Independent School District No. 318

Grand Rapids, Minnesota

Financial Statements and Supplementary Information

Year Ended June 30, 2021

WIPFLI

Independent School District No. 318

Year Ended June 30, 2021

Table of Contents

Independent School District No. 318

Year Ended June 30, 2021

School Officials

Elective	Office	Term Expires
Melissa Bahr	Chair	January 1, 2023
David Marty	Clerk	January 1, 2023
Ben Hawkins	Treasurer	January 1, 2025
Mindy Nuhring	Director	January 1, 2025
Pat Medure	Director	January 1, 2025
Open	Director	January 1, 2023

Appointive		
Matt Grose	Superintendent	

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

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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, 2021, 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 2, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

December 2, 2021
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, 2021.

Financial Highlights

Key financial highlights for the 2020-2021 fiscal year include the following:

- Net position decreased $815,986 or less than 1% of the prior year's net position.
- Overall actual revenues in the Statement of Activities were $75,408,122 and expenses were $76,224,108; leaving expenditures exceeding revenues by $815,986.
- General Fund fund balance decreased $2,173,788 from the prior year, reducing the unassigned fund balance to $1,534,220, or 2.6% of total general fund expenditures.
- The District's Health Insurance Internal Service Fund net position decreased $3.2M to $744,000.

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, 2021.

Statement of Net Position
June 30,

	2021	2020
Capital assets	$ 140,349,352	$ 131,251,824
Current and other assets	49,547,188	70,285,947
Total assets	189,896,540	201,537,771
Deferred Outflows of Resources	36,408,441	35,245,193
Long-term liabilities	269,659,919	255,527,973
Other liabilities	9,956,201	17,996,331
Total liabilities	279,616,120	273,524,304
Deferred Inflows of Resources	51,532,232	67,286,045
Net position		
Net investment in capital assets	63,914,095	65,503,070
Restricted	4,580,216	13,608,490
Unrestricted (deficit)	(173,337,682)	(183,138,945)
Total net position (deficit)	$ (104,843,371)	$ (104,027,385)

Change in Net Position
For the Years Ended June 30,

	2021	2020
Revenues		
Program revenues		
Charges for service	$ 2,002,591	$ 2,273,800
Operating grants and contributions	14,072,670	11,221,284
Capital grants and contributions	4,079,898	4,260,046
General revenues		
Property taxes	16,933,091	11,850,884
State aids	33,591,732	34,391,265
Other	4,728,140	3,082,747
Total revenues	75,408,122	67,080,026

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

	2021	2020
Expenses		
District and school administration	3,370,766	3,127,590
District support services	1,854,250	1,800,223
Regular instruction	32,658,255	31,589,522
Vocational instruction	873,809	867,202
Exceptional instruction	10,970,756	10,675,058
Instructional support services	3,201,610	1,926,854
Pupil support services	4,570,817	4,913,211
Sites, buildings and equipment	10,419,024	8,294,066
Food service	1,617,815	1,724,292
Community service	1,110,361	1,329,831
Interest and fiscal charges on long-term debt	3,085,140	3,196,936
Fiscal and other fixed cost programs	216,652	105,080
Unallocated depreciation expense	2,274,853	2,338,125
Total expenses	76,224,108	71,887,990
Change in net position	(815,986)	(4,807,964)
Beginning of year net position	(104,027,385)	(99,418,502)
Prior period adjustment	-	199,081
End of year net position (deficit)	$ (104,843,371)	$ (104,027,385)

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 $54,331,731, which was revised to $56,112,000. Actual revenues were $15,531 under budget or 1.5%.

The General Fund adopted an original expenditure budget of $56,648,400, which was revised to $59,178,000, to account for construction projects and the additional costs associated with the Covid Pandemic. In the end, expenditures were $910,850 under budget.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues and other financing sources by $3,066,000, the actual results for the year showed expenditures exceeded revenues and other financing sources by $2,173,788.

- Revenues and other financing sources were $15,531 under budget due to the District not being able to use all of the COVID money it planned, netted against the conservative state and federal aid budgets.
- Expenditures were $910,850 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 2021, the District had invested $196,774,687 in capital assets, including school buildings and technology equipment. Total depreciation expense for the year was $3,495,094. More detailed information about the District's capital assets is presented in Note 3 to the financial statements.

Debt Administration

At June 30, 2021, the District had $87,229,589 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 $177,359,456 in compensated absences, severance benefits, postemployment health benefits payable, and net pension liability at June 30, 2021.

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. In FY 21, 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. However, in FY22, the majority of those students have returned to in person learning. 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 decided to increase the General Education Aid by 2.45% for FY22 and 2% for FY23

The District 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, 2021

	Governmental Activities
Assets and Deferred Outflows of Resources	
Current assets	
Cash and temporary cash investments	$ 15,446,506
Investments	19,875,772
Current property taxes receivable	5,917,475
Delinquent property taxes receivable	469,851
Accounts receivable	50,063
Due from other Minnesota school districts	457,088
Due from the Minnesota Department of Education	3,082,805
Due from the federal government through the Minnesota Department of Education	1,706,972
Due from federal government	38,703
Due from other governmental units	2,137,386
Inventory	86,931
Prepaid items	277,636
Total current assets	49,547,188
Capital assets, net of depreciation	
Assets not being depreciated	77,886,870
Assets being depreciated, net	62,462,482
Total capital assets, net of depreciation	140,349,352
Total assets	189,896,540
Deferred outflows of resources	
Items related to OPEB	19,352,779
Items related to pension plans	17,055,662
Total deferred inflows of resources	36,408,441
Total assets and deferred outflows of resources	$ 226,304,981

Independent School District No. 318

Statement of Net Position (Deficit) (Continued)

June 30, 2021

		Governmental Activities
Liabilities, Deferred Inflows of Resources, and Net Position		
Current liabilities		
Salaries payable	$	5,259,691
Accounts payable		2,003,108
Accrued interest payable		1,382,551
Due to other Minnesota school districts		190,301
Due to other governments		281
Accrued expenses		108,488
Claims payable		1,005,469
Unearned revenue		6,312
Current portion of long-term liabilities		4,276,165
Total current liabilities		14,232,366
Long-term liabilities		265,383,754
Total liabilities		279,616,120
Deferred inflows of resources		
Property taxes levied for subsequent year's expenditures		13,194,396
Items related to OPEB		12,759,815
Items related to pension plans		25,578,021
Total deferred inflows of resources		51,532,232
Net position (deficit)		
Net investment in capital assets		63,914,095
Restricted		4,580,216
Unrestricted (deficit)		(173,337,682)
Total net position (deficit)		(104,843,371)
Total liabilities, deferred inflow of resources, and net position (deficit)	$	226,304,981

See accompanying notes to financial statements.

Independent School District No. 318

Statement of Activities

For the Year Ended June 30, 2021

		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	$ 3,370,766	$	$	$	$ (3,370,766)
District support services	1,854,250		195,168		(1,659,082)
Regular instruction	32,658,255	820,912	4,723,110		(27,114,233)
Vocational instruction	873,809		25,990		(847,819)
Exceptional instruction	10,970,756	825,294	7,317,862		(2,827,600)
Instructional support services	3,201,610		27,182		(3,174,428)
Pupil support services	4,570,817				(4,570,817)
Sites, buildings and equipment	10,419,024	33,330		4,079,898	(6,305,796)
Food service	1,617,815	156,601	1,337,324		(123,890)
Community service	1,110,361	166,454	446,034		(497,873)
Interest and fiscal charges on long-term debt	3,085,140				(3,085,140)
Fiscal and other fixed cost programs	216,652				(216,652)
Unallocated depreciation expense	2,274,853				(2,274,853)
Total governmental activities	$ 76,224,108	$ 2,002,591	$ 14,072,670	$ 4,079,898	(56,068,949)

General revenues	
Taxes	
Property taxes, levied for general purposes	8,516,351
Property taxes, levied for community service	346,448
Property taxes, levied for debt service	8,070,292
State aid-formula grants	33,591,732
Other general revenues	456,743
Investment earnings	4,271,397
Total general revenues	55,252,963
Change in net position	(815,986)
Net position (deficit), beginning of the year	(104,027,385)
Net position (deficit), end of the year	$ (104,843,371)

See accompanying notes to financial statements.

Independent School District No. 318

Governmental Funds – Balance Sheet

June 30, 2021

	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	$ 6,130,817	$ 738,422	$ 3,785,124	$ 2,429,633	$ 602,044	$ 13,686,040
Current property taxes receivable	2,520,610		2,029,171	1,367,694		5,917,475
Delinquent property taxes receivable	226,035		158,643	85,173		469,851
Accounts receivable	41,279	-			8,784	50,063
Due from other Minnesota school districts	437,024				20,064	457,088
Due from the Minnesota Department of Education	2,951,269		3,111	18,607	109,818	3,082,805
Due from the federal government through the Minnesota Department of Education	1,455,264				251,708	1,706,972
Due from federal governmental	38,703					38,703
Due from other governmental units	1,182,286	955,100				2,137,386
Due from funds	2,145,373					2,145,373
Inventory					86,931	86,931
Prepaid expenses	265,976				11,660	277,636
Total assets	$ 17,394,636	$ 1,693,522	$ 5,976,049	$ 3,901,107	$ 1,091,009	$ 30,056,323
Liabilities						
Salaries payable	$ 5,144,294	$	$	$	$ 115,397	$ 5,259,691
Accounts payable	584,858	1,377,007			29,746	1,991,611
Due to other Minnesota school districts	165,673				24,628	190,301
Due to other governments	281					281
Accrued expenses	108,215				273	108,488
Unearned revenue	6,312					6,312
Total liabilities	6,009,633	1,377,007			170,044	7,556,684
Deferred Inflows of Resources						
Unavailable revenue - delinquent property taxes	226,035		158,643	85,173		469,851
Property taxes levied for subsequent year's expenditures	5,460,923		4,740,733	2,992,740		13,194,396
Total deferred inflows of resources	5,686,958		4,899,376	3,077,913		13,664,247
Fund balances						
Nonspendable	265,976				98,291	364,267
Restricted	2,366,289	342,137	1,076,673	823,194	822,674	5,430,967
Assigned	1,531,560					1,531,560
Unassigned	1,534,220	(25,622)				1,508,598
Total fund balances	5,698,045	316,515	1,076,673	823,194	920,965	8,835,392
Total liabilities, deferred inflows of resources and fund balances	$ 17,394,636	$ 1,693,522	$ 5,976,049	$ 3,901,107	$ 1,091,009	$ 30,056,323

Independent School District No. 318

Governmental Funds – Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit)

June 30, 2021

Total fund balances - governmental funds	$ 8,835,392
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	196,774,687
Less accumulated depreciation	(56,425,335)
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	(87,000,000)
Capital leases	(229,589)
Compensated absences	(457,251)
Severance benefits	(107,196)
Unamortized bond premium and discounts	(5,070,874)
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	(140,418,047)
Deferred outflows of resources related to OPEB	19,352,779
Deferred inflows of resources related to OPEB	(12,759,815)
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	(36,376,962)
Deferred outflows of resources related to pensions	17,055,662
Deferred inflows of resources related to pensions	(25,578,021)
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.	469,851
Governmental funds do not report a liability for accrued interest until due and payable.	(1,382,551)
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.	18,473,899
Total net position (deficit) - governmental activities	$ (104,843,371)

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, 2021

	General Fund	Building Construction Fund	Postemployment Benefit Debt Service Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Local property tax levies	$ 8,493,194	$	$ 4,842,313	$ 3,181,694	$ 346,448	$ 16,863,649
Other local and county revenues	2,647,082	3,408,300			156,547	6,211,929
Revenue from state sources	39,917,238	671,598	31,117	186,080	463,614	41,269,647
Revenue from federal sources	4,901,146				1,561,041	6,462,187
Sales and other conversion of assets	45,741				155,152	200,893
Interest income	7,041	35,416		1,093	545	44,095
Insurance recovery	69,927					69,927
Total revenues	56,081,369	4,115,314	4,873,430	3,368,867	2,683,347	71,122,327
Expenditures						
Current						
District and school administration	3,364,503					3,364,503
District support services	1,853,551					1,853,551
Regular instruction	25,050,314					25,050,314
Vocational instruction	907,596					907,596
Exceptional instruction	10,966,410					10,966,410
Community education and services					1,087,651	1,087,651
Instructional support services	2,963,312					2,963,312
Pupil support services	4,535,764				1,617,815	6,153,579
Site, buildings, and equipment	5,192,119	807,283				5,999,402
Fiscal and other fixed cost programs	216,652					216,652
Debt service						
Principal	200,964		4,125,000	220,000		4,545,964
Interest and other fiscal costs	17,638		545,665	2,911,225		3,474,528
Capital outlay	2,998,327	12,700,388				15,698,715
Total expenditures	58,267,150	13,507,671	4,670,665	3,131,225	2,705,466	82,282,177
Excess (deficiency) of revenues over expenditures	(2,185,781)	(9,392,357)	202,765	237,642	(22,119)	(11,159,850)
Other financing sources						
Sale of capital assets	11,993				2,740	14,733
Change in fund balances	(2,173,788)	(9,392,357)	202,765	237,642	(19,379)	(11,145,117)
Fund balances, beginning	7,871,833	9,708,872	873,908	585,552	940,344	19,980,509
Fund balances, ending	$ 5,698,045	$ 316,515	$ 1,076,673	$ 823,194	$ 920,965	$ 8,835,392

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, 2021

Total net changes in fund balances - governmental funds	$	(11,145,117)
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		14,205,067
Depreciation expense		(3,495,094)
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		(1,612,445)
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		4,345,000
Principal payments on capital leases		213,964
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.		48,189
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		(14,874,854)
Change in deferred outflows of resources related to OPEB		11,018,805
Change in deferred inflows of resources related to OPEB		3,276,568
Change in severance benefits		7,615
Change in compensated absences		(76,707)
Change in net pension liability		(4,075,163)
Change in deferred outflows of resources related to pensions		(9,855,557)
Change in deferred inflows of resources related to pensions		12,231,814
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.		69,442
The net loss of the internal service fund is reported in the statement of activities.		(1,425,712)
Change in net position - governmental activities	$	(815,986)

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, 2021

	Budget			Variance
	Original	Final	Actual	Over (Under)
Revenues				
Local property tax levies	$ 7,690,000	$ 8,544,826	$ 8,493,194	$ (51,632)
Other local and county revenues	1,939,000	2,323,200	2,647,082	323,882
Revenue from state sources	42,884,831	39,847,697	39,917,238	69,541
Revenue from federal sources	1,767,900	5,266,277	4,901,146	(365,131)
Sales and other conversion of assets	50,000	36,000	45,741	9,741
Interest income		10,000	7,041	(2,959)
Insurance recovery		69,000	69,927	927
Total revenues	54,331,731	56,097,000	56,081,369	(15,631)
Expenditures				
Current				
District and school administration	3,653,461	3,507,305	3,364,503	(142,802)
District support services	1,634,621	1,773,074	1,853,551	80,477
Regular instruction	23,947,652	24,804,661	25,050,314	245,653
Vocational instruction	806,760	820,875	907,596	86,721
Exceptional instruction	11,660,869	11,457,047	10,966,410	(490,637)
Instructional support services	1,428,199	3,044,609	2,963,312	(81,297)
Pupil support services	4,516,925	4,683,655	4,535,764	(147,891)
Site, buildings, and equipment	5,550,913	5,053,761	5,192,119	138,358
Fiscal and other fixed cost programs	250,000	241,000	216,652	(24,348)
Debt service				
Principal	223,000	201,000	200,964	(36)
Interest and other fiscal costs		17,700	17,638	(62)
Capital outlay	2,976,000	3,573,313	2,998,327	(574,986)
Total expenditures	56,648,400	59,178,000	58,267,150	(910,850)
Excess (deficiency) of revenues over expenditures	(2,316,669)	(3,081,000)	(2,185,781)	895,219
Other financing sources (uses)				
Sale of capital assets		15,000	11,993	(3,007)
Net change in fund balance	(2,316,669)	(3,066,000)	(2,173,788)	892,212
Fund balance, beginning	7,871,833	7,871,833	7,871,833	
Fund balance, ending	$ 5,555,164	$ 4,805,833	$ 5,698,045	$ 892,212

See accompanying notes to financial statements.

Independent School District No. 318

Proprietary Funds – Internal Service Funds - Statement of Net Position

June 30, 2021

	Postemployment Benefits Revocable Trust Fund	Health Insurance Fund	Total
Assets			
Temporary cash Investments	$	$ 1,760,466	$ 1,760,466
Investments	19,875,772		19,875,772
Total assets	$ 19,875,772	$ 1,760,466	$ 21,636,238
Liabilities			
Accounts payable	$ 155	$ 11,342	$ 11,497
Claims payable		1,005,469	1,005,469
Due to other funds	2,145,373		2,145,373
Total liabilities	2,145,528	1,016,811	3,162,339
Net position			
Restricted for OPEB obligations	17,730,244		17,730,244
Unrestricted		743,655	743,655
Total net position	17,730,244	743,655	18,473,899
Total liabilities and net position	$ 19,875,772	$ 1,760,466	$ 21,636,238

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, 2021

	Postemployment Benefits Revocable Trust Fund	Health Insurance Fund	Total
Operating revenues			
Contributions from the District and employees	$	$ 12,067,913	$ 12,067,913
Contributions from employees and retirees	299,870		299,870
Total operating revenues	299,870	12,067,913	12,367,783
Operating expenses			
Health care benefits/claims	3,401,410	14,132,550	17,533,960
Administrative costs		486,838	486,838
Total operating expenses	3,401,410	14,619,388	18,020,798
Operating loss	(3,101,540)	(2,551,475)	(5,653,015)
Nonoperating income			
Investment income	4,199,666	27,637	4,227,303
Net income (loss)	1,098,126	(2,523,838)	(1,425,712)
Net position, beginning of year	16,632,118	3,267,493	19,899,611
Net position, end of year	$ 17,730,244	$ 743,655	$ 18,473,899

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, 2021

	Postemployment Benefits Revocable Trust Fund	Health Insurance Fund	Total
Cash flows from operating activities			
Contributions from the District and employees	$	$ 12,067,913	$ 12,067,913
Receipts from retirees and employees	299,870		299,870
Payments for health care premiums	(3,401,255)	(14,193,062)	(17,594,317)
Payments for administrative costs		(486,838)	(486,838)
Net cash used in operating activities	(3,101,385)	(2,611,987)	(5,713,372)
Cash flows from noncapital financing activities			
Change in amounts due to (from) other funds	(3,414,709)		(3,414,709)
Net cash from investing activities			
Proceeds from sales and maturities of investments	17,196,898	4,023,493	21,220,391
Purchase of investments	(11,002,410)		(11,002,410)
Trustee fees paid	(55,713)	(16,290)	(72,003)
Investment income received	377,319	32,580	409,899
Net cash provided by investing activities	6,516,094	4,039,783	10,555,877
Increase in cash		1,427,796	1,427,796
Cash, beginning of year		332,670	332,670
Cash, end of year	$	$ 1,760,466	$ 1,760,466
Reconciliation of operating loss to net cash used in operating activities			
Operating income (loss)	$ (3,101,540)	$ (2,551,475)	$ (5,653,015)
Change in assets and liabilities			
Accounts payable	155	(948)	(793)
Claims payable		(59,564)	(59,564)
Net cash used in operating activities	$ (3,101,385)	$ (2,611,987)	$ (5,713,372)
Noncash investing activities			
Change in fair value of investments	$ 2,823,353	$ (4,012,146)	$ (1,188,793)

See accompanying notes to financial statements.

Independent School District No. 318

Fiduciary Funds – Statement of Fiduciary Net Position

June 30, 2021

	Custodial Fund	Custodial Fund Flex
Assets		
Cash and temporary cash investments	$ 25,900	$ 60,643
Investments	4,135	
Total assets	$ 30,035	$ 60,643
Liabilities		
Accounts payable	$ 4,950	$
Funds held for others		60,643
Total liabilities	4,950	60,643
Net position		
Held in trust	25,085	
Total liabilities and net position	$ 30,035	$ 60,643

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, 2021

		Custodial Fund
Additions		
Donations and bequests	$	34,217
Deductions		
Scholarships awarded		25,100
Pupil support services		1,800
Total deductions		26,900
Change in net position		7,317
Net position		
Beginning of year		17,768
End of year	$	25,085

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.

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:

Note 1 Summary of Significant Accounting Policies (Continued)

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 and maintenance and capital 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 Scholarships 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, 2020	State Aid Adjustment	Revenue Adjustment	(0.0%) Total Shift June 30, 2021
General Fund	$ 475,151	$	$ (14,204)	$ 460,947

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, some 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 and reduced by the District's retirement matching contribution. 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 8.

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 a minimum unassigned General Fund fund balance equal to 10-15 percent of the annual expenditures budget. At June 30, 2021, the District had not 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)

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 2, 2021, 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

Deposits

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, 2021, the District’s deposits were not exposed to custodial credit risk.

Investments

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, 2021:

	Fair Value	Maturities Less than 1 Year	Maturities 1-3 Years	Maturities Over 3 Years
Money Market Funds	$ 139,376	$ 139,376	$	$
Mutual Funds - Fixed Income	7,982,157	7,982,157		
External Investments Pools	13,665,959	13,665,959		
US Government Issues	1,227,241	1,227,241		
Negotiable CDs	2,708,160	1,642,970	1,065,190	
Total	25,722,893	$ 24,657,703	$ 1,065,190	$
Investments with no maturity:				
Mutual Funds - Equity	11,842,329			
Total	$ 37,565,222			

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	$ 13,805,335
Aaa	101,168
AA+	201,163
A-1	-
Not rated	23,457,556
Total	$ 37,565,222

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, 2021, 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, 2021:

		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	$ 1,227,241	$	$ 1,227,241	$
Mutual funds - fixed income	7,982,157	7,982,157		
Other investments				
Negotiable certificates of deposit	2,708,160		2,708,160	
Mutual funds - equity	11,842,329	11,842,329		
Total debt securities/investment by fair value level	23,759,887	$ 19,824,486	$ 3,935,401	$
Investments measured at the net asset value (NAV)				
External investment pools	13,665,959			
Other Investments				
Money market funds	139,376			
Total investments	$ 37,565,222			

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, 2021:

	Total	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pool - MSDLAF Liquid Class	$ 6,475,573	$ 0	On Demand	2 P.M. Eastern Time transaction deadline.
External Investment Pool - MSDLAF MAX Class	$ 7,190,386	$ 0	14 days, with the exception of direct investments of funds distributed by the State of Minnesota	24-hour notice
Total External Pool Investments	$ 13,665,959			

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

Deposits	$ (2,152,266)
Investments	37,565,222
Total	$ 35,412,956

Presented in the basic financial statements as follows:

Statement of Net Position	
Cash and temporary cash investments	$ 15,446,506
Investments	19,875,772
Statement of Fiduciary Net Position	
Custodial Funds	
Cash and temporary cash investments	86,543
Investments	4,135
Total cash and investments	$ 35,412,956

Note 3 **Capital Assets**

The following is a summary of capital assets:

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
Capital assets not being depreciated				
Land	$ 2,696,530	$	$	$ 2,696,530
Construction in progress	66,619,765	12,682,650	4,112,075	75,190,340
Total capital assets not being depreciated	69,316,295	12,682,650	4,112,075	77,886,870
Capital assets being depreciated				
Land improvements	4,662,009	852,245	43,065	5,471,189
Buildings	99,650,785	1,373,486	4,086,830	96,937,441
Equipment	14,131,095	3,408,761	1,060,669	16,479,187
Total capital assets being depreciated	118,443,889	5,634,492	5,190,564	118,887,817
Less accumulated depreciation				
Land improvements	2,732,795	215,986	30,391	2,918,390
Buildings	44,913,664	2,079,493	2,564,647	44,428,510
Equipment	8,861,901	1,199,615	983,081	9,078,435
Total accumulated depreciation	56,508,360	3,495,094	3,578,119	56,425,335
Total capital assets being depreciated, net	61,935,529	2,139,398	1,612,445	62,462,482
Capital assets, net	$ 131,251,824	$ 14,822,048	$ 5,724,520	$ 140,349,352

Depreciation is charged to governmental functions as follows:

District and school administration	$ 3,298
District support services	244
Regular instruction	182,928
Vocational instruction	7,326
Community education	22,710
Instructional support services	183,796
Pupil support services	741,995
Sites, buildings and equipment	77,944
Unallocated	2,274,853
Total	$ 3,495,094

Note 4 Long-Term Obligations

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

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	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.	$ 21,740,000	$	$ (4,125,000)	$ 17,615,000	$ 4,225,000
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.	4,165,000		(220,000)	3,945,000	230,000
Plus deferred amounts for net premium/discounts	5,399,073		(328,199)	5,070,874	(328,199)
Total General Obligation Bonds	96,744,073		(4,673,199)	92,070,874	4,126,801
Equipment obligation due in annual installments of $13,000, at 0 percent until 2021.	13,000		(13,000)		-
Lease purchase agreement due in annual installments of $61,458 to $117,449, at 4.68 percent interest until 2023.	336,658		(107,069)	229,589	112,139
Lease purchase agreement due in annual installments of $9,646 to $43,551, at 4.79 percent interest until 2021.	86,084		(86,084)		-
Lease purchase agreement due in monthly installments of $7,827 at 2.49 percent interest until 2020.	7,811		(7,811)		-
Compensated absences	380,544	143,584	(66,877)	457,251	37,225
Severance benefits	114,811	14,213	(21,828)	107,196	
Net pension liability	32,301,799	7,595,280	(3,520,117)	36,376,962	
Total OPEB obligation	125,543,193	19,376,523	(4,501,669)	140,418,047	
Total	$ 255,527,973	$ 27,129,600	$ (12,997,654)	$ 269,659,919	$ 4,276,165

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 $555,688, for a book value of $2,351,065 at June 30, 2021. The outstanding balance of the leases was $229,589 at June 30, 2021.

The District entered into a lease purchase agreement for the purchase of portable classrooms. The lease qualifies 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 $579,371, less accumulated depreciation of $208,573, for a book value of $370,798 at June 30, 2021. The leases was retired during 2020-21.

Annual debt service requirements for years ending June 30 are:

	General Obligation Bonds		
	Principal	Interest	Total
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	3,960,000	2,846,725	6,806,725
2027 - 2031	23,750,000	11,020,125	34,770,125
2032 - 2036	28,235,000	5,739,825	33,974,825
2037 - 2038	12,445,000	688,150	13,133,150
Total	$ 87,000,000	$ 32,991,639	$ 119,991,639

	Lease Purchase Agreements		
	Principal	Interest	Total
2022	112,139	9,448	121,587
2023	117,450	4,138	121,588
Total	$ 229,589	$ 13,586	$ 243,175

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, 2021, 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 $140,418,047 was measured as of June 30, 2021 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		2.45%	
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 RP-2014 with projected mortality improvements based on Scale MP-2018 for non-teachers and other adjustments.

Note 5 Postemployment Healthcare Plan (OPEB) (Continued)

Changes in the Total OPEB Liability

Balances at 6/30/2020	$ 125,543,193
Changes for the year:	
Service Cost	1,869,536
Interest	3,917,567
Differnce between expected and actual experience	2,187
Changes of assumptions	13,587,233
Benefit payments	(4,501,669)
Net changes	14,874,854
Balances at 6/30/2021	$ 140,418,047

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 (1.45 percent) or 1-percentage point higher (3.45 percent) than the current discount rate:

	1% Decrease 1.45%	Discount Rate 2.45%	1% Increase 3.45%
Total OPEB Liability	$ 164,481,869	$ 140,418,047	$ 121,090,082

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	$ 118,921,959	$ 140,418,047	$ 167,752,221

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, 2021 the District recognized OPEB expense of $5,083,303. 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	$ 1,875	$ 4,613,611
Changes of assumptions	14,849,235	8,146,204
Contributions subsequent to the measurement date	4,501,669	
Totals	$ 19,352,779	$ 12,759,815

The amount of $4,501,669 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, 2022. 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
2022	$ (703,800)
2023	(703,800)
2024	(703,800)
2025	699,860
2026	1,533,946
Thereafter	1,968,889
Total	$ 2,091,295

Note 6 Net Position/Fund Balance

Fund balances were nonspendable for the following purposes at June 30, 2021:

Nonspendable		
General Fund		
Prepaid expenses	$	265,976
Nonmajor Fund		
Inventory		86,631
Prepaid expenses		11,660
Total nonspendable	$	364,267

Net position and fund balances were restricted for the following purposes at June 30, 2021:

	Net Position	Fund Balances
General Fund		
Student activities	$ 142,902	$ 142,902
Achievement and integration	124,283	124,283
Area learning center	54,627	54,627
Gifted and talented	19,261	19,261
LTFM	825,547	825,547
Medical assistance	1,199,669	1,199,669
Total General Fund		2,366,289
Building Construction Fund		
Building construction	342,137	342,137
Postemployment Benefit Debt Service Fund		
Debt service	1,049,116	1,076,673
Debt Service Fund		
Debt service		440,042
LTFM		383,152
Total Debt Service Fund		823,194
Nonmajor governmental funds		
Food Service Fund	314,129	314,129
Community Service Fund		
Community education	402,674	402,674
School readiness	1,250	1,250
Community service	104,621	104,621
Total Nonmajor Funds		822,674
Total restricted	$ 4,580,216	$ 5,430,967

Note 6 Net Position/Fund Balance (Continued)

Fund balances were assigned for the following purposes at June 30, 2021:

Assigned		
General Fund		
Transportation	$	1,436,497
Grants and gifts		95,063
Total assigned	$	1,531,560

The following fund had a fund balance deficit at June 30, 2021:

Building Construction Fund		
LTFM	$	(25,622)

The deficit in LTFM 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, 2021 are as follows:

	Due from Other Funds	Due to Other Funds
General Fund	$ 2,145,373	$
Postemployment Benefits Revocable Trust Fund		2,145,373
Total	$ 2,145,373	$ 2,145,373

The interfund receivable/payable from the general fund to the postemployment benefits revocable trust fund was recorded to cover the cash deficit in the postemployment benefits revocable trust fund at year-end.

The District did not report any interfund transfers at June 30, 2021.

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.

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

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans 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, 2019, June 30, 2020, and June 30, 2021, were:

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

The following is a reconciliation of employer contributions in TRA's 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	$	425,223,000
Add employer contributions not related to future contribution efforts		(56,000)
Deduct TRA's contributions not included in allocation		(508,000)
Total employer contributions		424,659,000
Total nonemployer contributions		35,587,000
Total contributions reported in Schedule of Employer and Non-Employer pension allocations	$	460,246,000

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, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information:

Valuation Date	July 1, 2020
Experience Study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Price Inflation	2.50%
Wage growth rate	2.85% before July 1, 2028 and 3.25% 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 2020 through January 2023, then increasing by 0.1% each year up to 1.5% annually

Mortality Assumption:

Pre-retirement	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement	RP-2014 white collar annuitant table, male rates 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	RP-2014 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	35.5%	5.10%
International Stocks	17.5%	5.30%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
Unallocated cash	2%	0.00%
Total	100%	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 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 2020 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on 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, 2021, the District reported a liability of $29,840,673 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to 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 0.4039% 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	$	29,840,673
State's proportional share of net pension liability associated with the District	$	2,500,461

For the year ended June 30, 2021, the District recognized pension expense of $2,954,407. It also recognized $229,059 as an increase to pension expense for the support provided by direct aid.

At June 30, 2021, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 598,426	$ 442,946
Net difference between projected and actual earnings on plan investments	510,696	-
Changes in proportion	2,848,320	
Changes in actuarial assumptions	9,913,267	24,769,552
Contributions made to TRA subsequent to the measurement date	1,976,075	
Total	$ 15,846,784	$ 25,212,498

$1,976,075 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, 2022. 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
2022	$ 1,267,960
2023	(7,823,036)
2024	(5,602,196)
2025	691,304
2026	124,179
Total	$ (11,341,789)

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	$ 45,685,755	$ 29,840,673	$ 16,785,127

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.

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 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 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.

Note 8 Defined Benefit Pension Plans (Continued)

Benefit increases are provided to benefit recipients each January. The postretirement increase is 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. 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 2021 and 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, 2021, were $689,451. The District's contributions were equal to the required contributions as set by state statute.

4. Pension Costs

At June 30, 2021, the District reported a liability of $7,536,289 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. 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 $232,435. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, the District's proportion was 0.1257% at the end of the measurement period and 0.1186% for the beginning of the period.

For the year ended June 30, 2021, the District recognized pension expense of $669,244 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional $20,229 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million.

Note 8 Defined Benefit Pension Plans (Continued)

At June 30, 2021, 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	$ 72,643	$ 28,514
Net difference between projected and actual earnings on plan investments	152,377	-
Changes in proportion	294,407	65,546
Changes in actuarial assumptions	-	271,463
Contributions made to PERA subsequent to the measurement date	689,451	
Total	$ 1,208,878	$ 365,523

$689,451 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, 2022. 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
2022	$ (360,929)
2023	68,630
2024	264,123
2025	182,080
Total	$ 153,904

5. Actuarial Assumptions

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

Inflation	2.25% per year
Active Member Payroll Growth	3.00% per year
Investment Rate of Return	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on Pub-2010 General Employee Mortality table for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for all future years.

Note 8 Defined Benefit Pension Plans (Continued)

Actuarial assumptions used in the June 30, 2020, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The assumption changes were adopted by the Board and became effective with the July 1, 2020 actuarial valuation.

The following changes in actuarial assumptions occurred in 2020:

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

The following changes in plan provisions occurred in 2020:

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

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness 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:

Note 8 Defined Benefit Pension Plans (Continued)

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35.5%	5.10%
International Stocks	17.5%	5.30%
Bonds (Fixed Income)	20.0%	0.75%
Alternative Assets	25.0%	5.90%
Cash	2.0%	0.00%
Total	100%	

6. Discount Rate

The discount rate used to measure the total pension liability in 2020 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at 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.

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	$ 12,078,058	$ 7,536,289	$ 3,789,695

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 extended through September 30, 2021.

City of Grand Rapids
Athletic Fields - Lease commencing July 2021 through June 2022.
Civic Center - Lease commencing July 2021 through June 2022.

North Homes
Area Learning Center - Lease commencing August 2013 through July 2023.

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, 2021 was $469,209. Future minimum lease payments are as follows:

Years Ending June 30,		
2022	$	398,155
2023		301,438
2024		243,184
Total	$	942,777

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, 2021	$ 1,065,031	$ 14,056,286	$ 14,115,848	$ 1,005,469
June 30, 2020	1,030,189	11,569,696	11,534,854	1,065,031

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, 2021, the District had commitments under several construction contracts for future work in the elementary schools in the amount of $197,461, and several construction contracts for future work for roof and fire alarm replacement at the Grand Rapids High School and Bigfork Schools in the amount of $1,123,051, which will be paid from the Building Construction Fund and General Fund.

Required Supplementary Information

Independent School District No. 318

Information about the District's Other Postemployment Health Care Plan

Year Ended June 30, 2021

Schedule of Changes in Net OPEB Liability and Related Ratios

	2021	2020	2019	2018
Total OPEB Liability				
Service Cost	$ 1,869,536	$ 2,088,191	$ 2,039,175	$ 2,355,184
Interest	3,917,567	4,527,425	4,482,108	4,020,675
Differences between expected and actual experience	2,187	(6,451,703)		
Changes of assumptions	13,587,233	4,471,411	(3,344,599)	(13,771,004)
Benefit payments	(4,501,669)	(4,141,846)	(3,979,422)	(4,183,169)
Net change in total OPEB liability	14,874,854	493,478	(802,738)	(11,578,314)
Total OPEB Liability - beginning of year	125,543,193	125,049,715	125,852,453	137,430,767
Total OPEB liability - end of year	$ 140,418,047	$ 125,543,193	$ 125,049,715	$ 125,852,453
Covered payroll	29,033,034	31,721,000	31,316,240	27,651,000
Total OPEB liability as a percentage of covered payroll	483.6%	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, 2021

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, 2020	0.4039%	$29,840,673	$ 2,500,461	$32,341,134	$23,473,384	127.1%	75.5%
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, 2020	0.1257%	$7,536,289	$ 232,435	$7,768,724	$8,963,540	84.1%	79.1%
June 30, 2019	0.1186%	$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%

Independent School District No. 318

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

Year Ended June 30, 2021

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, 2021	$1,976,075	$1,976,075	$0	$24,309,248	8.13%
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, 2021	$689,451	$689,451	$0	$9,198,537	7.50%
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%

Supplementary Financial Information

Independent School District No. 318

Nonmajor Governmental Funds – Combining Balance Sheet

June 30, 2021

	Special Revenue Funds		
	Food Service Fund	Community Service Fund	Total Nonmajor Governmental Funds
Assets			
Cash and temporary cash investments	$ 164,143	$ 437,901	$ 602,044
Accounts receivable	8,782	2	8,784
Due from other Minnesota school districts	4,827	15,237	20,064
Due from the Minnesota Department of Education	965	108,853	109,818
Due from the federal government through the Minnesota Department of Education	237,308	14,400	251,708
Prepaid expenses	11,360	300	11,660
Inventory	86,931		86,931
Total assets	$ 514,316	$ 576,693	$ 1,091,009
Liabilities			
Salaries payable	$ 88,330	$ 27,067	$ 115,397
Accounts payable	13,387	16,359	29,746
Due to other Minnesota school districts		24,628	24,628
Accrued expenses	179	94	273
Total liabilities	101,896	68,148	170,044
Fund balances			
Nonspendable	98,291		98,291
Restricted	314,129	508,545	822,674
Total fund balances	412,420	508,545	920,965
Total liabilities, deferred inflows of resources and fund balances	$ 514,316	$ 576,693	$ 1,091,009

Independent School District No. 318

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

For the Year Ended June 30, 2021

	Special Revenue Funds		Total
	Food Service Fund	Community Service Fund	Nonmajor Governmental Funds
Revenues			
Local property tax levies	$	$ 346,448	$ 346,448
Other local and county revenues	1,257	155,290	156,547
Revenue from state sources	6,878	456,736	463,614
Revenue from federal sources	1,330,447	230,594	1,561,041
Sales and other conversion of assets	155,152		155,152
Interest income	162	383	545
Total revenues	1,493,896	1,189,451	2,683,347
Expenditures			
Current			
Community education and services		1,087,651	1,087,651
Pupil support services	1,617,815		1,617,815
Total expenditures	1,617,815	1,087,651	2,705,466
Excess (deficiency) of revenues over expenditures	(123,919)	101,800	(22,119)
Other financing sources			
Sale of capital assets	1,404	1,336	2,740
Net change in fund balances	(122,515)	103,136	(19,379)
Fund balances, beginning	534,935	405,409	940,344
Fund balances, ending	$ 412,420	$ 508,545	$ 920,965

Independent School District No. 318

Fiscal Compliance Table

For the Year Ended June 30, 2021

	Audit	UFARS	Audit - UFARS
01 GENERAL FUND			
Total revenues	$56,081,369	$56,081,369	$ -
Total expenditures	58,267,150	58,267,151	(1)
Non spendable			
460 Non spendable fund balance	265,976	265,976	-
Restricted/Reserve			
401 Student activities	142902	142,902	-
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		-	-
426 $25 Taconite			-
427 Disabled accessibility			-
428 Learning and development			-
434 Area learning center	54,627	54,627	-
435 Contracted alt. programs			-
436 St. approved alt. program			-
438 Gifted & talented	19,261	19,261	-
440 Teacher development & eval		-	
441 Basic skills program		-	-
445 Career and technical programs			-
448 Achievement and integration	124,283	124,283	-
449 Safe schools levy		-	-
450 Prekindergarten			-
451 QZAB payments			-
452 OPEB liability not in trust			-
453 Unfunded sev & retirement levy			-
467 LTFM	825,547	825,547	-
472 Medical Assistance	1,199,669	1,199,669	-
Restricted			
464 Restricted fund balance			-
Committed			
418 Committed for separation			-
461 Committed fund balance			-
Assigned			
462 Assigned fund balance	1,531,560	1,531,560	-
Unassigned			
422 Unassigned fund balance	1,534,220	1,534,221	(1)
02 FOOD SERVICE			
Total revenues	1,493,896	1,493,896	-
Total expenditures	1,617,815	1,617,815	-
Non spendable			
460 Non spendable fund balance	98,291	98,291	-
Restricted			
452 OPEB liability not in trust			-
464 Restricted fund balance	314,129	314,127	2
Unassigned			
463 Unassigned fund balance			-
04 COMMUNITY SERVICE			
Total revenues	1,189,451	1,189,450	1
Total expenditures	1,087,651	1,087,651	-
Non spendable			-
460 Non spendable fund balance			-
Restricted/Reserve			
426 $25 taconite			-
431 Community education	402,674	402,674	-
432 ECFE			-
444 School readiness	1,250	1,250	-
447 Adult Basic Education			-
452 OPEB liability not in trust			-
Restricted			
464 Restricted fund balance	104,621	104,622	(1)
Unassigned			
463 Unassigned fund balance			-

	Audit	UFARS	Audit - UFARS
06 BUILDING CONSTRUCTION			
Total revenues	$ 4,115,314	$ 4,115,314	$ -
Total expenditures	13,507,671	13,507,672	(1)
Non spendable			
460 Non spendable fund balance			-
Restricted/Reserve			
407 Down payment levy			-
409 Alternative facility program			-
467 LTFM	(25,622)	(25,623)	1
Restricted			
464 Restricted fund balance	342,137	342,137	-
Unassigned			
463 Unassigned fund balance			-
			-
07 DEBT SERVICE			-
Total revenues	3,368,867	3,368,866	1
Total expenditures	3,131,225	3,131,225	-
Non spendable			
460 Non spendable fund balance			-
Restricted/Reserve			
425 Bond refundings			-
467 LTFM	383,152	383,152	-
Restricted			
464 Restricted fund balance	440,042	440,042	-
Unassigned			
463 Unassigned fund balance			-
18 CUSTODIAL FUND			
Total revenues	34,217	34,217	-
Total expenditures	26,900	26,900	-
401 Student activities	233	233	-
402 Scholarships	24,852	24,852	-
20 INTERNAL SERVICE			
Total revenues	12,095,550	12,095,549	1
Total expenditures	14,619,388	14,619,388	-
422 Net position	743,655	743,655	-
25 OPEB REVOCABLE TRUST FUND			
Total revenues	4,499,536	4,499,535	1
Total expenditures	3,401,410	3,401,410	-
422 Net position	17,730,244	17,730,244	-
45 OPEB IRREVOCABLE TRUST FUND			
Total revenues			-
Total expenditures			-
422 Net position			-
47 OPEB DEBT SERVICE FUND			
Total revenues	4,873,430	4,873,430	-
Total expenditures	4,670,665	4,670,665	-
Non spendable			-
460 Non spendable fund balance			
Restricted			
425 Bond refundings			-
464 Restricted fund balance	1,076,673	1,076,673	-
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, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal AL Number	Expenditures
U.S. Department of Agriculture		
Passed-through Minnesota Department of Education:		
Child Nutrition Cluster		
School Breakfast Program	10.553	$ 173
Non-Cash Assistance (Commodities)	10.555	99,976
National School Lunch Program	10.555	33,209
After School Snack Program	10.555	425
Commodities Cash Rebate Program	10.555	2,551
Total 10.555		136,161
Summer Food Service Program for Children	10.559	1,175,847
Total Child Nutrition Cluster		1,312,181
Child and Adult Care Food Program	10.558	12,092
Passed-through Itasca County:		
Schools and Roads, Grants to States	10.665	86,012
Total U.S. Department of Agriculture		1,410,285
U.S. Department of Treasury		
Passed-through Minnesota Department of Revenue:		
COVID-19 Coronavirus Relief Fund	21.019	1,048,590
Passed-through Itasca County:		
COVID-19 Coronavirus Relief Fund	21.019	103,112
Total COVID-19 Coronavirus Relief Fund		1,151,702
Passed-through Minnesota Department of Revenue:		
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	14,400
Total U.S. Department of Treasury		1,166,102
U.S. Department of Education		
Direct Program		
Indian Education, Grants to Local Education Agencies	84.060	87,368
Passed-through Minnesota Department of Education:		
Title I, Part A	84.010	832,225
Special Education Infants and Toddlers Program	84.181	49,988
Title II, Part A	84.367	124,480
Special Education Cluster		
IDEA, Part B	84.027	861,181
IDEA, Part B Preschool Grant for Children with Disabilities	84.173	23,166
Total Special Education Cluster		884,347
Student Support and Academic Enrichment Program	84.424	64,471
COVID-19 Governor's Emergency Education Relief Fund	84.425C	108,593
COVID -19 Elementary and Secondary School Relief Fund	84.425D	1,254,292
Total COVID-19 ESSER and GEER		1,362,885
Twenty-First Century Community Learning Centers	84.287	215,400
Passed-through Itasca Area Schools Collaborative		
Carl Perkins Vocational and Applied Technology	84.048	25,990
Total U.S. Department of Education		3,647,154
U.S. Department of Health and Human Services		
Passed-through Minnesota Department of Health and Human Services:		
Drug Free Community Support Programs	93.276	27,182
Prevention and Treatment of Substance Abuse	93.959	211,461
Total U.S. Department of Health and Human Services		238,643
Total expenditures of federal awards		$ 6,462,184

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, 2021

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, 2021. 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 AL numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

Note 4 **Subrecipients**

The District passed through $194,892 to subrecipients for AL# 84.287 and $211,641 for AL# 93.959 for the year ended June 30, 2021.

WIPFLI

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, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 2, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control that we consider to be a significant deficiency, which is described in the accompanying schedule of findings and responses as item 2021-001.

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 2, 2021
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, 2021. 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, 2021.

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 2, 2021
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, 2021, and the related notes to the financial statements, which comprise the District's basic financial statements, and have issued our report thereon dated December 2, 2021.

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 2, 2021
Duluth, Minnesota

Independent School District No. 318

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

Material weakness identified?	______	Yes	______	No
Significant deficiency(s)?	X	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

AL Number	**Name of Federal Program or Cluster**
10.553, 10.555, 10.559	Child Nutrition Cluster
21.019	Coronavirus Relief Fund
84.425C, 84.425D	Elementary and Secondary Education Cluster

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 (Significant Deficiency)

Criteria - The District is responsible for ensuring all bank accounts are 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 has complex accounts that require input from several departments to reconcile.

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.

Response - The District has been striving to reconcile its bank accounts in a timely manner. Over the past year, the amount of time between the month-end and the bank reconciliation has decreased. Currently, the bank accounts are reconciled through FY22, timely.

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, 2021

Prior Year Findings:

Section II – Financial Statement Findings:

Item 2020-001 - 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 2020-21 as a significant deficiency due to improvement in timing of preparation of bank reconciliations in fiscal year 2020-21.

Section III - Federal Findings:

None.

Section IV - Minnesota Legal Compliance Findings:

None.