

**Independent School District No. 738  
Holdingford, Minnesota**

**Financial Statements**

**June 30, 2020**



**Independent School District No. 738**  
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**Independent School District No. 738**  
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**Independent School District No. 738  
Board of Education and Administration  
June 30, 2020**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Benjamin Christensen	Chairperson	December 31, 2021
Patrick Meier	Vice Chairperson	December 31, 2021
Edward Feia	Treasurer	December 31, 2021
Evelyn Martini	Clerk	December 31, 2023
Elissa Ebnet	Director	December 31, 2023
Robert Knettel	Director	December 31, 2023
Lori Opatz	Director	December 31, 2023
<u>Administration</u>		
Chris Swenson	Superintendent	
Beth Heinze	Business Manager	

## Independent Auditor's Report

To the School Board  
Independent School District No. 738  
Holdingford, 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. 738, Holdingford, Minnesota, as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District'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 District'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 in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 738, Holdingford, Minnesota, as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Implementation of GASB 84**

As discussed in Note 11 to the financial statements, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information identified in the Table of Contents is the responsibility of management and was derived from and relates directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 2020, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*BergankDV, Ltd.*

St. Cloud, Minnesota  
November 4, 2020

## **Independent School District No. 738 Management's Discussion and Analysis**

As management of Independent School District No. 738 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2020.

### **FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the District were higher than its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$3,963,063 (net position). This balance was less than the sum of the amounts *net investment in capital assets* and assets *restricted* for specific purposes, resulting in negative *unrestricted net position* of \$7,934,807 at June 30, 2020.
- The District's total net position increased by \$1,420,472.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$7,815,894 a decrease of \$4,872,220 in comparison with the prior year.
- At the end of the current fiscal year, general fund unassigned fund balance for general uses was \$2,265,852 or 20.7% of the total general fund expenditures.
- The District's total debt decreased \$941,225 in the current fiscal year.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The major features of the District's financial statements, including the portion of the District's activities they cover, and the types of information they contain, are summarized in the following table. The remainder of the overview section of the Management Discussion and Analysis highlights the structure and contents of each of the statements.

**Independent School District No. 738  
Management's Discussion and Analysis**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

	Government-Wide	Fund Financial Statements	
		Governmental Funds	Proprietary Fund
Scope	Entire District	The activities of the District that are not proprietary, such as special education and building maintenance, food service, and community education	Activities the District operates similar to private businesses: Internal Service Funds
Required financial statements	Statements of Net Position  Statement of Activities	Balance Sheet  Statement of Revenue, Expenditures, and Changes in Fund Balances	Statement of Net Position  Statement of Revenue, Expenses, and Changes in Fund Net Position  Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities both financial and capital short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial, and capital, short-term and long-term
Type of inflow/outflow information	All revenue and expenses during the year, regardless of when cash is received or paid	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenue and expenses during the year, regardless of when cash is received or paid

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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.

## **Independent School District No. 738 Management's Discussion and Analysis**

### **OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

#### **Government-Wide Financial Statements (Continued)**

The *Statement of Activities* presents information showing how the District's net position changed during the most recent 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 related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements report functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include administration, district support services, regular instruction, vocational instruction, special education instruction, community education and services, instructional support services, pupil support services, sites and buildings, fiscal and other fixed cost programs, food service, interest and other fiscal charges, and unallocated depreciation.

The government-wide financial statements start on page 16 of this report.

#### **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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and proprietary funds.

#### ***Governmental Funds***

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial 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. By doing so, readers may better understand the long-term impact by the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains three individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and building construction capital projects fund which are considered to be major funds. Data from the two nonmajor special revenue funds and the nonmajor debt service fund has been combined into a single, aggregated presentation. Individual fund data for each of these nonmajor special revenue funds and the nonmajor debt service fund is provided in the form of *combining statements* elsewhere in this report.

**Independent School District No. 738  
Management's Discussion and Analysis**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

***Governmental Funds (Continued)***

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements start on page 18 of this report.

***Proprietary Funds***

The District maintains one type of proprietary fund. *Internal Service Funds* are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses an internal service fund to account for the OPEB Revocable Trust. Because these services predominantly benefit the governmental functions, they have been included within the *governmental activities* in the government-wide financial statements.

The basic proprietary fund financial statements start on page 23 of this report.

**Notes to Financial Statements**

The notes provide additional information essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to financial statements start on page 27 of this report.

**Other Information**

The combining statements referred to earlier in connection with nonmajor governmental funds and required supplementary information are presented immediately following the notes to the financial statements. Required supplementary information and combining fund statements start on page 72 of this report.

**Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources were higher than liabilities and deferred inflows of resources by \$3,963,063 at the close of the most recent fiscal year.

A significant portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Independent School District No. 738  
Management's Discussion and Analysis**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position (Continued)**

	2020	2019	Increase (Decrease)
<b>Assets</b>			
Current and other assets	\$ 13,253,045	\$ 17,096,896	\$ (3,843,851)
Capital assets	22,390,415	16,557,203	5,833,212
Total assets	<u>35,643,460</u>	<u>33,654,099</u>	<u>1,989,361</u>
<b>Deferred Outflows of Resources</b>	<u>5,156,137</u>	<u>7,416,126</u>	<u>(2,259,989)</u>
<b>Liabilities</b>			
Current liabilities	3,514,591	2,832,743	681,848
Noncurrent liabilities	23,023,938	23,733,378	(709,440)
Total liabilities	<u>26,538,529</u>	<u>26,566,121</u>	<u>(27,592)</u>
<b>Deferred Inflows of Resources</b>	<u>10,298,005</u>	<u>11,961,513</u>	<u>(1,663,508)</u>
<b>Net Position</b>			
Net investment in capital assets	9,734,272	9,310,588	423,684
Restricted	2,163,598	1,461,543	702,055
Unrestricted	<u>(7,934,807)</u>	<u>(8,229,540)</u>	<u>294,733</u>
Total net position	<u>\$ 3,963,063</u>	<u>\$ 2,542,591</u>	<u>\$ 1,420,472</u>

An additional portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the District's ongoing obligations to citizens and creditors. The balance of unrestricted net position was negative \$7,934,807 at year end.

**Changes in Net Position**

The District's net position increased by \$1,420,472 during the most recent fiscal year.

**Independent School District No. 738  
Management's Discussion and Analysis**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**Changes in Net Position**

**Table 2**

	Governmental Activities		
	2020	2019	Increase (Decrease)
Revenues			
Program revenues			
Charges for services	\$ 581,559	\$ 720,297	\$ (138,738)
Operating grants and contributions	2,728,391	2,568,396	159,995
Capital grants and contributions	219,783	217,803	1,980
General revenues			
Property taxes	2,255,398	1,678,747	576,651
State aid not restricted to specific programs	8,419,016	7,712,082	706,934
Earnings on investments	207,674	197,651	10,023
Miscellaneous	130,290	11,519	118,771
Total revenues	<u>14,542,111</u>	<u>13,106,495</u>	<u>1,435,616</u>
Expenses			
Administration	777,011	516,083	260,928
District support services	232,411	253,251	(20,840)
Regular instruction	5,720,698	3,526,985	2,193,713
Vocational instruction	244,011	170,590	73,421
Special education instruction	1,981,978	1,366,363	615,615
Instructional support services	508,429	454,532	53,897
Pupil support services	685,750	652,230	33,520
Sites and buildings	985,447	884,369	101,078
Fiscal and other fixed costs programs	37,751	33,195	4,556
Food service	601,826	587,134	14,692
Community education and services	422,988	342,564	80,424
Interest and other fiscal charges	511,664	469,930	41,734
Unallocated depreciation	464,661	375,430	89,231
Total expenses	<u>13,174,625</u>	<u>9,632,656</u>	<u>3,541,969</u>
Change in net position	1,367,486	3,473,839	(2,106,353)
Net position - beginning, as previously stated	2,542,591	(931,248)	3,473,839
Change in accounting principle	52,986	-	52,986
Net position - beginning , as restated	<u>2,595,577</u>	<u>(931,248)</u>	<u>3,526,825</u>
Net position - ending	<u>\$ 3,963,063</u>	<u>\$ 2,542,591</u>	<u>\$ 1,420,472</u>

**Independent School District No. 738  
Management's Discussion and Analysis**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)**

**Changes in Net Position (Continued)**

- The increase in net position is a result of a 10.95% increase in revenues and a 36.77% increase in expenses during fiscal year 2020.
- Revenues increased as a result of the increase in the General Education Aid formula received due to higher student enrollment.
- Expenses increased due to this year's pension adjustment.

**Total and Net Cost of Governmental Activities**

The net cost of governmental activities is their total costs less program revenues applicable to each category. The following table presents these total and net costs.

**Total and Net Costs of Services  
Table 3**

	Total Cost of Services			Net Cost of Services		
	2020	2019	Increase (Decrease)	2020	2019	Increase (Decrease)
Administration	777,011	516,083	\$ 260,928	\$ 777,011	\$ 516,083	\$ 260,928
District support services	232,411	253,251	(20,840)	232,411	253,251	(20,840)
Regular instruction	5,720,698	3,526,985	2,193,713	4,746,244	2,509,662	2,236,582
Vocational instruction	244,011	170,590	73,421	211,930	138,515	73,415
Special education instruction	1,981,978	1,366,363	615,615	644,189	139,441	504,748
Instructional support services	508,429	454,532	53,897	508,429	454,532	53,897
Pupil support services	685,750	652,230	33,520	685,750	652,230	33,520
Sites and buildings	985,447	884,369	101,078	745,312	651,791	93,521
Fiscal and other fixed costs programs	37,751	33,195	4,556	37,751	33,195	4,556
Food service	601,826	587,134	14,692	(45,374)	(33,918)	(11,456)
Community education and services	422,988	342,564	80,424	124,914	(33,982)	158,896
Interest and other fiscal charges	511,664	469,930	41,734	511,664	469,930	41,734
Unallocated depreciation	464,661	375,430	89,231	464,661	375,430	89,231
<b>Totals</b>	<b>\$ 13,174,625</b>	<b>\$ 9,632,656</b>	<b>\$ 3,541,969</b>	<b>\$ 9,644,892</b>	<b>\$ 6,126,160</b>	<b>\$ 3,518,732</b>

A significant items to note:

- Administration, regular instruction and special education saw a large increase due to the required pension adjustment.

**Independent School District No. 738  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

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

**Governmental Funds**

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$7,815,894 a decrease of \$4,872,220 in comparison with the prior year. The following is a summary of the District's major funds:

Major Funds	Fund Balance June 30,		Increase (Decrease)
	2020	2019	
<b>General</b>	\$ 4,058,688	\$ 2,945,838	\$ 1,112,850
<b>Debt Service</b>	241,470	178,391	63,079
<b>Building Construction Capital Project</b>	3,106,901	9,121,977	(6,015,076)

The General Fund total fund balance increased by \$1,112,850. This was mainly due to conservative budgeting. The Debt Service fund balance increased \$63,079 during the year due to an increase in the property tax levy. The Building Construction capital project fund balance decrease is due to spending down bond proceeds.

**General Fund Budgetary Highlights**

The District's general fund budget was amended during the year. The revenue budget was increased by \$416,558 and the expenditures budget was increased overall by \$165,495 from original to final. The final budget called for general fund expenditures of \$11,385,339 and an increase in fund balances of \$199,339. Actual general fund balances increased by \$1,059,864.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The District's investment in capital assets for its governmental activities as of June 30, 2020, amounts to \$32,935,643 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, equipment and vehicles.

**Independent School District No. 738  
Management's Discussion and Analysis**

**CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)**

**Capital Assets (Continued)**

Major Capital asset events during the current fiscal year included the following:

- Construction in progress of \$8,465,355.

**Capital Assets Net of Depreciation  
Table 4**

	Governmental Activities		
	2020	2019	Increase (Decrease)
Land	\$ 103,023	\$ 103,023	\$ -
Construction in progress	8,465,355	2,306,125	6,159,230
Land improvements	603,668	664,090	(60,422)
Buildings and improvements	11,860,798	12,283,195	(422,397)
Equipment and vehicles	1,357,571	1,200,770	156,801
<b>Total</b>	<b>\$ 22,390,415</b>	<b>\$ 16,557,203</b>	<b>\$ 5,833,212</b>

Additional information on the District's capital assets can be found in Note 4 on pages 39- 40 of this report.

**Long-Term Debt**

A summary of long-term debt activity for the year ended June 30, 2020, follows:

**Long-Term Debt  
Table 5**

	Governmental Activities		
	2020	2019	Increase (Decrease)
G.O. Taxable OPEB Bonds	\$ -	\$ 315,000	\$ (315,000)
G.O. Alternative Facilities Bonds	1,890,000	2,060,000	(170,000)
G.O. Taxable Capital Facilities Bonds	810,000	970,000	(160,000)
G.O. Facilities Maintenance Bonds	1,440,000	1,540,000	(100,000)
G.O Building Bonds	10,695,000	10,695,000	-
Unamortized premium	762,631	833,757	(71,126)
Capital leases	165,413	269,835	(104,422)
Compensated absences payable	63,631	84,308	(20,677)
<b>Total</b>	<b>\$ 15,826,675</b>	<b>\$ 16,767,900</b>	<b>\$ (941,225)</b>

The District's total debt decreased \$941,225 from the prior year due to payoff of debt. Additional information on the District's long-term debt can be found in Note 5 on pages 40-42 of this report.

**Independent School District No. 738  
Management's Discussion and Analysis**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District's appointed and elected officials considered many factors when setting the fiscal year 2021 budget. These factors included the following:

- Enrollments based on prior year due to the uncertain impact of the Covid-19 pandemic.
- Budgets include normal inflationary increases in expenditures.
- The district will wrap up construction on six new elementary classrooms and a new secure high school entrance and commons along with other deferred maintenance projects.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If you have questions about this report or need additional financial information, please contact the Business Manager, Beth Heinze, Independent School District No. 738, P.O. Box 250, 900 5<sup>th</sup> Street, Holdingford, MN 56340.

## **BASIC FINANCIAL STATEMENTS**

**Independent School District No. 738**  
**Statement of Net Position**  
**June 30, 2020**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments	\$ 10,322,837
Current property taxes receivable	1,313,607
Delinquent property taxes receivable	22,410
Interest receivable	41,575
Due from Department of Education	1,262,134
Due from Federal Government through Department of Education	214,537
Due from other Minnesota school districts	58,116
Inventory	17,829
Capital assets not being depreciated	
Land	103,023
Construction in progress	8,465,355
Capital assets, net of accumulated depreciation	
Land improvements	1,457,248
Buildings and improvements	19,611,417
Equipment and vehicles	3,298,600
Less accumulated depreciation	<u>(10,545,228)</u>
Total assets	<u>35,643,460</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to pensions	4,904,620
Deferred outflows of resources related to OPEB	<u>251,517</u>
Total deferred outflows of resources	<u>5,156,137</u>
 Total assets and deferred outflows of resources	 <u>\$ 40,799,597</u>
<b>Liabilities</b>	
Accounts payable	\$ 1,549,297
Salaries and benefits payable	898,482
Interest payable	232,740
Unearned revenue	42,613
Bond payable, net premium	
Payable within one year	700,000
Payable after one year	14,897,631
Capital lease payable	
Payable within one year	53,280
Payable after one year	112,133
Compensated absences payable	
Payable within one year	38,179
Payable after one year	25,452
Total other post employment benefits obligation	1,611,055
Net pension liability	<u>6,377,667</u>
Total liabilities	<u>26,538,529</u>
<b>Deferred Inflows of Resources</b>	
Property taxes levied for subsequent year's expenditures	2,529,814
Deferred inflows of resources related to pensions	<u>7,768,191</u>
Total deferred inflows of resources	<u>10,298,005</u>
<b>Net Position</b>	
Net investment in capital assets	9,734,272
Restricted for	
Debt service	24,774
Other purposes	2,163,598
Unrestricted	<u>(7,959,581)</u>
Total net position	<u>3,963,063</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 40,799,597</u>

See notes to financial statements.

**Independent School District No. 738**  
**Statement of Activities**  
**Year Ended June 30, 2020**

Functions/Programs	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions		
Governmental activities					
Administration	\$ 777,011	\$ -	\$ -	\$ -	\$ (777,011)
District support services	232,411	-	-	-	(232,411)
Elementary and secondary regular instruction	5,720,698	67,110	782,668	-	(4,870,920)
Vocational education instruction	244,011	1,192	30,889	-	(211,930)
Special education instruction	1,981,978	59,848	1,277,941	-	(644,189)
Instructional support services	508,429	-	150,650	-	(357,779)
Pupil support services	685,750	-	-	-	(685,750)
Sites and buildings	985,447	20,352	-	219,783	(745,312)
Fiscal and other fixed cost programs	37,751	-	-	-	(37,751)
Food service	601,826	217,773	429,427	-	45,374
Community education and services	422,988	215,284	82,790	-	(124,914)
Unallocated depreciation	464,661	-	-	-	(464,661)
Interest and fiscal charges on long-term debt	511,664	-	-	-	(511,664)
<b>Total governmental activities</b>	<b>\$ 13,174,625</b>	<b>\$ 581,559</b>	<b>\$ 2,754,365</b>	<b>\$ 219,783</b>	<b>(9,618,918)</b>
General revenues					
Taxes					
Property taxes, levied for general purposes					1,268,661
Property taxes, levied for community service					68,181
Property taxes, levied for debt service					918,556
State aid-formula grants					8,419,016
Other general revenues					103,984
Investment income					207,674
Gain on sale of capital assets					332
Total general revenues					<u>10,986,404</u>
Change in net position					1,367,486
Net position - beginning					2,542,591
Change in accounting principle (Note 11)					<u>52,986</u>
Net position - beginning, as restated					<u>2,595,577</u>
Net position - ending					<u>\$ 3,963,063</u>

**Independent School District No. 738**  
**Balance Sheet - Governmental Funds**  
**June 30, 2020**

	General	Debt Service	Building Construction	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments	\$ 4,269,980	\$ 639,654	\$ 4,475,904	\$ 542,764	\$ 9,928,302
Current property taxes receivable	727,393	559,640	-	26,574	1,313,607
Delinquent property taxes receivable	11,727	10,013	-	670	22,410
Interest receivable	41	1,634	39,900	-	41,575
Due from Department of Education	1,210,310	42,103	-	9,721	1,262,134
Due from Federal Government through Department of Education	214,537	-	-	-	214,537
Due from other Minnesota school districts	58,116	-	-	-	58,116
Due from other funds	-	-	-	15,864	15,864
Inventory	-	-	-	17,829	17,829
<b>Total assets</b>	<b>\$ 6,492,104</b>	<b>\$ 1,253,044</b>	<b>\$ 4,515,804</b>	<b>\$ 613,422</b>	<b>\$ 12,874,374</b>
<b>Liabilities</b>					
Accounts payable	\$ 94,563	\$ -	\$ 1,408,903	\$ 45,831	\$ 1,549,297
Salaries and benefits payable	846,671	-	-	51,811	898,482
Due to other funds	15,864	-	-	-	15,864
Unearned revenue	43	-	-	42,570	42,613
<b>Total liabilities</b>	<b>957,141</b>	<b>-</b>	<b>1,408,903</b>	<b>140,212</b>	<b>2,506,256</b>
<b>Deferred Inflows of Resources</b>					
Property taxes levied for subsequent year's expenditures	1,464,548	1,001,561	-	63,705	2,529,814
Unavailable revenue - delinquent property taxes	11,727	10,013	-	670	22,410
<b>Total deferred inflows of resources</b>	<b>1,476,275</b>	<b>1,011,574</b>	<b>-</b>	<b>64,375</b>	<b>2,552,224</b>
<b>Fund Balances</b>					
Nonspendable	-	-	-	17,829	17,829
Restricted	1,702,008	241,470	3,106,901	443,091	5,493,470
Assigned	90,828	-	-	-	90,828
Unassigned	2,265,852	-	-	(52,085)	2,213,767
<b>Total fund balances</b>	<b>4,058,688</b>	<b>241,470</b>	<b>3,106,901</b>	<b>408,835</b>	<b>7,815,894</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 6,492,104</b>	<b>\$ 1,253,044</b>	<b>\$ 4,515,804</b>	<b>\$ 613,422</b>	<b>\$ 12,874,374</b>

**Independent School District No. 738  
Reconciliation of the Balance Sheet to  
the Statement of Net Position - Governmental Funds  
June 30, 2020**

Total fund balances - governmental funds	\$ 7,815,894
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	32,935,643
Less accumulated depreciation	(10,545,228)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable	(14,835,000)
Net premium on bonds payable	(762,631)
Capital lease payable	(165,413)
Compensated absences payable	(63,631)
Total OPEB liability	(1,611,055)
Net pension liability	(6,377,667)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions and OPEB that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	4,904,620
Deferred inflows of resources related to pensions	(7,768,191)
Deferred outflows of resources related to OPEB	251,517
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
	22,410
The OPEB Revocable Trust Internal Service Fund is used by management to charge the costs of other post employment benefits. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Position.	
	394,535
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	
	<u>(232,740)</u>
Total net position - governmental activities	<u><u>\$ 3,963,063</u></u>

**Independent School District No. 738**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2020**

	General	Debt Service	Building Construction	Nonmajor Funds	Total Governmental Funds
<b>Revenues</b>					
Local property taxes	\$ 1,268,945	\$ 596,281	\$ -	\$ 390,157	\$ 2,255,383
Other local and county revenues	417,634	3,578	144,154	236,558	801,924
Revenue from state sources	10,096,170	411,489	-	156,300	10,663,959
Revenue from federal sources	216,182	-	-	366,479	582,661
Sales and other conversion of assets	24,088	-	-	217,773	241,861
Total revenues	<u>12,023,019</u>	<u>1,011,348</u>	<u>144,154</u>	<u>1,367,267</u>	<u>14,545,788</u>
<b>Expenditures</b>					
<b>Current</b>					
Administration	745,096	-	-	-	745,096
District support services	229,328	-	-	-	229,328
Elementary and secondary regular instruction	5,348,597	-	-	-	5,348,597
Vocational education instruction	234,286	-	-	-	234,286
Special education instruction	1,873,229	-	-	-	1,873,229
Instructional support services	526,985	-	-	-	526,985
Pupil support services	614,505	-	-	-	614,505
Sites and buildings	947,631	-	1,652,965	-	2,600,596
Fiscal and other fixed cost programs	37,751	-	-	-	37,751
Food service	-	-	-	586,784	586,784
Community education and services	-	-	-	410,989	410,989
<b>Capital outlay</b>					
Elementary and secondary regular instruction	23,698	-	-	-	23,698
Special education instruction	17,937	-	-	-	17,937
Instructional support services	131,321	-	-	-	131,321
Pupil support services	20,758	-	-	-	20,758
Sites and buildings	67,185	-	4,506,265	-	4,573,450
Food service	-	-	-	38,427	38,427
<b>Debt service</b>					
Principal	104,422	430,000	-	315,000	849,422
Interest and fiscal charges	4,169	590,415	-	15,751	610,335
Total expenditures	<u>10,926,898</u>	<u>1,020,415</u>	<u>6,159,230</u>	<u>1,366,951</u>	<u>19,473,494</u>
Excess of revenues over (under) expenditures	1,096,121	(9,067)	(6,015,076)	316	(4,927,706)
<b>Other Financing Sources (Uses)</b>					
Proceeds from sale of capital assets	2,500	-	-	-	2,500
Transfers in	-	72,146	-	38,757	110,903
Transfers out	(38,757)	-	-	(72,146)	(110,903)
Total other financing sources (uses)	<u>(36,257)</u>	<u>72,146</u>	<u>-</u>	<u>(33,389)</u>	<u>2,500</u>
Net change in fund balances	1,059,864	63,079	(6,015,076)	(33,073)	(4,925,206)
<b>Fund Balances</b>					
Beginning of year	2,945,838	178,391	9,121,977	441,908	12,688,114
Change in accounting principle (Note 11)	52,986	-	-	-	52,986
Beginning balance, restated	<u>2,998,824</u>	<u>178,391</u>	<u>9,121,977</u>	<u>441,908</u>	<u>12,741,100</u>
End of year	<u>\$ 4,058,688</u>	<u>\$ 241,470</u>	<u>\$ 3,106,901</u>	<u>\$ 408,835</u>	<u>\$ 7,815,894</u>

**Independent School District No. 738**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances to**  
**the Statement of Activities - Governmental Funds**  
**Year Ended June 30, 2020**

Net change in fund balances - total governmental funds \$ (4,925,206)

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlays	6,478,797
Depreciation expense	(643,417)
Disposal of capital assets	(2,168)

Compensated absences amounts are reported as expenditures in the governmental funds when they are paid. They are expensed, as incurred in the Statement of Activities.

20,677

Governmental funds recognize OPEB contributions as expenditures at the time of payment in the funds, whereas the Statement of Activities factors in items related to OPEB on a full accrual perspective.

19,396

Governmental funds recognize pension contributions as expenditures at the time of payment in the funds whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.

(537,332)

Principal payments on long-term bonds and leases are recognized as expenditures in the governmental funds but have no effect on the net position in the Statement of Activities.

849,422

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 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.

27,545

Governmental funds report the effect of bond discounts and premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

71,126

The OPEB revocable trust internal service fund is used by management to charge the costs of other post employment benefits. The increase in net position is reported within the governmental activities column in the Statement of Activities.

8,631

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.

15

Change in net position - governmental activities

\$ 1,367,486

**Independent School District No. 738**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 1,296,252	\$ 1,255,596	\$ 1,268,945	\$ 13,349
Other local and county revenues	227,000	321,906	417,634	95,728
Revenue from state sources	9,510,709	9,838,496	10,096,170	257,674
Revenue from federal sources	168,000	185,069	216,182	31,113
Sales and other conversion of assets	2,416	19,868	24,088	4,220
Total revenues	<u>11,204,377</u>	<u>11,620,935</u>	<u>12,023,019</u>	<u>402,084</u>
<b>Expenditures</b>				
Current				
Administration	785,789	774,026	745,096	(28,930)
District support services	291,166	264,501	229,328	(35,173)
Elementary and secondary regular instruction	5,453,960	5,326,032	5,348,597	22,565
Vocational education instruction	220,811	267,717	234,286	(33,431)
Special education instruction	1,721,802	1,907,004	1,873,229	(33,775)
Instructional support services	380,267	615,998	526,985	(89,013)
Pupil support services	668,986	705,278	614,505	(90,773)
Sites and buildings	1,124,817	1,091,834	947,631	(144,203)
Fiscal and other fixed cost programs	31,083	38,100	37,751	(349)
Capital outlay				
District support services	1,785	1,785	-	(1,785)
Elementary and secondary regular instruction	33,815	33,815	23,698	(10,117)
Special education instruction	56,959	14,000	17,937	3,937
Instructional support services	235,645	132,000	131,321	(679)
Pupil support services	25,000	25,000	20,758	(4,242)
Sites and buildings	76,700	76,700	67,185	(9,515)
Debt service				
Principal	106,860	106,860	104,422	(2,438)
Interest and fiscal charges	4,399	4,689	4,169	(520)
Total expenditures	<u>11,219,844</u>	<u>11,385,339</u>	<u>10,926,898</u>	<u>(458,441)</u>
Excess of revenues over (under) expenditures	(15,467)	235,596	1,096,121	860,525
<b>Other Financing Sources (Uses)</b>				
Proceeds from sale of capital assets	-	2,500	2,500	-
Transfers out	-	(38,757)	(38,757)	-
Total other financing sources (uses)	<u>-</u>	<u>(36,257)</u>	<u>(36,257)</u>	<u>-</u>
Net change in fund balances	<u>\$ (15,467)</u>	<u>\$ 199,339</u>	<u>1,059,864</u>	<u>\$ 860,525</u>
<b>Fund Balances</b>				
Beginning of year			2,945,838	
Change in accounting principle (Note 11)			52,986	
Beginning balance, restated			<u>2,998,824</u>	
End of year			<u>\$ 4,058,688</u>	

**Independent School District No. 738**  
**Statement of Net Position - Proprietary Fund**  
**June 30, 2020**

	Governmental Activities - Internal Service Fund
<b>Assets</b>	
Cash and cash equivalents	<u>\$ 394,535</u>
<b>Net position</b>	
Unrestricted	<u>\$ 394,535</u>

**Independent School District No. 738**  
**Statement of Revenues, Expenses, and Changes**  
**in Fund Net Position - Proprietary Fund**  
**Year Ended June 30, 2020**

	Governmental Activities - Internal Service Fund
<b>Operating Expense</b>	
Employee benefits	\$ 250
Operating loss	(250)
<b>Nonoperating Revenue</b>	
Investment Income	8,881
Change in net position	8,631
<b>Net Position</b>	
Beginning of year	385,904
End of year	\$ 394,535

**Independent School District No. 738**  
**Statement of Cash Flows - Proprietary Fund**  
**Year Ended June 30, 2020**

	Governmental Activities - Internal Service Fund
<b>Cash Flows - Operating Activities</b>	
Employee benefits paid	\$ (250)
<b>Cash Flows - Investing Activities</b>	
Interest received	<u>8,881</u>
Net change in cash and cash equivalents	8,631
<b>Cash and Cash Equivalents</b>	
Beginning of year	<u>385,904</u>
End of year	<u><u>\$ 394,535</u></u>
<b>Reconciliation of Operating Loss to Net Cash Flows - Operating Activities</b>	
Operating loss	<u>\$ (250)</u>
Net cash flows - operating activities	<u><u>\$ (250)</u></u>

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**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a seven member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

**A. Reporting Entity**

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

As of July 1, 2019, the student activity accounts of the District have been taken under board control and will no longer be reported separately.

**B. Basic Financial Statement Information**

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.

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

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basic Financial Statement Information (Continued)**

Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available.

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

**C. 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 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. 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 to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

**2. Recording of Expenditures**

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

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 revenues of the Internal Service Fund would be employee and District contributions. Operating expenses for proprietary funds include claims paid and administrative expenses. All revenues and expenses not meeting the above definition are reported as nonoperating revenues and expenses.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (Continued)**

**2. Recording of Expenditures (Continued)**

**Description of Funds:**

Major Funds:

General Fund – This fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bond principal, interest, and related costs.

Building Construction Fund – This fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

Nonmajor Funds:

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education, and other similar services.

OPEB Debt Service Fund – This fund is used to account for the financial resources relating to the bond issued for post-employment benefits.

Proprietary Fund:

OPEB Revocable Trust Internal Service Fund – This fund is used to account for a revocable trust fund, the purpose of which is to fund postemployment benefits (other than pension benefits) accrued by the employees of the District to be paid as they come due. The fund accounts for these assets held in trust.

**D. Deposits and Investments**

**District Governmental Funds**

Cash and investments at June 30, 2020, were comprised of deposits, shares in the Minnesota School District Liquid Asset Fund (MSDLAF) and shares in Minnesota Trust (MNTrust) Investment Shares Portfolio, MNTrust Term Series and MNTrust Limited Term Duration.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**District Governmental Funds (Continued)**

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the School Board.

*Minnesota Statutes* requires all deposits be protected by federal depository insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments held by investment pools are measured at amortized cost.

*Minnesota Statutes* authorizes the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days.

In accordance with GASB Statement No. 79, the various MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF Liquid Class or MNTrust Investment Shares Portfolio. Investments in the MSDLAF MAX must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption. MNTrust Limited Term Duration requires 30-day advance notice for withdrawals.

**Other Post Employment Benefits Deposits and Investments**

These funds represent deposits and investments administered by the District's OPEB Fund Investment Managers. As of June 30, 2020, they were comprised of MNTrust Investment Shares Portfolio and a certificate of deposit.

**Construction Bond Fund Deposits and Investments**

These funds represent deposits and investments related to the G.O. School Building Bonds, Series 2019A. As of June 30, 2020, they were comprised of MNTrust Investment Shares Portfolio and certificates of deposit.

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and investments.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**E. Property Tax Receivable**

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represents uncollected taxes for the past six years, and are unavailable and included in the Deferred Inflows of Resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

**F. Property Taxes Levied for Subsequent Year's Expenditures**

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2019, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2020. The remaining portion of the levy will be recognized when measurable and available.

**G. Inventory**

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

**H. Property Taxes**

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Stearns and Morrison Counties are the collecting agency for the levy and remit the collections to the District three times a year. The Tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

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

**I. Capital Assets**

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at its acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**I. Capital Assets (Continued)**

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and improvements and 3 to 20 years for equipment and vehicles.

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

**J. 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 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) until that time. The District has two items that qualify for reporting in this category. A deferred outflow relating to pensions and a deferred outflow of resources related to OPEB are reported in the government-wide Statement of Net Position. A deferred outflows of resources related to pensions and OPEB are recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. The third item is a deferred inflows of resources related to pensions. This amount is recorded on the government-wide Statement of Net Position for various estimate differences that will be amortized and recognized over future years.

**K. 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 Statement of Net Position. Bond premiums are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium or discount.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Long-Term Obligations (Continued)**

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs during the current period. The face amount of debt issued, premium, and discount are reported as other financing sources (uses), and principal payments are reported as expenditures when paid. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**L. Compensated Absences**

The District permits some employees to accumulate varying amounts of vacation pay as determined by their contract. All vacation is accrued in the government-wide financial statements, and is included in compensated absences payable.

**M. Pensions**

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

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

**N. Severance**

District employees are entitled to sick leave at various rates. Employees are not compensated for unused sick leave upon termination of employment, however, unused sick leave does enter into the calculation of an employee's severance pay upon termination as described below.

Teachers who leave employment after reaching 55 years of age and have ten years of uninterrupted service are entitled to severance. Severance is calculated at a base rate of \$15,000, less total accumulated employer contributions to employee's 403(b) plan.

Severance that is earned and unused as of June 30, 2020, is shown as a compensated absence liability in the Statement of Net Position.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**O. Fund Equity**

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor the constraints on the specific purpose for which amounts in these funds can be spent. If resources from more than one fund balance classification could be spent, the school will follow the approved District plan for each of the areas. If there is no plan, the District will strive to spend resources from fund balance classifications in the following order: restricted, committed, assigned, and unassigned.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include items that are inherently unspendable, such as, but not limited to, inventory, prepaid items, long-term receivables, nonfinancial assets held for resale, or the permanent principal of endowment funds.
- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.
- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the School Board (highest level of decision making authority) through resolution.
- Assigned Fund Balance – These are amounts that are constrained by the District's intent to be used for specific purposes but do not meet the criteria of restricted or committed. Assignments are made by the Business Manager.
- Unassigned Fund Balance – This is the amount that is the residual in the General Fund not reported in any other classification. The unassigned amount in the General Fund is technically available for expenditure for any purpose. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.
- Minimum Fund Balance Policy – The District will strive to maintain a minimum unassigned General Fund balance of 10% of annual budgeted General Fund expenditures.

**P. 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 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 statement when there are limitations on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Q. Use of Estimates**

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

**R. Budgetary Information**

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service, Building Construction Fund and OPEB Debt Service Funds.
4. Budgets for the General, Special Revenue, Debt Service, Building Construction Fund and OPEB Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the School Board.

Custodial Credit Risk – Deposits: For a deposit, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy that requires the District's deposits to be collateralized as required by *Minnesota Statutes* 118.03 for an amount exceeding FDIC, SAIF, BIF, FCUA, or other federal deposit coverage. As of June 30, 2020, the District's bank balance was not exposed to custodial credit risk because it was fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

**1. District Governmental Funds Pooled**

As of June 30, 2020, the District had the following deposits:

Checking	<u>\$ 787,559</u>
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**Independent School District No. 738  
Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**A. Deposits (Continued)**

**2. OPEB Revocable Trust Fund Not Pooled**

As of June 30, 2020, the District's OPEB Revocable Trust Fund had the following deposits:

Certificate of deposit	<u>\$ 184,867</u>
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**3. Construction Bond Fund Not Pooled**

As of June 30, 2020, the District's Construction Bond Fund had the following deposits:

Certificates of deposit	<u>\$ 1,501,800</u>
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**B. Investments**

**1. District Governmental Funds Pooled**

As of June 30, 2020, the District's governmental funds had the following investments:

Type	Fair Value	Ratings (S&P)
MSDLAF Liquid Class	\$ 459	AAA
MSDLAF MAX Class	22,860	AAA
MN Trust Investment Shares Portfolio	2,796,307	AAA
MN Trust Limited Term Duration	258,314	AAA
MN Trust Term Series	<u>1,500,000</u>	AAA
Total	<u>\$ 4,577,940</u>	

**2. OPEB Revocable Trust Fund Not Pooled**

As of June 30, 2020, the District's OPEB Revocable Trust Fund had the following investments:

Type	Fair Value	Ratings (S&P)
MN Trust Investment Shares Portfolio	<u>\$ 209,668</u>	AAA

**3. Construction Bond Fund Not Pooled**

As of June 30, 2020, the District's Construction Bond Fund had the following investments:

Type	Fair Value	Ratings (S&P)
MN Trust Investment Shares Portfolio	<u>\$ 3,061,003</u>	AAA

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**B. Investments (Continued)**

Credit Risk: This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District's investment policy refers to *Minnesota Statutes* 118A.01 through 118A.06. Statutes limit investments in the top two ratings issued by nationally recognized statistical rating organizations. Ratings are indicated above and in the charts above.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of the District's investment in a single issuer. The District's investment policy indicates the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. The District's investment policy places no specific limits on the amount the District may invest in any one issuer.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy states all investment securities purchased shall be held in third party safekeeping by an institution designated as custodial agent.

Interest Rate Risk: This is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District's investment policy states the portfolio shall be managed in a manner to attain a market rate of return through budgetary and economic cycles while preserving and protecting capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

**C. Deposits and Investments**

The following is a summary of total deposits and investments:

District governmental funds	
Deposits	\$ 787,559
Investments	4,577,940
OPEB Revocable Trust Fund	
Deposits	184,867
Investments	209,668
Construction Bond Fund	
Deposits	1,501,800
Investments	<u>3,061,003</u>
 Total deposits and investments	 <u><u>\$ 10,322,837</u></u>

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**C. Deposits and Investments (Continued)**

Deposits and investments are presented in the June 30, 2020, basic financial statements as shown on the below.

Statement of Net Position	
Cash and investments	<u><u>\$ 10,322,837</u></u>

**NOTE 3 – INTERFUND ACTIVITY**

**A. Due to/from Other Funds**

As of June 30, 2020, the following amounts were due to/due from other funds:

	Due to Other Funds General Fund
<u>Due From Other Funds</u>	<u>General Fund</u>
Community Service	<u><u>\$ 15,864</u></u>

The amount due to the Community Service Fund from the General Fund is to cover services provided but not yet paid.

**B. Transfers**

The General Fund transferred \$28,032 to the Community Service Fund to cover the loss of tuition in the School Age Care Program due to COVID-19. The General Fund transferred an additional \$10,725 to the Community Service Fund to cover the loss of tuition in the School Readiness Program due to COVID-19. The District made a transfer to the Debt Service Fund of \$72,146 to close out the OPEB Debt Service Fund.

<u>Transferred Out</u>	<u>Transferred In</u>	<u>Amount</u>
General Fund	Community Service	\$ 38,757
OPEB Debt Service	Debt Service	<u>72,146</u>
Total		<u><u>\$ 110,903</u></u>

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 4 – CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 103,023	\$ -	\$ -	\$ 103,023
Construction in progress	2,306,125	6,159,230	-	8,465,355
Total capital assets not depreciated	<u>2,409,148</u>	<u>6,159,230</u>	<u>-</u>	<u>8,568,378</u>
Capital assets being depreciated				
Land improvements	1,457,248	-	-	1,457,248
Buildings and improvements	19,611,417	-	-	19,611,417
Equipment and vehicles	2,986,754	319,567	7,721	3,298,600
Total capital assets being depreciated	<u>24,055,419</u>	<u>319,567</u>	<u>7,721</u>	<u>24,367,265</u>
Less accumulated depreciation for				
Land improvements	793,158	60,422	-	853,580
Buildings and improvements	7,328,222	422,397	-	7,750,619
Equipment and vehicles	1,785,984	160,598	5,553	1,941,029
Total accumulated depreciation	<u>9,907,364</u>	<u>643,417</u>	<u>5,553</u>	<u>10,545,228</u>
Total capital assets being depreciated, net	<u>14,148,055</u>	<u>(323,850)</u>	<u>2,168</u>	<u>13,822,037</u>
Governmental activities, capital assets, net	<u>\$ 16,557,203</u>	<u>\$ 5,835,380</u>	<u>\$ 2,168</u>	<u>\$ 22,390,415</u>

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 4 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense for the year ended June 30, 2020, was charged to the following functions:

Elementary and secondary regular instruction	\$ 26,751
Vocational education instruction	431
Special education instruction	6,953
Instructional support services	39,281
Pupil support services	61,391
Sites and buildings	35,344
Food service	8,605
Unallocated	464,661
Total depreciation expense	\$ 643,417

**NOTE 5 – LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds						
2010A G.O. Capital Facilities Bonds	12/01/11	0.96%	\$ 2,375,000	12/15/24	\$ 810,000	\$ 160,000
2016A G.O. Facilities Mainenance Bonds, Series 2016A	10/19/16	3.00%	1,725,000	02/01/32	1,440,000	100,000
2018A G.O. Alternative Facilities Refunding Bonds, Series 2018A	11/06/18	5.00%	2,060,000	02/01/24	1,890,000	440,000
2019A G.O. School Building Bonds, Series 2019A	02/07/19	3.00%-5.00%	10,695,000	02/01/39	10,695,000	-
Total G.O. Bonds					14,835,000	700,000
Unamortized net premium on bonds					762,631	-
Total G.O. Bonds, net of premium					15,597,631	700,000
Capital leases					165,413	53,280
Severance					63,631	38,179
Total all long-term liabilities					\$ 15,826,675	\$ 791,459

The long-term bond and loan liabilities listed above were issued to finance acquisition and construction of capital facilities, to refinance (refund) previous bond issues. The Debt Service Fund is responsible for the payment of bond principal and interest. The General Fund liquidates the remaining long-term liabilities.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

**B. Minimum Debt Payments for Bonds**

Minimum annual principal and interest payments required to retire bond liabilities:

Year Ending June 30,	G.O. Bonds	
	Principal	Interest
2021	\$ 700,000	\$ 550,333
2022	725,000	523,797
2023	755,000	496,111
2024	780,000	467,001
2025	785,000	436,867
2026-2030	3,665,000	1,711,025
2031-2035	4,000,000	936,468
2036-2039	3,425,000	296,257
Total	<u>\$ 14,835,000</u>	<u>\$ 5,417,859</u>

**C. Changes in Long-Term Liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	\$ 15,580,000	\$ -	\$ 745,000	\$ 14,835,000
Unamortized net premium on bonds	833,757	-	71,126	762,631
Capital leases	269,835	-	104,422	165,413
Compensated Absences and Severance	84,308	43,644	64,321	63,631
Total long-term liabilities	<u>\$ 16,767,900</u>	<u>\$ 43,644</u>	<u>\$ 984,869</u>	<u>\$ 15,826,675</u>

**D. Capital Lease Obligations**

On April 30, 2015, the District entered into a lease purchase agreement for the acquisition of technology equipment. The capital lease obligation and the corresponding equipment totaled \$230,000. The capital lease agreement includes quarterly principal and interest payments of \$12,254 for July 2015 through April, 2020. Assets valued at \$123,166 were capitalized in relation to this capital lease. All other assets acquired were under the District's capitalization threshold and therefore were not capitalized.

On March 14, 2016, the District entered into a lease purchase agreement for the acquisition of a bus. The capital lease obligation and corresponding equipment totaled \$90,330. The capital lease agreement included annual principal and interest payments of \$19,204, for July 15, 2016 through July 15, 2020.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 5 – LONG-TERM DEBT (CONTINUED)**

**D. Capital Lease Obligations (Continued)**

On February 27, 2019, the District entered into a lease purchase agreement for the acquisition of two buses. The capital lease obligation and corresponding equipment totaled \$184,640. The capital lease agreement included annual principal and interest payments of \$40,370, for July 15, 2019 through July 15, 2023.

The remaining assets acquired with the capital leases were as follows:

Carrying value	\$ 572,838
Less accumulated depreciation	(282,909)
	\$ 289,929
Assets net of depreciation	\$ 289,929

The future minimum lease obligations and the net present value of these minimum lease payments were as follows:

Year Ending June 30,	
2021	\$ 59,573
2022	40,370
2023	40,370
2024	40,370
Total minimum lease payments	180,683
Less amount representing interest	(15,270)
	\$ 165,413
Present value of minimum lease payments	\$ 165,413

**NOTE 6 – FUND BALANCES/NET POSITION**

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities or as required by other outside parties.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)**

**A. Fund Balances**

Fund balances are classified as listed below to reflect the limitations and restrictions of the respective funds.

	<u>General Fund</u>	<u>Debt Service</u>	<u>Building Construction</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable for Inventory	\$ -	\$ -	\$ -	\$ 17,829	\$ 17,829
Restricted/reserved for					
Student Activities	48,249	-	-	-	48,249
Operating Capital	472,397	-	-	-	472,397
Long Term Facilities Maintenance	831,617	-	-	-	831,617
Staff Development	203,420	-	-	-	203,420
Playground	20,000	-	-	-	20,000
Safe Schools levy	41,975	-	-	-	41,975
Medical Assistance	84,350	-	-	-	84,350
Debt Service	-	241,470	-	-	241,470
Building Construction	-	-	3,106,901	-	3,106,901
Food Service	-	-	-	320,587	320,587
Early Childhood and Family Education	-	-	-	69,584	69,584
School Readiness	-	-	-	52,920	52,920
Total restricted	<u>1,702,008</u>	<u>241,470</u>	<u>3,106,901</u>	<u>443,091</u>	<u>5,493,470</u>
Assigned for					
District Activity Accounts	<u>90,828</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>90,828</u>
Unassigned	<u>2,265,852</u>	<u>-</u>	<u>-</u>	<u>(52,085)</u>	<u>2,213,767</u>
Total fund balance	<u>\$ 4,058,688</u>	<u>\$ 241,470</u>	<u>\$ 3,106,901</u>	<u>\$ 408,835</u>	<u>\$ 7,815,894</u>

Nonspendable for Inventory – This balance represents the portion of fund balance that is not available as amounts have already been spent on inventory.

Restricted/Reserved for Student Activities – This balance represents available resources to be used for the extracurricular activity funds raised by the students.

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* 123B.595, subd. 12).

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)**

**A. Fund Balances (Continued)**

Restricted/Reserved for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were restricted/reserved for staff development related to Finance Code 316. Expenditures for staff development must equal at least 2% of the basic general education revenue, unless legal stipulations are met (*Minnesota Statutes* 122A.61, subdivision 1).

Restricted/Reserved for Playground – This balance represents unspent donations received for future playground improvements.

Restricted/Reserved for Safe Schools Levy – The unspent resources available from the safe schools levy must be restricted in this account for future use.

Restricted/Reserved for Medical Assistance – This balance represents available resources to be used for medical assistance expenditures (*Minnesota Statutes* 125A.21, subd. 3).

Restricted for Debt Service – This balance represents the resources available for the payment of bond principal, interest, and related costs.

Restricted for Building Construction – This balance represents resources available to provide for the District's school building and capital project.

Restricted for Food Service – This balance represents the accumulation of the activity to provide the food service program.

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes* 124D.16).

Assigned for District Activity Accounts – This balance represents resources that have been assigned for district activities under board control.

**B. Net Position**

Net Position restricted for other purposes on the Statement of Net Position is comprised of the total positive restricted fund balances of the General, Food Service, and Community Service funds adjusted to full accrual.

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

The District participates in various pension plans. Total pension expense for the year ended June 30, 2020, was \$1,077,464. The components of pension expense are noted in the following plan summaries.

**Independent School District No. 738  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

The General Fund typically liquidates the Liability related to the pensions.

**Teachers' Retirement Association**

**A. 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 are required to be TRA members (except those teachers employed by St. Paul Schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Define Contribution Plan (DCR) administered by the State of Minnesota.

**B. Benefits Provided**

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

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

*Tier I Benefits*

Tier 1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2% per year
	First ten years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are up to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

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

**Independent School District No. 738  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

*Tier II Benefits*

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

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

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

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

**C. Contribution Rate**

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

	<u>June 30, 2018</u>		<u>June 30, 2019</u>		<u>June 30, 2020</u>	
	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>	<u>Employee</u>	<u>Employer</u>
Basic	11.0%	11.5%	11.0%	11.71%	11.0%	11.92%
Coordinated	7.5%	7.5%	7.5%	7.71%	7.5%	7.92%

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

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**C. Contribution Rate (Continued)**

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

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

**Independent School District No. 738  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions**

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

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**Actuarial Information**

Valuation date	July 1, 2019
Experience study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028, and 3.25% thereafter
Projected salary increase	2.85% to 8.85% before July 1, 2028, and 3.25% to 9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 2.1% each year up to 1.5% annually.

**Mortality Assumption**

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

**Independent School District No. 738  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions (Continued)**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	35.5 %	5.10 %
International equity	17.5	5.30
Private markets	25.0	5.90
Fixed income	20.0	0.75
Unallocated cash	2.0	0.00
Total	<u>100 %</u>	

The TRA actuary has determined the average of the expected remaining services lives of all members for fiscal year 2016 is six years. The "Difference Between Expected and Actual Experience," "Changes of Assumptions," and "Changes in Proportion" use the amortization period of six 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 five years as required by GASB 68.

Changes in actuarial assumptions since the 2018 valuation:

- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions (Continued)**

- 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 was 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.

**E. Discount Rate**

The discount rate used to measure the total pension liability was 7.5%. There was no change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2019 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

**F. Net Pension Liability**

On June 30, 2020, the District reported a liability of \$5,067,347 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.0795% at the end of the measurement period and 0.0789% for the beginning of the year.

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

District's proportionate share of net pension liability	\$ 5,067,347
State's proportionate share of the net pension liability associated with the District	448,261

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**F. Net Pension Liability (Continued)**

For the year ended June 30, 2020, the District recognized pension expense of \$919,722. It also recognized \$34,073 as an increase to this pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 747	\$ 123,646
Net difference between projected and actual earnings on plan investments	-	420,098
Changes of assumptions	4,298,255	6,695,248
Changes in proportion	55,257	233,736
Contributions to TRA subsequent to the measurement date	372,236	-
Total	\$ 4,726,495	\$ 7,472,728

\$372,236 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2021	\$ 261,829
2022	(58,954)
2023	(1,938,610)
2024	(1,379,622)
2025	(3,112)
Total	\$ (3,118,469)

**Independent School District No. 738  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**G. Pension Liability Sensitivity**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.5%) and 1 percent higher (8.5%) than the current rate.

District proportionate share of NPL		
1% decrease (6.5%)	Current (7.5%)	1% increase (8.5%)
\$ 8,078,590	\$ 5,067,347	\$ 2,584,621

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.

**H. Pension Plan Fiduciary Net Position**

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

**Public Employees' Retirement Association**

**A. Plan Description**

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

**General Employees Retirement Plan**

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.

**B. 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.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. 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 annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% 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.

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50% of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1.0% and a maximum of 1.5%. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

**C. Contributions**

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2020 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, 2020, were \$130,778. The District's contributions were equal to the required contributions as set by state statute.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs**

General Employees Fund Pension Costs

At June 30, 2020, the District reported a liability of \$1,310,320 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$40,665. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the District's proportionate share was 0.0237% at the end of the measurement period and 0.0247% for the beginning of the period.

School's proportionate share of net pension liability	\$ 1,310,320
State of Minnesota's proportionate share of the net pension liability associated with the School	40,665
Total	\$ 1,350,985

For the year ended June 30, 2020, the District recognized pension expense of \$157,742 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized \$3,045 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

At June 30, 2020, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 37,198	\$ -
Changes in actuarial assumptions	-	106,733
Difference between projected and actual investments earnings	-	140,739
Change in proportion	10,149	47,991
Contributions paid to PERA subsequent to the measurement date	130,778	-
Total	\$ 178,125	\$ 295,463

The \$130,778 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2021	\$ (81,524)
2022	(127,446)
2023	(41,257)
2024	2,111
Total	\$ (248,116)

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions**

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

Inflation	2.50% Per year
Active member payroll growth	3.25% Per year
Investment rate of return	7.50%

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

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

The following changes in actuarial assumptions occurred in 2019:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

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

**Independent School District No. 738  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions (Continued)**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	35.5%	5.10 %
Private markets	25%	5.90
Fixed income	20%	0.75
International equity	17.5%	5.90
Cash equivalents	2%	0.00
Total	100%	

**F. Discount Rates**

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

**G. Pension Liability Sensitivity**

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	\$ 2,154,095	\$ 1,310,320	\$ 613,616

**Independent School District No. 738  
Notes to Financial Statements**

**NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**H. Pension Plan Fiduciary Net Position**

Detailed information about the General Employees Fund's fiduciary net position is available in a separately-issued PERA financial report that includes the financial statements and required supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN**

**A. Plan Description**

The District's defined benefit OPEB plan provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical coverage. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees. No assets are accumulated in a trust.

**B. Benefits Paid**

Teachers hired before July 1, 2011, who apply for early retirement shall remain eligible to receive certain health insurance benefits toward single medical insurance to the earlier of five years or Medicare eligibility. One retired principal is receiving full single coverage of a Medicare Supplement Plan, benefits to continue for nine years. The General Fund, Food Service Fund and Community Service Fund typically liquidate the Liability related to OPEB.

**C. Members**

As of July 1, 2019, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	11
Active employees	154
	<hr/>
Total	165
	<hr/> <hr/>

**D. Contributions**

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2020, the District contributed \$165,798 to the plan.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**E. Actuarial Assumptions**

The total OPEB liability was determined by an actuarial valuation as of July 1, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

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Salary increases	Rates vary by service and contract group
Inflation	2.50%
Healthcare cost trend increases	6.50% initially, decreasing gradually to an ultimate rate of 5.0% over six years
Mortality Assumption	Pub-2010 Public Retirement Plans Headcount - Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale

The actuarial assumptions used in the July 1, 2019, valuation were based on the results of an actuarial experience study for the period July 1, 2018 – July 1, 2019.

The discount rate used to measure the total OPEB liability was 3.1% based on the 20- Year Municipal Bond Yield.

The following changes in actuarial assumptions occurred in 2020:

Changes in Actuarial Assumptions:

- The medical increase rates, mortality tables, salary scale and retiree election percentage assumption for Teachers were updated. The discount rate changed from 3.4% to 3.1%.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**F. Total OPEB Liability**

The District's total OPEB liability of \$1,611,055 was measured as of July 1, 2019, and was determined by an actuarial valuation as of that date.

Changes in the total OPEB liability are as follows:

	<u>Total OPEB Liability</u>
Balances at July 1, 2018	\$ 1,539,571
Changes for the year	
Service cost	79,766
Interest	52,349
Assumption changes	25,668
Differences between expected and actual economic experience	74,338
Benefit payments	<u>(160,637)</u>
Net changes	<u>71,484</u>
Balances at July 1, 2019	<u><u>\$ 1,611,055</u></u>

**G. OPEB Liability Sensitivity**

The following presents the District's total OPEB liability calculated using the discount rate of 3.1% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	<u>1% decrease (2.1%)</u>	<u>Current (3.1%)</u>	<u>1% increase (4.1%)</u>
Total OPEB liability (asset)	\$ 1,692,625	\$ 1,611,055	\$ 1,531,456

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% lower and 1% higher than the current healthcare cost trend rates.

	<u>1% decrease (5.5% decreasing to 4.0%)</u>	<u>Current (6.5% decreasing to 5.0%)</u>	<u>1% increase (7.5% decreasing to 6.0%)</u>
Total OPEB liability (asset)	\$ 1,495,643	\$ 1,611,055	\$ 1,746,970

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**G. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2020, the District recognized OPEB expense of \$146,402. At June 30, 2020, 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
Liability Losses	\$ 63,718	\$ -
Changes of assumptions	22,001	-
Contributions made subsequent to the measurement date	165,798	-
Total	\$ 251,517	\$ -

\$165,798 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Remaining deferred outflows of resources will be recognized as follows:

Fiscal Year Ending June 30,			
2021		\$	14,287
2022			14,287
2023			14,287
2024			14,287
2025			14,287
Thereafter			14,284
Total		\$	85,719

**NOTE 9 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2020.

**Independent School District No. 738**  
**Notes to Financial Statements**

**NOTE 10 – COMMITMENTS**

	Contract Amount	Expensed as of June 30, 2020	Total Commitment
Breitbach Construction	\$ 4,822,035	\$ 4,159,359	\$ 662,676
Kramer Trucking & Excavation	1,003,900	-	1,003,900
McDowall Company	308,373	306,964	1,409
Breitbach Construction - secure entrance	146,665	-	146,665
Marco Sound System	43,018	-	43,018
ICS	343,584	285,138	58,446
Total	<u>\$ 6,667,575</u>	<u>\$ 4,751,461</u>	<u>\$ 1,916,114</u>

**NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE**

For the year ended June 30, 2020, the District implemented GASB Statement No 84, Fiduciary Activities. As a result, the District moved student activity accounts in the amount of \$52,986 to the general fund and the governmental activities.

**NOTE 12 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending June 30, 2022.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Independent School District No. 738**  
**Schedule of Changes in Total OPEB Liability**  
**and Related Ratios**

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Total OPEB Liability			
Service cost	\$ 79,766	\$ 70,180	\$ 68,136
Interest	52,349	53,752	56,620
Differenced between expected and actual experience	74,338	-	-
Changes of assumptions	25,668	-	-
Benefit payments	<u>(160,637)</u>	<u>(188,644)</u>	<u>(233,315)</u>
Net change in total OPEB Liability	<u>71,484</u>	<u>(64,712)</u>	<u>(108,559)</u>
Beginning of year	<u>1,539,571</u>	<u>1,604,283</u>	<u>1,712,842</u>
End of year	<u>\$ 1,611,055</u>	<u>\$ 1,539,571</u>	<u>\$ 1,604,283</u>
Covered payroll	\$ 5,958,335	\$ 5,752,811	\$ 5,585,253
Total OPEB Liability as a percentage of covered-employee payroll	27.04%	26.76%	28.72%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Independent School District No. 738**  
**Schedule of District's and Non-Employer Proportionate Share**  
**(if Applicable) of Net Pension Liability**  
**Last Ten Years General Employees Retirement Fund**

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0257%	\$ 1,207,257	\$ -	\$ -	\$ 1,347,917	89.6%	78.75%
2015	0.0243%	1,259,352	-	-	1,407,347	89.5%	78.19%
2016	0.0244%	1,981,159	25,855	2,007,014	1,513,347	130.9%	68.91%
2017	0.0249%	1,589,600	19,992	1,609,592	1,604,413	99.1%	75.90%
2018	0.0247%	1,370,255	44,929	1,415,184	1,659,987	82.5%	79.53%
2019	0.0237%	1,310,320	40,665	1,350,985	1,677,147	78.1%	80.23%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of District's and Non-Employer Proportionate Share**  
**(if Applicable) of Net Pension Liability**  
**Last Ten Years TRA Retirement Funds**

For Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0870%	\$ 4,008,897	\$ 281,959	\$ 4,290,856	\$ 3,973,286	100.9%	81.50%
2015	0.0824%	5,097,255	625,179	5,722,434	4,183,840	121.8%	76.77%
2016	0.0801%	19,105,761	1,916,851	21,022,612	4,165,867	458.6%	44.88%
2017	0.0803%	16,029,337	1,550,167	17,579,504	4,323,427	370.8%	51.57%
2018	0.0789%	4,955,659	465,530	5,421,189	4,359,800	113.7%	78.07%
2019	0.0795%	5,067,347	448,261	5,515,608	4,512,620	112.3%	78.21%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Independent School District No. 738  
Schedule of District Contributions  
General Employees Retirement Fund  
Last Ten Years**

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2014	\$ 97,724	\$ 97,724	\$ -	\$ 1,347,917	7.25%
2015	105,551	105,551	-	1,407,347	7.50%
2016	113,501	113,501	-	1,513,347	7.50%
2017	120,331	120,331	-	1,604,413	7.50%
2018	124,499	124,499	-	1,659,987	7.50%
2019	125,786	125,786	-	1,677,147	7.50%
2020	130,778	130,778	-	1,743,707	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of District Contributions  
TRA Retirement Fund  
Last Ten Years**

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
2014	\$ 278,130	\$ 278,130	\$ -	\$ 3,973,286	7.00%
2015	313,788	313,788	-	4,183,840	7.50%
2016	312,440	312,440	-	4,165,867	7.50%
2017	324,257	324,257	-	4,323,427	7.50%
2018	326,985	326,985	-	4,359,800	7.50%
2019	347,923	347,923	-	4,512,620	7.71%
2020	372,236	372,236	-	4,699,949	7.92%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Independent School District No. 738**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund**

**2019 Changes**

Changes in Actuarial Assumptions

- None

**2018 Changes**

Changes in Actuarial Assumptions

- The discount rate was increased to 7.5% from 5.12%.
- 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% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 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 was 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.

**2017 Changes**

Changes in Actuarial Assumptions

- The discount rate was increased to 5.12% from 4.66%.
- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.

**Independent School District No. 738**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund (Continued)**

**2017 Changes (Continued)**

- 
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

**2016 Changes**

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the 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.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

**2015 Changes**

Changes of Benefit Terms

- The DTRFA was merged into TRA on June 30, 2015.

Changes in Actuarial Assumptions

- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

**Independent School District No. 738**  
**Notes to the Required Supplementary Information**

**General Employees Fund**

**2019 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2018 Changes**

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

**2017 Changes**

Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.

**Independent School District No. 738**  
**Notes to the Required Supplementary Information**

**General Employees Fund (Continued)**

**2017 Changes (Continued)**

Changes in Plan Provisions (Continued)

- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The State's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

**2016 Changes**

Changes in Actuarial Assumptions

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

**2015 Changes**

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

**Other Post Employment Benefits**

**2020 Changes**

Changes in Actuarial Assumptions

- The medical increase rates, mortality tables, salary scale and retiree election percentage assumption for Teachers were updated. The discount rate changed from 3.4% to 3.1%.

**SUPPLEMENTARY INFORMATION**

**Independent School District No. 738**  
**Combining Balance Sheet -**  
**Nonmajor Governmental Funds**  
**June 30, 2020**

	Special Revenue		Total Nonmajor Funds
	Food Service	Community Service	
<b>Assets</b>			
Cash and investments	\$ 380,811	\$ 161,953	\$ 542,764
Current property taxes receivable	-	26,574	26,574
Delinquent property taxes receivable	-	670	670
Due from Department of Education	-	9,721	9,721
Due from other funds	-	15,864	15,864
Inventory	17,829	-	17,829
	<u>17,829</u>	<u>-</u>	<u>17,829</u>
Total assets	<u>\$ 398,640</u>	<u>\$ 214,782</u>	<u>\$ 613,422</u>
<b>Liabilities</b>			
Accounts payable	\$ 25,519	\$ 20,312	\$ 45,831
Salaries and benefits payable	44	51,767	51,811
Unearned revenue	34,661	7,909	42,570
Total liabilities	<u>60,224</u>	<u>79,988</u>	<u>140,212</u>
<b>Deferred Inflows of Resources</b>			
Property taxes levied for subsequent year's expenditures	-	63,705	63,705
Unavailable revenue - delinquent property taxes	-	670	670
Total deferred inflows of resources	<u>-</u>	<u>64,375</u>	<u>64,375</u>
<b>Fund Balances</b>			
Nonspendable	17,829	-	17,829
Restricted	320,587	122,504	443,091
Unassigned	-	(52,085)	(52,085)
Total fund balances	<u>338,416</u>	<u>70,419</u>	<u>408,835</u>
	<u>338,416</u>	<u>70,419</u>	<u>408,835</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 398,640</u>	<u>\$ 214,782</u>	<u>\$ 613,422</u>

**Independent School District No. 738**  
**Combining Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances -**  
**Nonmajor Governmental Funds**  
**Year Ended June 30, 2020**

	Special Revenue		Debt Service	Total Nonmajor Funds
	Food Service	Community Service	OPEB Debt Service Fund	
<b>Revenues</b>				
Local property taxes	\$ -	\$ 68,221	\$ 321,936	\$ 390,157
Other local and county revenues	12,564	221,574	2,420	236,558
Revenue from state sources	54,448	85,947	15,905	156,300
Revenue from federal sources	366,479	-	-	366,479
Sales and other conversion of assets	217,773	-	-	217,773
Total revenues	<u>651,264</u>	<u>375,742</u>	<u>340,261</u>	<u>1,367,267</u>
<b>Expenditures</b>				
Current				
Food service	586,784	-	-	586,784
Community education and services	-	410,989	-	410,989
Capital outlay				
Food service	38,427	-	-	38,427
Debt service				
Principal	-	-	315,000	315,000
Interest and fiscal charges	-	-	15,751	15,751
Total expenditures	<u>625,211</u>	<u>410,989</u>	<u>330,751</u>	<u>1,366,951</u>
	26,053	(35,247)	9,510	316
Transfers in	-	38,757	-	38,757
Transfers out	-	-	(72,146)	(72,146)
Total other financing uses	<u>-</u>	<u>38,757</u>	<u>(72,146)</u>	<u>(33,389)</u>
Net change in fund balances	26,053	3,510	(62,636)	(33,073)
<b>Fund Balances</b>				
Beginning of year	<u>312,363</u>	<u>66,909</u>	<u>62,636</u>	<u>441,908</u>
End of year	<u>\$ 338,416</u>	<u>\$ 70,419</u>	<u>\$ -</u>	<u>\$ 408,835</u>

**Independent School District No. 738**  
**Uniform Financial Accounting and Reporting Standards**  
**Compliance Table**  
**Year Ended June 30, 2020**

	Audited	UFARS	Audit-UFARS		Audited	UFARS	Audit-UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION FUND</b>			
Total revenue	\$ 12,023,019	\$ 12,023,021	\$ (2)	Total revenue	\$ 144,154	\$ 144,154	\$ -
Total expenditures	10,926,898	10,926,901	(3)	Total expenditures	6,159,230	6,159,231	(1)
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
4.60 Nonspendable fund balance	-	-	-	4.60 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
4.01 Student Activities	48,249	48,248	1	4.07 Capital Projects Levy	-	-	-
4.03 Staff Development	203,420	203,420	-	4.13 Building Projects funded by COP/LP	-	-	-
4.07 Capital Projects Levy	-	-	-	<i>Restricted:</i>			
4.08 Cooperative Programs	-	-	-	4.64 Restricted fund balance	3,106,901	3,106,900	1
4.09 Alternative Facility Program	-	-	-	4.67 Long-Term Facilities Maintenance	-	-	-
4.13 Building Projects Funded by COP/LP	-	-	-	<i>Unassigned:</i>			
4.14 Operating Debt	-	-	-	4.63 Unassigned fund balance	-	-	-
4.16 Levy Reduction	-	-	-	<b>07 DEBT SERVICE FUND</b>			
4.19 Encumbrances	-	-	-	Total revenue	\$ 1,011,348	\$ 1,011,349	\$ (1)
4.24 Operating Capital	472,397	472,397	-	Total expenditures	1,020,415	1,020,416	(1)
4.26 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
4.27 Disabled Accessibility	-	-	-	4.60 Nonspendable fund balance	-	-	-
4.28 Learning and Development	-	-	-	<i>Restricted/reserved:</i>			
4.34 Area Learning Center	-	-	-	4.25 Bond refundings	-	-	-
4.35 Contracted Alternative Programs	-	-	-	4.33 Maximum effort loan aid	-	-	-
4.36 State Approved Alternative Program	-	-	-	4.51 QZAB payments	-	-	-
4.38 Gifted and Talented	-	-	-	<i>Restricted:</i>			
4.40 Teacher Development and Evaluation	-	-	-	4.64 Restricted fund balance	241,470	241,471	(1)
4.41 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
4.48 Achievement and Integration Revenue	-	-	-	4.63 Unassigned fund balance	-	-	-
4.49 Safe School Crime	41,975	41,975	-	<b>08 TRUST FUND</b>			
4.51 QZAB Payments	-	-	-	Total revenue	\$ -	\$ -	\$ -
4.52 OPEB Liabilities not Held in Trust	-	-	-	Total expenditures	-	-	-
4.53 Unfunded Severance and Retirement Levy	-	-	-	<i>Unassigned:</i>			
4.59 Basic Skills Extended Time	-	-	-	4.22 Net position	-	-	-
4.67 Long-term Facilities Maintenance	831,617	831,617	-	<b>20 INTERNAL SERVICE FUND</b>			
4.72 Medical Assistance	84,350	84,350	-	Total revenue	\$ -	\$ -	\$ -
4.72 Title VII - Impact Aid	-	-	-	Total expenditures	-	-	-
4.76 Payments in Lieu of Taxes	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				4.22 Net position	-	-	-
4.64 Restricted fund balance	20,000	20,000	-	<b>25 OPEB REVOCABLE TRUST</b>			
<i>Committed:</i>				Total revenue	\$ 8,881	\$ 8,881	\$ -
4.18 Committed for separation	-	-	-	Total expenditures	250	250	-
4.61 Committed	-	-	-	<i>Unassigned:</i>			
<i>Assigned:</i>				4.22 Net position	394,535	394,535	-
4.62 Assigned fund balance	90,828	90,828	-	<b>45 OPEB IRREVOCABLE TRUST</b>			
<i>Unassigned:</i>				Total revenue	\$ -	\$ -	\$ -
4.22 Unassigned fund balance (net position)	\$ 2,265,852	\$ 2,265,853	\$ (1)	Total expenditures	-	-	-
<b>02 FOOD SERVICES FUND</b>				<i>Unassigned:</i>			
Total revenue	651,264	651,264	-	4.22 Net position	-	-	-
Total expenditures	625,211	625,211	-	<b>47 OPEB DEBT SERVICE</b>			
<i>Nonspendable:</i>				Total revenue	\$ 340,261	\$ 340,261	\$ -
4.60 Nonspendable fund balance	17,829	17,829	-	Total expenditures	330,751	330,750	1
<i>Restricted/reserved:</i>				<i>Nonspendable:</i>			
4.52 OPEB liabilities not held in trust	-	-	-	4.60 Nonspendable fund balance	-	-	-
<i>Restricted:</i>				<i>Restricted:</i>			
4.64 Restricted fund balance	320,587	320,586	1	4.25 Bond refundings	-	-	-
<i>Unassigned:</i>				4.64 Restricted fund balance	-	-	-
4.63 Unassigned fund balance	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
<b>04 COMMUNITY SERVICE FUND</b>				4.63 Unassigned fund balance	-	-	-
Total revenue	375,742	375,741	1	<b>02 FOOD SERVICES FUND</b>			
Total expenditures	410,989	410,990	(1)	Total revenue	651,264	651,264	-
<i>Nonspendable:</i>				Total expenditures	625,211	625,211	-
4.60 Nonspendable fund balance	-	-	-	<i>Nonspendable:</i>			
<i>Restricted/reserved:</i>				4.60 Nonspendable fund balance	17,829	17,829	-
4.26 \$25 Taconite	-	-	-	<i>Restricted/reserved:</i>			
4.31 Community Education	(52,085)	(52,085)	-	4.52 OPEB liabilities not held in trust	-	-	-
4.32 ECFE	69,584	69,584	-	<i>Restricted:</i>			
4.40 Teacher Development and Evaluation	-	-	-	4.64 Restricted fund balance	320,587	320,586	1
4.44 School Readiness	52,920	52,920	-	<i>Unassigned:</i>			
4.47 Adult Basic Education	-	-	-	4.63 Unassigned fund balance	\$ -	\$ -	\$ -
4.52 OPEB Liabilities not Held in Trust	-	-	-	<b>04 COMMUNITY SERVICE FUND</b>			
<i>Restricted:</i>				Total revenue	375,742	375,741	1
4.64 Restricted fund balance	-	-	-	Total expenditures	410,989	410,990	(1)
<i>Unassigned:</i>				<i>Nonspendable:</i>			
4.63 Unassigned fund balance	-	-	-	4.60 Nonspendable fund balance	-	-	-

**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***

**Independent Auditor's Report**

To the School Board  
Independent School District No. 738  
Holdingford, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 738, Holdingford, Minnesota, as of and for the year ending June 30, 2020, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 4, 2020.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the 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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Corrective Action Plans on Internal Control that we consider to be a material weakness, Audit Finding 2020-001.

### **Compliance and Other Matters**

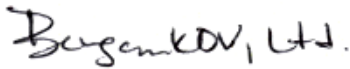
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **District's Response to the Findings**

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control. 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



St. Cloud, Minnesota  
November 4, 2020

**Minnesota Legal Compliance**

**Independent Auditor's Report**

To the School Board  
Independent School District No. 738  
Holdingford, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 738, Holdingford, Minnesota, as of and for the year ended June 30, 2020, and the related notes to financial statements, and have issued our report thereon dated November 4, 2020.

The *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the State Auditor pursuant to *Minnesota Statutes* § 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* except as described in the Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control. 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 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.

*BergankDV, Ltd.*

St. Cloud, Minnesota  
November 4, 2020

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**Independent School District No. 738**  
**Schedule of Findings and Corrective Action Plans on**  
**Legal Compliance and Internal Control**

**CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING**

**Audit Finding 2020-001 – Lack of Segregation of Accounting Duties**

During the year ended June 30, 2020, the District had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Business Manager prepares all journal entries without anyone reviewing them.
- The Business Manager processes received invoices for payment, has access to the electronic signatures, and completes the monthly bank reconciliations. The bank reconciliations are not reviewed by anyone else.
- The Business Office Assistant processes payroll and prints related checks or direct deposit notices.
- The Business Manager adds and disposes assets, calculates depreciation, and maintains the master listing of capital assets.
- The District does not require purchase orders or approval beyond the Board for disbursements for food service and maintenance work.

Management is aware of this condition and will take certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct.

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The District reviews and makes improvements to its internal controls on an ongoing basis and attempts to maximize the segregation of duties in all areas within the limits of the staff available.
3. Official Responsible for Ensuring CAP  
Chris Swenson, Superintendent, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is ongoing.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

**Independent School District No. 738**  
**Schedule of Findings and Corrective Action Plans on**  
**Legal Compliance and Internal Control**

**PRIOR YEAR INTERNAL CONTROL FINDING**

**Audit Finding 2019-002 – Material Audit Adjustment**

In fiscal year 2019, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's financial statements.

In order to ensure financial statements were free from material misstatement, audit adjustments were required to properly adjust debt and lease transactions.

**CORRECTIVE ACTION PLAN TAKEN:**

The District did not have a material audit adjustment in fiscal year 2020.

**Independent School District No. 738**  
**Schedule of Findings and Corrective Action Plans on**  
**Legal Compliance and Internal Control**

**CURRENT YEAR LEGAL COMPLIANCE FINDING**

**Prompt Payment to Subcontractors Verbiage**

Per Minnesota Statutes 471.425 subd. 4a, each contract between the government entity and a prime contractor must require the prime contractor to pay subcontractors within 10 days of receipt of payment from the government entity or pay interest at the rate of 1.5% per month.

During 2020 the District entered into contracts for its construction project; however, contracts did not contain the payment verbiage as required in Minnesota Statutes 471.425 subd. 4a.

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The District will obtain proper contract verbiage for contracts entered in to ending June 30, 2021.
3. Official Responsible for Ensuring CAP  
Chris Swenson, Superintendent, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is June 30, 2021.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.