 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	Pension Expense Amount
2021	$ (389,536)
2022	(591,148)
2023	(161,589)
2024	33,904
Total	$ (1,108,369)

5. Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP-2014 tables for males or females, as appropriate, with

Note 8 Defined Benefit Pension Plans (Continued)

slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25% per year for all future years.

Actuarial assumptions used in the June 30, 2019, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019.

The following changes in actuarial assumptions occurred in 2019:

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

The following changes in plan provisions occurred in 2019:

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

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimates 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	36%	5.10%
International Stocks	17%	5.90%
Bonds	20%	0.75%
Alternative Assets	25%	5.90%
Cash	2%	0.00%
Total	100%	

6. Discount Rate

The discount rate used to measure the total pension liability in 2019 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the 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.

Note 8 Defined Benefit Pension Plans (Continued)

7. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the PERA net pension liability	$ 10,779,566	$ 6,557,128	$ 3,070,667

8. Pension Plan Fiduciary Net Position

Detailed information about the 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 can be obtained at www.mnpera.org.

Note 9 Leases

The District is obligated under the following leases for various facilities:

Itasca County
Itasca Resource Center - Three-year lease commencing April 2018 through March 2021.

City of Grand Rapids
Athletic Fields - Lease commencing July 2018 through June 2021.
Civic Center - Lease commencing July 2018 through June 2021.

North Homes
Area Learning Center - Lease commencing August 2013 through July 2024.

City of Cohasset
Portage Park - Lease commencing July 2016 through June 2022.

MDI Real Estate
MDI Quest Program - Lease commencing January 2019 through June 2022.

Lease expense for the year ended June 30, 2020 was $484,702. Future minimum lease payments are as follows:

Years Ending June 30,		
2021	$	487,828
2022		127,767
2023		124,252
2024		72,523
Total	$	812,370

Note 10 Risk Management

The District is exposed to various risks of losses related to torts; theft of, damage to, or destruction of assets; errors or omissions; employee medical claims; injuries to employees; and natural disasters. The District has purchased commercial insurance for all risks. The workers compensation policy is retrospectively rated in that the initial premium is adjusted based on the actual experience during the coverage period. There are no significant reductions in insurance coverage from coverage in the prior year and claims have not exceeded insurance coverage in any of the past three years.

Note 10 Risk Management (Continued)

An internal service fund accounts for the District's health self-insurance program. The District self-insures health benefits provided to retirees and active employees. The District purchases health insurance stop-loss reinsurance (plan) that protects against individual claims in excess of $300,000, with no lifetime maximum, and against aggregate annual claims in excess of an amount determined by formula. The plan is administered by a third-party administrator. The plan liabilities for claims incurred but not reported are estimated based on subsequent claims activity.

An analysis of claims activity is presented below:

Year Ended	Claim Liability Beginning of Year	Claims Incurred	Claims Paid	Claim Liability End of Year
June 30, 2020	$ 1,030,189	$ 11,569,696	$ 11,534,854	$ 1,065,031
June 30, 2019	1,329,707	11,451,745	11,751,263	1,030,189

Note 11 Commitments and Contingencies

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

At June 30, 2020, the District had commitments under several construction contracts for future work in the elementary schools in the amount of $62,569,221, and several construction contracts for future work for roof and fire alarm replacement in the amount of $3,083,303, which will be paid from the Building Construction Fund.

Note 12 Change in Accounting Principle

GASB Statement No. 84, Fiduciary Activities establishes standards of accounting and financial reporting for fiduciary activities. It was determined that the District's Student Activity funds did not meet the criteria to be reported as a fiduciary activity. Therefore, the District reclassified Student Activity funds totaling $199,081 previously reported in an Agency fund to the District's general fund as a result of implementing GASB Statement No. 84.

Required Supplementary Information

Independent School District No. 318

Information about the District's Other Postemployment Health Care Plan

Year Ended June 30, 2020

Schedule of Changes in Net OPEB Liability and Related Ratios

	2020	2019	2018
Total OPEB Liability			
Service Cost	$ 2,088,191	$ 2,039,175	$ 2,355,184
Interest	4,527,425	4,482,108	4,020,675
Differences between expected and actual experience	(6,451,703)		
Changes of assumptions	4,471,411	(3,344,599)	(13,771,004)
Benefit payments	(4,141,846)	(3,979,422)	(4,183,169)
Net change in total OPEB liability	493,478	(802,738)	(11,578,314)
Total OPEB Liability - beginning of year	125,049,715	125,852,453	137,430,767
Total OPEB liability - end of year	$ 125,543,193	$ 125,049,715	$ 125,852,453
Covered payroll	31,721,000	31,316,240	27,651,000
Total OPEB liability as a percentage of covered payroll	395.8%	399.3%	455.1%

Notes to Schedule:
Funding: There are no assets accumulated in a trust that meets the criteria of GASB NO. 75 paragraph 4, to pay related benefits.

*The schedule is intended to present information for the last 10 years.
Additional information will be presented as it becomes available.

Independent School District No. 318

Information about the District's Net Pension Liability

Year Ended June 30, 2020

Schedule of Employer's Share of Net Pension Liability

TEACHER'S RETIREMENT ASSOCIATION (TRA)

Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability associated with the District	Total	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2019	0.4039%	$25,744,671	$ 2,278,098	$28,022,769	$19,518,797	131.9%	78.1%
June 30, 2018	0.4020%	$25,248,206	$ 2,371,875	$27,620,081	$22,209,188	113.7%	78.1%
June 30, 2017	0.3875%	$77,352,029	$ 7,478,105	$84,830,134	$20,858,755	370.8%	51.6%
June 30, 2016	0.3739%	$89,184,071	$ 8,951,105	$98,135,176	$19,450,667	458.5%	44.9%
June 30, 2015	0.3506%	$21,688,077	$ 2,660,220	$24,348,297	$17,796,307	121.9%	76.8%
June 30, 2014	0.3679%	$16,952,567	$ 1,192,647	$18,145,214	$16,794,301	100.9%	81.5%

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability associated with the District	Total	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2019	11.8600%	$6,557,128	$ 203,024	$6,760,152	$7,675,611	85.4%	80.2%
June 30, 2018	0.1201%	$6,662,656	$ 218,477	$6,881,133	$8,064,059	82.6%	79.5%
June 30, 2017	0.1216%	$7,762,864	$ 97,637	$7,860,501	$7,830,659	99.1%	75.9%
June 30, 2016	0.1205%	$9,784,002	$ 127,810	$9,911,812	$7,477,040	130.9%	68.9%
June 30, 2015	0.1228%	$6,364,133	$ -	$6,364,133	$7,213,933	88.2%	78.2%
June 30, 2014	0.1319%	$6,196,001	$ -	$6,196,001	$6,926,346	89.5%	78.7%

*The schedule is intended to present information for the last 10 years.

Independent School District No. 318

Information about the District's Net Pension Liability (Continued)

Year Ended June 30, 2020

Schedule of Employer's Contributions

TEACHER'S RETIREMENT ASSOCIATION (TRA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2020	$1,859,095	$1,859,095	$0	$23,473,382	7.92%
June 30, 2019	$1,504,900	$1,504,900	$0	$19,518,797	7.71%
June 30, 2018	$1,665,683	$1,665,683	$0	$22,209,188	7.50%
June 30, 2017	$1,564,407	$1,564,407	$0	$20,858,755	7.50%
June 30, 2016	$1,458,800	$1,458,800	$0	$19,450,667	7.50%
June 30, 2015	$1,334,723	$1,334,723	$0	$17,796,307	7.50%

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2020	$672,309	$672,309	$0	$8,963,540	7.50%
June 30, 2019	$575,673	$575,673	$0	$7,675,611	7.50%
June 30, 2018	$604,805	$604,805	$0	$8,064,059	7.50%
June 30, 2017	$587,688	$587,688	$0	$7,830,659	7.50%
June 30, 2016	$560,767	$560,767	$0	$7,477,040	7.50%
June 30, 2015	$532,425	$532,425	$0	$7,213,933	7.38%

*The schedule is intended to present information for the last 10 years.

Supplementary Financial Information

Independent School District No. 318

Nonmajor Governmental Funds – Combining Balance Sheet

June 30, 2020

	Special Revenue Funds		
	Food Service Fund	Community Service Fund	Total Nonmajor Governmental Funds
Assets			
Cash and temporary cash investments	$ 426,735	$ 376,014	$ 802,749
Accounts receivable	1,929	4,579	6,508
Due from other Minnesota school districts	5,593	17,837	23,430
Due from the Minnesota Department of Education	22,229	34,448	56,677
Due from the federal government through the Minnesota Department of Education	60,395	56,546	116,941
Prepaid expenses	11,495		11,495
Inventory	96,068		96,068
Total assets	$ 624,444	$ 489,424	$ 1,113,868
Liabilities			
Salaries payable	$ 75,966	$ 14,556	$ 90,522
Accounts payable	13,543	8,979	22,522
Due to other Minnesota school districts		60,473	60,473
Accrued expenses		7	7
Total liabilities	89,509	84,015	173,524
Fund balances			
Nonspendable	107,563		107,563
Restricted	427,372	405,409	832,781
Total fund balances	534,935	405,409	940,344
Total liabilities, deferred inflows of resources and fund balances	$ 624,444	$ 489,424	$ 1,113,868

Independent School District No. 318

Nonmajor Governmental Funds – Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2020

	Special Revenue Funds		Total
	Food Service Fund	Community Service Fund	Nonmajor Governmental Funds
Revenues			
Local property tax levies	$	$ 349,955	$ 349,955
Other local and county revenues	5,950	249,778	255,728
Revenue from state sources	103,389	447,018	550,407
Revenue from federal sources	1,049,642	282,604	1,332,246
Sales and other conversion of assets	486,249	3,614	489,863
Interest income	2,888	3,215	6,103
Total revenues	1,648,118	1,336,184	2,984,302
Expenditures			
Current			
Community education and services		1,307,121	1,307,121
Pupil support services	1,724,292		1,724,292
Total expenditures	1,724,292	1,307,121	3,031,413
Other financing sources			
Transfer in	72,984		72,984
Excess (deficiency) of revenues over expenditures	(3,190)	29,063	25,873
Net change in fund balances	(3,190)	29,063	25,873
Fund balances, beginning	538,125	376,346	914,471
Fund balances, ending	$ 534,935	$ 405,409	$ 940,344

Independent School District No. 318

Fiscal Compliance Table

For the Year Ended June 30, 2020

	Audit	UFARS	Audit - UFARS
01 GENERAL FUND			
Total revenues	$54,390,875	$54,390,875	$ -
Total expenditures	54,915,730	54,915,730	-
Non spendable			
460 Non spendable fund balance	205,507	205,507	-
Restricted/Reserve			
401 Student activities	168924	168,924	-
403 Staff development			-
405 Deferred maintenance			-
406 Health and safety			-
407 Capital Projects Levy			-
408 Cooperative revenue			-
411 Severance pay			-
413 Project funded by COP			-
414 Operating debt			-
416 Levy reduction			-
417 Taconite building maintenance			-
423 Certain teacher programs			-
424 Operating capital	343,829	343,829	-
426 $25 Taconite			-
427 Disabled accessibility			-
428 Learning and development			-
434 Area learning center	27,745	27,745	-
435 Contracted alt. programs			-
436 St. approved alt. program			-
438 Gifted & talented	16,548	16,548	-
440 Teacher development & eval		-	
441 Basic skills program	11,698	11,698	-
445 Career and technical programs			-
446 First Grade Preparedness			-
449 Safe schools levy	15,146	15,146	-
450 Prekindergarten			-
451 QZAB payments			-
452 OPEB liability not in trust			-
453 Unfunded sev & retirement levy			-
467 LTFM	482,836	482,836	-
472 Medical Assistance	1,215,690	1,215,690	-
Restricted			
464 Restricted fund balance			-
Committed			
418 Committed for separation			-
461 Committed fund balance			-
Assigned			
462 Assigned fund balance	1,786,725	1,786,725	-
Unassigned			
422 Unassigned fund balance	3,597,185	3,597,188	(3)
02 FOOD SERVICE			
Total revenues	1,648,118	1,648,117	1
Total expenditures	1,724,292	1,724,292	-
Non spendable			
460 Non spendable fund balance	107,563	107,563	-
Restricted			
452 OPEB liability not in trust			-
464 Restricted fund balance	427,372	427,371	1
Unassigned			
463 Unassigned fund balance			-
04 COMMUNITY SERVICE			
Total revenues	1,336,184	1,336,184	-
Total expenditures	1,307,121	1,307,121	-
Non spendable			-
460 Non spendable fund balance			-
Restricted/Reserve			
426 $25 taconite			-
431 Community education	326,873	326,873	-
432 ECFE			-
444 School readiness	(32,903)	(32,903)	-
447 Adult Basic Education			-
452 OPEB liability not in trust			-
Restricted			
464 Restricted fund balance	111,439	111,440	(1)
Unassigned			
463 Unassigned fund balance			-

	Audit	UFARS	Audit - UFARS
06 BUILDING CONSTRUCTION			
Total revenues	$ 5,520,329	$ 5,520,329	$ -
Total expenditures	60,452,847	60,452,847	-
Non spendable			
460 Non spendable fund balance			-
Restricted/Reserve			
407 Down payment levy			-
409 Alternative facility program			-
467 LTFM	1,705,356	1,705,355	1
Restricted			
464 Restricted fund balance	8,003,516	8,003,516	-
Unassigned			
463 Unassigned fund balance			-
			-
07 DEBT SERVICE			-
Total revenues	3,028,574	3,028,574	-
Total expenditures	3,067,897	3,067,897	-
Non spendable			
460 Non spendable fund balance			-
Restricted/Reserve			
425 Bond refundings			-
451 QZAB payments			-
Restricted			
464 Restricted fund balance	585,552	585,553	(1)
Unassigned			
463 Unassigned fund balance			-
18 CUSTODIAL FUND			
Total revenues	24,856	24,855	1
Total expenditures	25,650	25,650	-
401 Student activities	233	233	-
402 Scholarships	17,535	17,535	-
20 INTERNAL SERVICE			
Total revenues	11,458,306	11,458,306	-
Total expenditures	12,073,587	12,073,587	-
422 Net position	3,267,493	3,267,494	(1)
25 OPEB REVOCABLE TRUST FUND			
Total revenues	1,519,151	1,519,151	-
Total expenditures	3,261,055	3,261,055	-
422 Net position	16,632,118	16,632,119	(1)
45 OPEB IRREVOCABLE TRUST FUND			
Total revenues			-
Total expenditures			-
422 Net position			-
47 OPEB DEBT SERVICE FUND			
Total revenues	4,800,756	4,800,756	-
Total expenditures	4,665,865	4,665,865	-
Non spendable			-
460 Non spendable fund balance			
Restricted			
425 Bond refundings			-
464 Restricted fund balance	873,908	873,909	(1)
Unassigned			
463 Unassigned fund balance			-

Reports Required by *Government Auditing Standards*, Uniform Guidance, and the State of Minnesota

Independent School District No. 318

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed-through Minnesota Department of Education:		
Child Nutrition Cluster		
School Breakfast Program	10.553	$ 129,536
Non-Cash Assistance (Commodities)	10.555	113,134
National School Lunch Program	10.555	463,109
Commodities Cash Rebate Program	10.555	797
Total 10.555		577,040
Summer Food Service Program for Children	10.559	323,411
Total Child Nutrition Cluster		1,029,987
Child and Adult Care Food Program	10.558	19,654
Passed-through Itasca County:		
Schools and Roads, Grants to States	10.665	97,924
Total U.S. Department of Agriculture		1,147,565
U.S. Department of Education		
Direct Program		
Indian Education, Grants to Local Education Agencies	84.060	95,634
Passed-through Minnesota Department of Education:		
Title I, Part A	84.010	681,466
Title I, Neglected and Delinquent	84.010	121,009
Total 84.010		802,475
Title II, Part A	84.367	98,907
Special Education Cluster		
IDEA, Part B	84.027	976,848
IDEA, Part B Preschool Grant for Children with Disabilities	84.173	29,158
Total Special Education Cluster		1,006,006
Special Education Infants and Toddlers Program	84.181	37,934
Student Support and Academic Enrichment Program	84.424	44,792
Twenty-First Century Community Learning Centers	84.287	282,604
Passed-through Itasca Area Schools Collaborative		
Carl Perkins Vocational and Applied Technology	84.048	31,670
Total U.S. Department of Education		2,400,022
U.S. Department of Health and Human Services		
Passed-through Minnesota Department of Health and Human Services:		
Prevention and Treatment of Substance Abuse	93.959	212,155
Total U.S. Department of Health and Human Services		212,155
Total expenditures of federal awards		$ 3,759,742

See Independent Auditor’s Report

See Notes to the Schedule of Expenditures of Federal Awards

Independent School District No. 318

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2020

Note 1 Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Independent School District No. 318 under programs of the federal government for the year ended June 30, 2020. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal* Awards (Uniform Guidance) Because the schedule presents only a selected portion of the operations of Independent School District No. 318, it is not intended to and does not present the financial position, changes in net position, or cash flows of Independent School District No. 318.

Note 2 Significant Accounting Policies

Expenditures reported on the schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Independent School District No. 318 has not elected to use the 10 percent de minimus indirect costs rate as allowed under Uniform Guidance.

Note 3 Pass-Through Grant Numbers

All pass-through listed on the previous page use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

Note 4 Subrecipients

The District had no subrecipients or subrecipient expenditures.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the School Board
Independent School District No. 318
Grand Rapids, Minnesota

We have audited, in accordance with the auditing standards general accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 318 (District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2020.

Internal Control Over Financial Reporting

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

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

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2020-001 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to the Finding

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Wipfli LLP

Wipfli LLP

December 14, 2020
Duluth, Minnesota

WIPFLI

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance

To the School Board
Independent School District No. 318
Grand Rapids, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 318's (District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility for Compliance

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District'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; 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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 the District's compliance.

Opinion

In our opinion, the District 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 District 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District'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 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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP

December 14, 2020
Duluth, Minnesota

WIPFLI

Independent Auditor's Report on Legal Compliance for the State of Minnesota

To the School Board
Independent School District No. 318
Grand Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the Unites States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 318 (District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2020.

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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

Wipfli LLP

Wipfli LLP

December 14, 2020
Duluth, Minnesota

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	**Unmodified**			
Internal control over financial reporting:				
Material weakness identified?	X	Yes		No
Significant deficiency(s)?		Yes	X	None reported
Noncompliance material to the financial statements		Yes	X	No

Federal Awards

Internal control over major federal programs:				
Material weakness identified?		Yes	X	No
Significant deficiency(s)?		Yes	X	None reported
Type of auditor's report issued on compliance for major programs:	**Unmodified**			
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance [2 CFR 200.516(a)]?		Yes	X	No

Identification of major federal program

CFDA Number	**Name of Federal Program or Cluster**
10.553, 10.555, 10.559	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B Programs	$750,000			
Auditee qualified as a low-risk auditee?		Yes	X	No

Section II - Financial Statement Findings:

Item 2020-001 - Bank Reconciliations (Material Weakness)

Criteria - The District is responsible for ensuring all bank accounts should be reconciled to the general ledger monthly.

Condition - The District is not performing the monthly bank reconciliation in a timely manner. Reconciliations should be complete within 30 days to ensure accurate reporting and to identify any discrepancies timely.

Cause - The District does not have control policies and procedures over the reconciliation of bank accounts to the general ledger.

Effect - Without performing timely reconciliations, bank transaction errors may go undetected and the District's general ledger may not accurately reflect all transactions.

Recommendation - The District should establish an internal control policy that would require timely bank reconciliations.

Section III - Federal Findings:

None.

Section IV - Minnesota Legal Compliance Findings:

None.

Independent School District No. 318

Schedule of Prior Year Findings and Questioned Costs

For the Year Ended June 30, 2020

Section V – Prior Year Findings:

Item 2019-001 - Audit adjustments (Material Weakness)

Condition - The District is responsible for controls over the period-end financial reporting process, including controls over procedures to process journal entries into the general ledger and record recurring and nonrecurring adjustments to the financial statements. As a result of audit procedures, we identified certain errors in calculations and estimates and proposed material adjustments to the District's general ledger accounts to correct these misstatements.

Effect - Without controls over procedures that will detect or prevent a misstatement when entering transactions or making adjustments to the financial statements, the financial statements may be misstated.

Status - The finding was corrected for the fiscal year 2019-20.

Item 2019-002 - Bank Reconciliations (Material Weakness)

Condition - The District is not performing the monthly bank reconciliation in a timely manner. Reconciliations should be complete within 30 days to ensure accurate reporting and to identify any discrepancies timely.

Effect - Without performing timely reconciliations, bank transaction errors may go undetected and the District's general ledger may not accurately reflect all transactions.

Status - The finding was repeated in the fiscal year 2019-20.

Section III - Federal Findings:

None.