

**INDEPENDENT SCHOOL DISTRICT #777  
BENSON, MINNESOTA**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2020**

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## **INTRODUCTORY SECTION**

**INDEPENDENT SCHOOL DISTRICT #777  
SCHOOL BOARD AND ADMINISTRATION OFFICIALS  
YEAR ENDED JUNE 30, 2020**

**Elected Officials**

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Position	Name	Term Expires
Chairperson	Brian Samuelson	December 31, 2022
Vice Chairperson	Gary Williams	December 31, 2020
Treasurer	Bill McGeary	December 31, 2020
Clerk	Mary Langan	December 31, 2020
Board Member	Paul Carruth	December 31, 2022
Board Member	Eric Peterson	December 31, 2020
Board Member	Jim Berens	December 31, 2022

**Appointed**

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Superintendent	Dennis Laumeyer
Director of Finance	Katie Foley

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## INDEPENDENT AUDITORS' REPORT

To the School Board of  
Independent School District #777  
Benson, Minnesota

### Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #777 as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

### Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District #777, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, General Fund budgetary comparison information, Schedule of Changes in Net OPEB Liability and Related Ratios, Schedule of Employer Contributions – OPEB, and schedules of Proportionate Share of Net Pension Liability and Employer Contributions 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 Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I 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.

School Board of  
Independent School District #777

*Other Information*

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District #777's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, supplementary Information and additional supplementary information as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, I have also issued my report dated December 29, 2020, on my consideration of the Independent School District #777's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Independent School District #777's internal control over financial reporting and compliance.

**Report on Other Legal and Regulatory Requirements**

In accordance with Minnesota Statutes, I have also issued my report dated December 29, 2020, on my consideration of Independent School District #777's compliance with provisions of the Minnesota Legal Compliance Audit Guide for Political Subdivisions, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the District has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

*Brian D. Koehn, CPA, PLLC*

**Brian D. Koehn, CPA, PLLC**

Parkers Prairie, Minnesota

December 29, 2020

**INDEPENDENT SCHOOL DISTRICT #777  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020**

This section of Independent School District #818's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the District's financial statements, which immediately follow this section.

**FINANCIAL HIGHLIGHTS**

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

- General Fund: - The overall revenues were \$11,305,220 while the overall expenditures were \$10,031,422 and transfers to other funds totaling \$240,708 increasing fund balance by \$1,033,090.
- Food Service Fund: -The revenues were \$774,336 and the expenditures were \$674,584 increasing fund balance by \$99,752.
- Community Service Fund: - The revenues were \$863,302, while the expenditures were \$835,687, and other financing sources of \$333,208, increasing fund balance by \$360,823.
- Building Construction Fund: - The revenues were \$438,667, while the expenditures were \$18,830,706, with other financing sources and uses of \$3,240,303 decreasing fund balance by \$15,151,614.
- Debt Service Fund: - The revenues were \$1,910,082 while the expenditures were \$1,808,796 and transfers in from the Building Construction fund were \$2,878 increasing fund balance by \$104,164.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of three parts - Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.
- The *governmental fund statements* tell how basic services such as regular and special education were financed in the *short-term* as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The following outline shows how the various parts of this annual report are arranged and related to one another.

- A. Management's Discussion and Analysis
- B. Basic Financial Statements
  - a. District-Wide Financial Statements
  - b. Fund Financial Statements

Footnote 1 summarizes 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. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.



**INDEPENDENT SCHOOL DISTRICT #777  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020**

**DISTRICT-WIDE STATEMENTS**

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

The two district-wide statements report the District's *net position* and how they have changed. Net position- the difference between the District's assets and liabilities- is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the district-wide financial statements the District's activities are shown in one category:

- Governmental activities- Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

**FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detailed information about the District's funds- focusing on its most significant or "major" funds - not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using revenues (e.g., federal grants).

The District has the following type of funds:

- Governmental funds- Most of the District's basic services are included in governmental funds, which generally focus on:
  - how *cash and other financial assets* that can readily be converted to cash flow in and out and
  - the balances left at year-end that are available for spending.

Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.

**INDEPENDENT SCHOOL DISTRICT #777  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020**

**NET POSITION**

A summary of assets, liabilities, and net position is presented in the table below.

**STATEMENT OF NET POSITION  
JUNE 30, 2020 AND 2019**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES(DOR)</b>	2020	2019	Percentage Change
Current and Other Assets	\$ 23,246,089	\$ 32,857,336	-29%
Capital assets	24,119,081	5,468,103	341%
Deferred Outflows of Resources	6,070,276	9,351,019	-35%
Total assets and (DOR)	<u>53,435,446</u>	<u>47,676,458</u>	<u>12%</u>
<b>LIABILITIES AND NET POSITION</b>			
<b>LIABILITIES AND DEFERRED INFLOWS OF RESOURCES(DIR)</b>			
Other liabilities	\$ 5,196,900	\$ 1,950,683	166%
Long-term liabilities	36,675,280	34,050,816	8%
Deferred inflows of resources	12,236,176	14,232,684	-14%
Total liabilities and (DIR)	<u>54,108,356</u>	<u>50,234,183</u>	<u>8%</u>
<b>NET POSITION</b>			
Net Investment in capital assets	(5,471,644)	4,193,779	-230%
Restricted for specific purposes	1,638,980	1,442,909	14%
Unrestricted	3,159,754	(8,194,413)	-139%
Total Net Position	<u>(672,910)</u>	<u>(2,557,725)</u>	<u>-74%</u>
Total Liabilities and Net Position	<u>\$ 53,435,446</u>	<u>\$ 47,676,458</u>	<u>12%</u>

*Changes in Net Position.* The District's total revenues were \$15,293,276 for the year ended June 30, 2020.

The total cost of all programs and services was \$13,595,602. The District's expenses are predominantly related to educating and caring for students.

Total revenues surpassed expenses, increasing net position \$1,687,674.

**INDEPENDENT SCHOOL DISTRICT #777  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020**

**CHANGE IN NET POSITION**

A summary of revenues and expenses is presented in the table below.

**STATEMENT OF ACTIVITIES  
YEARS ENDED JUNE 30, 2020 AND 2019**

<b>REVENUES</b>	<u>2020</u>	<u>2019</u>	<u>Percentage Change</u>
Program Revenues			
Charges for Service	\$ 1,424,378	\$ 1,343,602	6%
Operating Grants and Contributions	2,454,819	2,041,836	20%
Capital Grants and Contributions	209,134	126,370	65%
General			
Property Taxes	2,986,360	1,393,151	114%
Aids and Payments from State and Other	7,656,120	6,995,898	9%
Other	562,465	532,861	6%
Total Revenues	<u>15,293,276</u>	<u>12,433,718</u>	<u>23%</u>
<b>EXPENSES</b>			
Administration	841,961	578,326	46%
District Support Services	385,455	357,021	8%
Regular Instruction	5,519,919	3,935,907	40%
Vocational Educational Instruction	246,195	366,279	-33%
Special Education Instruction	1,802,728	1,510,431	19%
Community Education and Services	900,948	778,870	16%
Instructional Support Services	163,472	220,783	-26%
Pupil Support Services	1,326,998	1,269,083	5%
Sites and Buildings	1,328,557	1,942,852	-32%
Fiscal and other Fixed-Cost Programs	1,079,369	49,307	2089%
Total Expenses	<u>13,595,602</u>	<u>11,008,859</u>	<u>23%</u>
<b>CHANGE IN NET POSITION</b>	<u>1,697,674</u>	<u>1,424,859</u>	<u>19%</u>
<b>NET POSITION - BEGINNING</b>	<u>(2,370,584)</u>	<u>(3,982,584)</u>	<u>-40%</u>
<b>NET POSITION - END</b>	<u>\$ (672,910)</u>	<u>\$ (2,557,725)</u>	<u>-74%</u>

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a *combined* fund balance of \$14,690,946 This was down from \$28,431,731 at the end of the prior year, a decrease of \$13,553,785. The majority of the decrease is related to spending the bond proceeds on a building project. See discussion on each governmental fund below for change.

**INDEPENDENT SCHOOL DISTRICT #777  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020**

2020				
	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 11,305,220	\$ 10,031,422	\$ (240,708)	\$ 1,033,090
Food Service Fund	774,336	674,584	-	99,752
Community Service Fund	863,302	835,687	333,208	360,823
Capital Projects Fund	438,667	18,830,706	3,240,425	(15,151,614)
Debt Service Fund	1,910,082	1,808,796	2,878	104,164
Total	\$ 15,291,607	\$ 32,181,195	\$ 3,335,803	\$ (13,553,785)
2019				
	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	\$ 10,632,305	\$ 11,136,529	-	\$ (504,224)
Food Service Fund	610,134	630,259	-	(20,125)
Community Service Fund	784,932	836,664	-	(51,732)
Capital Projects Fund	416,986	1,273,226	26,552,866	25,696,626
Debt Service Fund	2,311	-	1,098	3,409
Total	\$ 12,446,668	\$ 13,876,678	\$ 26,553,964	\$ 25,123,954

**GENERAL FUND**

The General Fund includes the primary operations of the District in providing educational services to students from pre-k/Special Education through grade 12 including pupil transportation activities and capital outlay projects.

The following table presents a summary of General Fund revenues.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2020	2019		
Local Property Taxes	\$ 1,564,487	\$ 1,330,668	\$ 233,819	17.6%
Other Local Sources	746,077	521,265	224,812	43.1%
State Sources	8,625,584	8,344,758	280,826	3.4%
Federal Sources	314,112	297,140	16,972	5.7%
Sales and Other Conversion of Assets	54,960	138,474	(83,514)	-60.3%
Total General Fund Revenues	\$ 11,305,220	\$ 10,632,305	\$ 672,915	6.3%

Total General Fund revenue increased by \$672,915 or 6.3% from the previous year. This decrease can largely be credited to an increase in property taxes and state funding formula increases.

**INDEPENDENT SCHOOL DISTRICT #777  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020**

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2020	2019		
Salaries	\$ 5,811,154	\$ 6,280,209	\$ (469,055)	-7.5%
Employee Benefits	1,784,501	1,836,652	(52,151)	-2.8%
Purchased Services	1,386,915	1,404,849	(17,934)	-1.3%
Supplies and Materials	531,923	494,133	37,790	7.6%
Capital Expenditures	420,365	1,011,576	(591,211)	-58.4%
Other Expenditures	96,564	109,110	(12,546)	-11.5%
Total General Fund Expenditures	<u>\$ 10,031,422</u>	<u>\$ 11,136,529</u>	<u>\$ (1,105,107)</u>	<u>-9.9%</u>

Total General Fund expenditures decreased by \$1,105,107 or 9.9% from the previous year. This decrease is primarily due to changes in programming.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the District revised the annual operating budget. A majority of the budget amendments relate to changes in appropriations and revising budgets to reflect salary adjustments.

**OTHER NON-MAJOR FUNDS**

Expenditures exceeded Revenues in the other non-major funds by \$127,3667 due to changes in the food service and community service operations.

**CAPITAL ASSETS**

By the end of 2019, the District had a net investment of \$24,119,080 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and school vehicles. Total depreciation expense for the year was \$402,031. See the notes to the financial statements for additional information on capital assets.

**INDEPENDENT SCHOOL DISTRICT #777  
MANAGEMENT DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020**

	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 51,560	\$ -	\$ -	\$ 51,560
Construction in Process	105,889	18,888,585	-	18,994,474
Total Capital Assets, Not Being Depreciated	<u>157,449</u>	<u>18,888,585</u>	<u>-</u>	<u>19,046,034</u>
Capital Assets, Being Depreciated:				
Land Improvements	1,837,863	77,316	-	1,915,179
Buildings and Improvements	10,558,224	7,256	-	10,565,480
Equipment	3,982,401	94,493	140,979	3,935,915
Total Capital Assets, Being Depreciated	<u>16,378,488</u>	<u>179,065</u>	<u>140,979</u>	<u>16,416,574</u>
Less: Accumulated Depreciation				
Buildings and Improvements	1,156,708	67,017	-	1,223,725
Land Improvements	6,599,281	202,569	-	6,801,850
Equipment	3,311,845	132,715	126,607	3,317,953
Total Accumulated Depreciation	<u>11,067,834</u>	<u>402,301</u>	<u>126,607</u>	<u>11,343,528</u>
Total Capital Assets being Depreciated, Net	<u>5,310,654</u>	<u>(223,236)</u>	<u>14,372</u>	<u>5,073,046</u>
Capital Assets, Net	<u>\$ 5,468,103</u>	<u>\$ 18,665,349</u>	<u>\$ 14,372</u>	<u>\$ 24,119,080</u>

**LONG-TERM LIABILITIES**

The District's long-term liabilities relate to bonded indebtedness and pensions and detailed information is presented in Notes 4 and 6.

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

Funding sources and student enrollment will have the largest bearing on the future of the school district as state and federal funding levels, tied to enrollment numbers, continue to fail to keep up with inflation. The District's enrollment is projected to increase over the next two school years which will result in an increase in formula revenues.

Additional factors include future facility needs as the buildings age, the demand of changing technologies and the divergence of the student population.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or would like additional information, contact the District Office, Independent School District No. 777, 1400 Montana Ave, Benson, Minnesota 56215.

## **FINANCIAL SECTION**

## **BASIC FINANCIAL STATEMENTS**



**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**INDEPENDENT SCHOOL DISTRICT #777**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

**ASSETS**

Cash and Cash Equivalents	\$ 19,190,634
Receivables	
Current Property Taxes	2,122,188
Delinquent Property Taxes	13,752
Accounts	126,178
Accrued Interest	44,113
Due from Other Governments	1,637,205
Prepaid Items	93,485
Inventories	18,534
Capital Assets	
Non-Depreciable	19,046,034
Depreciable, Net of Accumulated Depreciation	<u>5,073,047</u>
Total Assets	<u>47,365,170</u>

**DEFERRED OUTFLOWS OF RESOURCES**

Related to Pensions	6,024,577
Other Post Employment Benefit Plan (OPEB)	<u>45,699</u>
Total Deferred Outflows of Resources	6,070,276

Total Assets and Deferred Outflows of Resources 53,435,446

**LIABILITIES**

Account Payable	3,689,915
Salaries and Benefits Payable	957,679
Due to Other Governments	62,771
Accrued Interest Payable	484,475
Unearned Revenue	2,060
Long Term Liabilities	
Bonds Payable	
Due Within one Year	920,000
Noncurrent Portion	26,925,000
Bonds Premium	1,261,250
PPP Loan Program	92,500
Compensated Absences Payable	26,469
Post-Employment Severance Payable	67,947
Net OPEB Obligation	524,677
Pension Benefits Payable	<u>6,857,437</u>
Total Liabilities	<u>41,872,180</u>

**DEFERRED INFLOWS OF RESOURCES**

Pensions	8,531,728
OPEB	62,480
Property Taxes Levied for	
Subsequent Year	<u>3,641,968</u>
Total Deferred Inflows of Resources	<u>12,236,176</u>

**NET POSITION**

Net Investment in Capital Assets	(5,471,644)
Restricted for Specific Purposes	1,638,980
Unrestricted	<u>3,159,754</u>
Total Net Position	<u><u>\$ (672,910)</u></u>

See accompanying notes to financial statements

**INDEPENDENT SCHOOL DISTRICT #777  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2020**

	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		Charges for Services	Operating Grants and Contributions		Capital Grants and Contributions
<b>GOVERNMENTAL ACTIVITIES</b>					
Administration	841,961	\$ -	\$ -	\$ 20,092	\$ (821,869)
District Support Services	385,455	-	-	-	(385,455)
Regular Instruction	5,519,919	567,972	83,216	27,574	(4,841,157)
Vocational Instruction	246,195	29,356	-	-	(216,839)
Special Education Instruction	1,802,728	45,806	1,697,383	-	(59,539)
Community Education and Services	900,948	552,198	58,651	161,468	(128,631)
Instructional Support Services	163,472	-	-	-	(163,472)
Pupil Support Services	1,326,998	229,046	544,206	-	(553,746)
Sites and Buildings	1,328,557	-	71,363	-	(1,257,194)
Fiscal and Other Fixed-Cost Programs	1,079,369	-	-	-	(1,079,369)
<b>Total Governmental Activities</b>	<b>\$ 13,595,602</b>	<b>\$ 1,424,378</b>	<b>\$ 2,454,819</b>	<b>\$ 209,134</b>	<b>(9,507,271)</b>
<b>GENERAL REVENUES</b>					
Property Taxes					
General Purposes					1,564,487
Community Education					89,487
Debt Service					1,332,386
Aids and Payments from the State					7,656,120
Unrestricted Investment Earnings					478,259
Miscellaneous Revenues					84,206
<b>Total General Revenues</b>					<b>11,204,945</b>
<b>CHANGE IN NET POSITION</b>					<b>1,697,674</b>
Net Position - Beginning of Year					(2,557,584)
Change in Accounting Principle					187,000
Net Position - As Restated					(2,370,584)
<b>NET POSITION - END OF YEAR</b>					<b>\$ (672,910)</b>

## **FUND FINANCIAL STATEMENTS**

**INDEPENDENT SCHOOL DISTRICT #777**  
**BALANCE SHEET – GOVERNMENTAL FUNDS**  
**JUNE 30, 2020**

	General	Building Construction	Debt Service	Other Governmental Funds	Totals
<b>ASSETS</b>					
Cash and Temporary Investments	\$ 3,943,247	\$ 13,996,005	\$ 846,722	\$ 404,660	\$ 19,190,634
Receivables					
Current Property Taxes	727,899	-	1,355,748	38,541	2,122,188
Delinquent Property Taxes	12,963	-	-	789	13,752
Accounts	23,334	58,147	-	44,697	126,178
Accrued Interest	-	44,113	-	-	44,113
Due from Other Governments	1,489,583	-	56,398	91,224	1,637,205
Prepaid Items	93,485	-	-	-	93,485
Inventories	-	-	-	18,534	18,534
Total Assets	<u>6,290,511</u>	<u>14,098,265</u>	<u>2,258,868</u>	<u>598,445</u>	<u>23,246,089</u>
<b>LIABILITIES DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>					
<b>LIABILITIES</b>					
Account Payable	96,358	3,552,866	-	40,690	3,689,914
Due to Other Governments	62,025	-	-	746	62,771
Salaries Payable	844,168	387	-	113,124	957,679
Total Liabilities	<u>1,002,551</u>	<u>3,553,253</u>	<u>-</u>	<u>154,560</u>	<u>4,710,364</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred Revenue	13,647	-	-	2,164	15,811
Property Taxes Levied for Subsequent Year	1,401,635	-	2,151,295	89,038	3,641,968
Total Deferred Inflows of Resources	<u>1,415,282</u>	<u>-</u>	<u>2,151,295</u>	<u>91,202</u>	<u>3,657,779</u>
<b>FUND BALANCES</b>					
Nonspendable	82,179	-	-	17,840	100,019
Restricted for Specific Purposes	793,539	10,545,012	107,573	349,083	11,795,207
Committed to Specific Purposes	550,000	-	-	-	550,000
Assigned to Specific Purposes	173,203	-	-	-	173,203
Unassigned	2,273,757	-	-	(14,240)	2,259,517
Total Fund Balances	<u>3,872,678</u>	<u>10,545,012</u>	<u>107,573</u>	<u>352,683</u>	<u>14,877,946</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,290,511</u>	<u>\$ 14,098,265</u>	<u>\$ 2,258,868</u>	<u>\$ 598,445</u>	<u>\$ 23,246,089</u>

**INDEPENDENT SCHOOL DISTRICT #777**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

	2020	
<b>Fund Balances - Total Governmental Funds</b>	\$ 14,877,946	
<p>Amounts reported for governmental activities in the statements of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p>		
Capital Assets	\$ 35,462,608	
Accumulated Depreciation	(11,343,528)	24,119,080
<p>Accrued Interest payable for long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.</p>		
		(484,475)
<p>Long-term liabilities 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 bonds.</p>		
Bond Principal Payable	(27,845,000)	
Bond Premium Payable	(1,261,250)	
PPP Loan Program	(92,500)	
Compensated Absences Payable	(26,469)	
Post-Employment Severance Payable	(67,947)	
Net OPEB Obligation	(524,677)	
Pension Benefits Payable	(6,857,437)	(36,675,280)
<p>The net pension related inflows/outflows represent the allocation of the pension obligations of the State-wide pension plans to the District. Such balances are not reported in the funds.</p>		
Deferred Inflows - Pensions	(8,531,728)	
Deferred Outflows - Pensions	6,024,577	
Deferred Inflows - OPEB	(62,480)	
Deferred Outflows - OPEB	45,699	(2,523,932)
<p>Delinquent taxes and special assessments receivable are earned, but not available in the current period. Therefore, they are recorded as a deferred inflows of resources in the funds but are part of net assets.</p>		
		13,751
<b>Total Net Position - Governmental Activities</b>	<b>\$ (672,910)</b>	

**INDEPENDENT SCHOOL DISTRICT #777**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2020**

	General	Building Construction	Debt Service	Other Governmental Funds	Totals
<b>REVENUES</b>					
Local Property Tax Levies	\$ 1,564,487	\$ -	\$ 1,332,386	\$ 87,697	\$ 2,984,570
Other Local and County Sources	746,077	438,667	12,498	721,418	1,918,660
State Sources	8,625,584	-	565,198	89,150	9,279,932
Federal Sources	314,112	-	-	516,895	831,007
Sales and Other Conversion of Assets	54,960	-	-	222,478	277,438
Total Revenue	<u>11,305,220</u>	<u>438,667</u>	<u>1,910,082</u>	<u>1,637,638</u>	<u>15,291,607</u>
<b>EXPENDITURES</b>					
Administration	785,461	-	-	-	785,461
District Support Services	360,396	-	-	-	360,396
Regular Instruction	5,064,963	-	-	-	5,064,963
Vocational Instruction	227,711	-	-	-	227,711
Special Education Instruction	1,664,828	-	-	-	1,664,828
Community Education and Services	-	-	-	835,687	835,687
Instructional Support Services	156,018	-	-	-	156,018
Pupil Support Services	580,536	-	-	674,584	1,255,120
Sites and Buildings	1,151,679	18,830,706	-	-	19,982,385
Fiscal and Other Fixed-Cost Programs	39,830	-	1,808,796	-	1,848,626
Total Expenditures	<u>10,031,422</u>	<u>18,830,706</u>	<u>1,808,796</u>	<u>1,510,271</u>	<u>32,181,195</u>
<b>EXCESS OF REVENUES OVER (UNDER) EXPENDITURES</b>	1,273,798	(18,392,039)	101,286	127,367	(16,889,588)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers In	863,299	-	2,878	240,708	1,106,885
Transfers Out	(1,104,007)	(2,878)	-	-	(1,106,885)
Proceeds from Long Term Debt	-	3,243,303	-	92,500	3,335,803
Total Other Financing Sources (Uses)	<u>(240,708)</u>	<u>3,240,425</u>	<u>2,878</u>	<u>333,208</u>	<u>3,335,803</u>
<b>NET CHANGE IN FUND BALANCE</b>	1,033,090	(15,151,614)	104,164	460,575	(13,553,785)
Fund Balance - 7-1-19 as previously stated	2,652,588	25,696,626	3,409	(107,892)	28,244,731
Prior Period Adjustment	187,000	-	-	-	187,000
Fund Balance - 7-1-19 as restated	<u>2,839,588</u>	<u>25,696,626</u>	<u>3,409</u>	<u>(107,892)</u>	<u>28,431,731</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 3,872,678</u>	<u>\$ 10,545,012</u>	<u>\$ 107,573</u>	<u>\$ 352,683</u>	<u>\$ 14,690,946</u>

**INDEPENDENT SCHOOL DISTRICT #777**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2020**

	2020	
<b>Net Change in Fund Balances - Total Governmental</b>	\$ (13,553,785)	
<p>Amounts reported for governmental activities in the statement of activities are different because:</p> <p>Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period these amounts are:</p>		
Capital Outlay	\$ 19,067,650	
Disposal of Capital Assets, Net of Depreciation	(14,372)	
Depreciation Expense	(402,301)	18,650,977
<p>Long-term debt is reported as an expenditure in governmental funds, but the repayment reduces long-term liabilities in the statement of net assets and proceeds increase liabilities. In the current period this amount consists of:</p>		
PPP Loan Proceeds	(92,500)	
Bond Proceeds	(3,070,000)	
Bond Premium	(106,706)	(2,679,206)
<p>In the statement of activities severance payable, OPEB payable, and Compensated Absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.</p>		
Compensated Absences	161	
OPEB	(58,282)	
Severance Payable	17,409	(40,712)
<p>Delinquent property taxes are receivable, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds. The increase (decrease) in the current period is:</p>		
		1,649
<p>Net Pension liability does not represent the impending use of current resources. Therefore the change in this liability and related deferrals is not reported in the governmental funds.</p>		
		(793,908)
<p>Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however interest expense is recognized as interest accrues.</p>		
		112,659
<b>Change in Net Position - Governmental Activities</b>	<b>\$ 1,697,674</b>	



**INDEPENDENT SCHOOL DISTRICT #777  
STATEMENT OF FIDUCIARY NET POSITION AS OF JUNE 30, 2019 AND  
THE STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FOR THE YEAR ENDED JUNE 30, 2020**

**Statement of Fiduciary Net Position  
As of June 30, 2020**

	Scholarship Trust Fund
<b>ASSETS</b>	
Cash and Temporary Investments	\$ 362,787
Total Assets	362,787
<b>NET POSITION</b>	
Unrestricted - Scholarships	\$ 362,787

**Schedule of Changes in Fiduciary Net Position  
Year Ended June 30, 2020**

<b>Additions</b>	
Gifts and Bequests	\$ 43,118
Interest	2,861
Total Additions	45,979
<b>Deductions</b>	
Scholarships	42,400
Change in Net Position	3,579
Net Position - Beginning of Year	359,208
Net Position - End of Year	\$ 362,787

**INDEPENDENT SCHOOL DISTRICT #777  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020**

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

**A. Basis of Presentation**

The financial statements of Independent School District No. 777 have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**B. Reporting Entity**

Independent School District No. 777 is an educational entity established by the State of Minnesota and is considered a charitable organization under Internal Revenue Code Section 170.

The District's Board consists of seven members; the superintendent of the District serves as a non-voting member. The majority of the District's funding is provided by county levies and state aid.

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board has elected to control or be financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are included in these financial statements.

**INDEPENDENT SCHOOL DISTRICT #777**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

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

**C. Basic Financial Statement Presentation**

The District-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The Fiduciary Funds are only reported in the Statements of Fiduciary Net Position at the Fund Financial Statement level.

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

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

Separate Fund financial statements are provided for governmental and fiduciary funds. Aggregated information for the remaining non-major governmental funds is reported in a single column in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

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

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

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

**INDEPENDENT SCHOOL DISTRICT #777  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020**

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

**D. Measurement Focus and Basis of Accounting (continued)**

- 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 U.S. generally accepted accounting principles. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.
- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

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

**Description of Funds**

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are as follows:

**Major Governmental Funds**

**General Fund** – Accounts for all financial resources except those required to be accounted for in another fund. It includes general operations and pupil transportation, activities of the District, as well as the capital related activities such as maintenance of facilities equipment purchases, and health and safety projects.

**Capital Projects Fund** – The Capital Projects Fund is used to account for special capital projects that issued bonds to finance the project.

**Debt Service Fund** – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general long-term obligation bond principal, interest, and related costs.

**Non-major Governmental Funds**

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

**Community Service Special Revenue Fund** – The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, K-6 extended day programs, or other similar services.

**INDEPENDENT SCHOOL DISTRICT #777  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020**

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

**D. Measurement Focus and Basis of Accounting (continued)**

**Fiduciary Funds**

**Expendable Trust Fund** – The Expendable Trust Fund is used to account for assets held by the District in a trustee capacity. The trust funds resources, including principle and earnings may be expended. Expendable trust funds are accounted for in essentially the same manner as governmental funds.

**E. Budgeting**

The budget for each fund is prepared on the same basis of accounting as the financial statements. Each June, the School Board adopts an annual budget for the following fiscal year for the General Fund, Food Service, and Community Service Fund. Budgets presented in this report for comparison to actual amounts are presented in accordance with generally accepted accounting principles.

Formal budgetary integration is employed as a management control device during the year for the general fund and all special revenue funds.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriations, is employed by the District to assure effective budgetary control and to facilitate effective cash planning and control. Encumbrance information has not been incorporated into the financial statements, however.

**F. Cash and Investments**

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

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 market for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments held by a 2.a.7 and/or a 2.a.7 like investment pool are measured at amortized cost.

**G. Receivables**

**Accounts Receivable:**

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

**Current Property Taxes Receivable:**

Current property taxes receivable represents current real and personal property tax levies, certified the previous December and collectible in the current calendar year, which have not been received by the District.

**Delinquent Property Taxes Receivable:**

Delinquent property taxes receivable represents prior years property taxes that remain uncollected at June 30, 2020. They are equally offset by a deferred inflow of resources amount in the governmental fund financial statements.

**INDEPENDENT SCHOOL DISTRICT #777**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

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

**H. Inventories**

Inventories are recorded using the consumption method of accounting and consist of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method. Surplus commodities are stated at standardized costs, as determined by the Department of Agriculture.

**I. Prepaid Items**

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

**J. Property Taxes**

Property tax levies are established by the school board and are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred revenue (property taxes levied for subsequent year).

The majority of the revenue in the General Fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between property taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift." The current tax shift as mandated by legislation recognizes \$285,921 of the property tax levy for 2020 as revenue in fiscal year 2019-2020. The taxes collectible in 2020 are recorded as deferred revenue (property taxes levied for subsequent year).

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

**K. Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the District-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

**INDEPENDENT SCHOOL DISTRICT #777**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

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

**K. Capital Assets (continued)**

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

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

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

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has two items that qualify for reporting in this category. Deferred outflows of resources related to pension and OPEB are reported in the government-wide Statement of Net Position. 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 Net Position and Balance Sheet – Governmental Funds 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 two items which qualify for reporting in this category. The first item, is property tax 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. Deferred inflows of resources related to pensions are recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

**M. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs, if material, are reported as deferred charges and amortized over the term of the related debt.

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

**N. Vacation Pay**

Since teachers are not eligible for vacation pay only amounts accrued to other employees are recorded in the financial statements. Vacation accumulations end each year at June 30.

**O. Sick Pay**

Substantially all District employees are entitled to sick leave at various rates. Unused sick leave enters into the calculation of severance payments for some employees upon termination. Accumulated unpaid sick pay amounts are accrued when benefits vest to employees and the unpaid liability is reflected as compensated absences payable.

**INDEPENDENT SCHOOL DISTRICT #777  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020**

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

**P. Reclassifications**

Some of the last year’s amounts have been reclassified to be comparative to this year’s amounts. The reclassification is only between line items.

**Q. Severance Pay Obligations**

Teachers, who have completed at least 20 years of service in the district and are at least 57 years of age, are eligible for a severance payment under the terms of the Teacher Master Agreement. Resignations must be submitted by April 1<sup>st</sup> of the year in which the teacher plans on retiring.

Teachers hired prior to July 1, 1995, are eligible for a sick leave/retirement provision. The amount of payment is determined by taking the accumulated and unused sick leave days on the date of retirement, up to a maximum of 110 days, times the daily rate of pay during the last year of employment. Daily rate of pay does not include extra-curricular activities, extended employment or other compensation. This group of teachers also qualifies for the 403(B)-match program described in the next paragraph. All District contributions to the 403(B)-match program on behalf of the teacher will constitute part of the sick leave payment. The accumulated liability for the sick leave/retirement provisions as of June 30, 2019, is \$67,947. This obligation currently has \$100,000 assigned for its payment. As of June 30, 2020, 13 employees are eligible for this severance pay benefit.

All employees of the district are allowed to participate in the District’s 403(B) plan. Only teachers hired after July 1, 1995, and principals are eligible for the 403(B)-match program. The District will match the teacher contribution based on the schedule listed below. The maximum the District will match over the lifetime of the teacher is \$30,000. The District will match 100% of principals’ and 50% of the superintendents’ contributions up to a maximum of \$2,000 per year of his/her salary.

403(B) matching schedules:

<u>Years of Service</u>	<u>Maximum Matching Contribution</u>
0 - 2	\$ -
3 - 4	300
5 - 9	600
10 - 14	800
15 - 19	1,200
20+	1,600

**R. Other Post-employment and Pension Benefits**

In addition to retirement benefits, the District provides post-retirement medical insurance benefits to teachers in accordance with their master employment agreement. The teachers are responsible for funding the cost of the health insurance premium, but an implicit rate subsidy still exists. See Note 8 for further information.

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense for plans administered under a trust, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the 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 for PERA are reported at fair value. See Note 6 for further information regarding pensions.



**INDEPENDENT SCHOOL DISTRICT #777  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020**

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

**R. Other Post-employment and Pension Benefits (continued)**

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

**S. 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 workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal 2020.

**T. Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the School is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

**Nonspendable** The nonspendable fund balance category includes amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes funds that are not expected to be converted to cash. It also includes property acquired for resale, unless the use of the proceeds from the collection of those receivables or from the sale of those properties is restricted, committed, or assigned.

**Restricted** Fund balance is reported as restricted when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or is imposed by law through constitutional provisions.

**Committed** The committed fund balance classification includes amounts that can be used only for the specific purpose imposed by a formal action (resolution) of the School District Board of Education. Those committed amounts cannot be used for any other purpose unless the School District Board of Education removes or changes the specified use by taking the same type of action (resolution) it employed to previous commit those amounts. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

**Assigned** Amounts in the assigned fund balance classification are intended to be used for the School District for specific purposes but do not meet the criteria to be classified as restricted or committed. Intent is expressed by the School Board itself, or a body or an official to which the School Board has delegated the authority to assign amounts to be used for a specific purpose. The actions to remove or modify assignments are not as strict as for committed fund balances.

**INDEPENDENT SCHOOL DISTRICT #777**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

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

**T. Fund Balance (continued)**

**Unassigned** Unassigned fund balance is the residual classification for the general fund and includes all spendable amounts not contained in the other classifications. In other governmental funds, the unassigned classification is used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

The School District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**U. Net Position**

Net position represents the difference between assets and liabilities in the District-wide and Fiduciary Fund financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the District-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments. The District will strive to maintain an unrestricted general fund balance of at least 15 percent of the unrestricted general fund budget.

**W. 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 and contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenditures/expenses during the reported period. Actual results could differ from those estimates.

**X. Internal Activity**

It is the District's policy to eliminate all internal activity in its presentation of its government-wide financial statements.

**Y. Implementation of GASB Statement No. 84**

As of July 1, 2019, the District adopted GASB Statement No. 84, Fiduciary Activities. The objective of this statement is to improve the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities. Greater consistency and comparability enhance the value provided by the information reported in financial statements for assessing government accountability and stewardship. The impact to the District resulted in the student activity funds being changed from reporting as an agency fund to the General Fund. The general fund beginning fund, and net position balance were increased by \$187,000 due to the implementation of this standard.

**INDEPENDENT SCHOOL DISTRICT #777  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020**

**NOTE 2 – CASH AND INVESTMENTS**

**A. Cash Deposits**

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Temporary Investments." In accordance with Minnesota Statutes the District maintains deposits at financial institutions which are authorized by the School District's Board.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds.

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

Deposit balances at June 30, 2020, are as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Total bank deposits (check and savings accounts)	\$ 136,438	\$ 229,466

At June 30, 2020, \$229,466 of deposits were covered either by federal depository insurance or by pledged collateral.

**B. Investments**

The District may also invest idle funds as authorized by Minnesota Statutes, as follows:

- Direct obligation or obligations guaranteed by the United States or its agencies
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less
- General obligations rated "A" or better; revenue obligations rated "AA" or better
- General obligations of the Minnesota Housing Finance Agency rated "A" or better
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System
- Commercial paper issued by United States corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories
- Repurchase or reverse purchase agreements and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

The District has not adopted a formal investment policy, but follows Minnesota Statutes.

**INDEPENDENT SCHOOL DISTRICT #777  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020**

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

**B. Investments (cont.)**

At June 30, 2020, the District had the following investments:

Investment Type	Credit Risk		Interest Risk – Maturity Duration in Years			Total
	Rating	Agency	Less than 1	1 to 5	5 to 10	
MN Trust Investment Shares Portfolio	AAA	S & P	N/A	N/A	N/A	\$ 3,051,932
TD Ameritrade	AAA	S & P	N/A	N/A	N/A	3,137,908
MN School District Liquid Asset Fund	AAA	S & P	N/A	N/A	N/A	13,227,143
Total Investments						<u>\$ 19,416,983</u>

The MN School District Liquid Asset Fund, MNTrust Investment Shares Portfolio, and Clearwater are regulated by Minnesota statutes and are external investment pools not registered with the Securities Exchange Commission (SEC) that follow the same regulatory rules of the SEC under rule 2a7. The District's investment in the MSDLAF and the MNTrust Investment Shares Portfolio are measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value.

**Credit Risk**

Credit risk is defined as the risk that an issue or other counterparty will not fulfill its obligation. The investment balance chart above shows the credit rating for each of the investments.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District's investment policy requires that all brokers used by the District must acknowledge in writing that investments purchased through the broker must comply with Minnesota state statutes governing the investment of public funds. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District requires purchases of securities to be laddered with staggered maturity dates.

**Custodial Credit Risk**

Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District's deposit policy for custodial credit risk follows Minnesota Statutes for deposits.

**Concentration of Credit Risk**

The District's investment policy has no limit on the amount that may be invested in any issuer. However, the District tries to vary its portfolio composition in the types of investments and holdings it has.

**C. Balance Sheet Presentation**

Deposits and investments are presented on the combined balance sheet as follows:

Cash Deposits	\$ 136,438
Investments	19,416,983
Less Trust and Agency Cash Deposit and Temporary Investments	<u>(362,787)</u>
Total Pooled Cash and Investments	<u>19,190,634</u>
Cash and Temporary Investments – Statement of Net Assets	<u>\$ 19,190,634</u>

**INDEPENDENT SCHOOL DISTRICT #777  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020**

**NOTE 3 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2019, is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	\$ 51,560	\$ -	\$ -	\$ 51,560
Construction in Process	105,889	18,888,585	-	18,994,474
Total Capital Assets, Not Being Depreciated	<u>157,449</u>	<u>18,888,585</u>	<u>-</u>	<u>19,046,034</u>
Capital Assets, Being Depreciated:				
Land Improvements	1,837,863	77,316	-	1,915,179
Buildings and Improvements	10,558,224	7,256	-	10,565,480
Equipment	3,982,401	94,493	140,979	3,935,915
Total Capital Assets, Being Depreciated	<u>16,378,488</u>	<u>179,065</u>	<u>140,979</u>	<u>16,416,574</u>
Less: Accumulated Depreciation				
Buildings and Improvements	1,156,708	67,017	-	1,223,725
Land Improvements	6,599,281	202,569	-	6,801,850
Equipment	3,311,845	132,715	126,607	3,317,953
Total Accumulated Depreciation	<u>11,067,834</u>	<u>402,301</u>	<u>126,607</u>	<u>11,343,528</u>
Total Capital Assets being Depreciated, Net	5,310,654	(223,236)	14,372	5,073,046
Capital Assets, Net	<u>\$ 5,468,103</u>	<u>\$ 18,665,349</u>	<u>\$ 14,372</u>	<u>\$ 24,119,080</u>

Depreciation expense of \$402,300 for the year ended June 30, 2020, was charged to the following governmental functions:

**Governmental Activities**

Administration	\$ 280
District Support Services	6,505
Regular Instruction	47,324
Vocational Instruction	2,367
Exceptional Instruction	1,007
Community Education	1,538
Instructional Support Services	1,595
Pupil Support Services	59,913
Sites and Buildings	281,771
Total Depreciation Expense	<u>\$ 402,300</u>

**INDEPENDENT SCHOOL DISTRICT #777  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020**

**NOTE 4 – LONG-TERM DEBT**

**A. Description of Long-Term Debt**

**General Obligation Bonds** – On December 6, 2018, the District issued \$25,365,000 of General Obligation Bonds, Series 2018A for the acquisition and betterment of school sites and facilities in the District. The bonds are due in varying annual installments each February 1, from February 1, 2020 through February 1, 2039 with interest at a rate of 3.75% to 5.00% due semi-annually on February 1 and August 1. Future ad valorem tax levies are dedicated to the retirement of these bonds.

**PPP Loan Program** – The District borrowed \$92,500 in the Paycheck Protection Program (PPP) as authorized by the CARES act. The loan proceeds have not been used as of June 30, 2020. This Loan is expected to be forgiven during the year ended June 30, 2020. There were no disbursements related to this debt issue.

**Compensated Absences Payable** - This obligation consists of unused vacation at June 30, 2020. Obligations related to compensate absences have been paid from the General Fund.

**Post-employment Severance Payable** – Teachers who have completed at least 20 years of service in the District and are at least 57 years of age, are eligible for a severance payment under the terms of the Teacher Master Agreement. Teachers hired prior to July 1, 1995, are eligible for a sick leave/retirement provision. The amount of payment is determined by taking the accumulated and unused sick leave days of retirement, up to a maximum of 110 days, times the daily rate of pay during the last year of employment. Daily rate of pay does not include extra-curricular activities, extended employment or other compensation. This group of teachers also qualify for the 403(B)-match program described in Note 1, sub letter Q. All District contributions to the 403(B)-match program on behalf of the teacher will constitute part of the sick leave payment.

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

	Outstanding July 1, 2019	Additions	Deletions	Outstanding June 30, 2020	Due Within One Year
Bonds Payable	\$25,365,000	\$ 3,070,000	\$ 590,000	\$ 27,845,000	\$ 920,000
PPP Loan Program	-	92,500	-	92,500	
Unamortized Bond Premium	1,154,544	173,303	66,597	1,261,250	-
Compensated Absences Payable	26,630	-	161	26,469	-
Net Other Post Employment Obligations	504,466	20,211	-	524,677	-
Net Pension Liability	6,914,820		57,383	6,857,437	
Post-Employment Severance Payable	85,356		17,409	67,947	-
<b>Total Indebtedness</b>	<b>\$ 34,050,816</b>	<b>\$ 3,356,014</b>	<b>\$ 731,550</b>	<b>\$ 36,675,280</b>	<b>\$ 920,000</b>

**INDEPENDENT SCHOOL DISTRICT #777  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**C. Minimum Debt Payments**

Minimum annual principal and interest payments required to retire long-term liabilities not including compensated absences & post-employment severance payable are as follows:

Year Ended June 30,	General Obligation Bonds Payable		
	Principal	Interest	Total
2021	\$ 920,000	\$ 1,138,081	\$ 2,058,081
2022	985,000	1,073,871	2,058,871
2023	1,105,000	1,026,121	2,131,121
2024	1,170,000	972,521	2,142,521
2025	1,225,000	915,871	2,140,871
2026-2030	7,045,000	3,657,231	10,702,231
2031–2035	8,505,000	2,198,931	10,703,931
2036–2039	6,890,000	655,713	7,545,713
Total	<u>\$ 27,845,000</u>	<u>\$ 11,638,340</u>	<u>\$ 39,483,340</u>

**INDEPENDENT SCHOOL DISTRICT #777**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE 5 – FUND BALANCES**

Fund balance is classified as nonspendable, restricted, committed, assigned and/or unassigned based primarily on the extent to which the School District is bound to observe constraints imposed upon the use of the resources in the government funds. The constraints placed on fund balance for the major governmental funds and all other governmental funds are presented below:

Fund Balances	General Fund	Building Construction Fund	Debt Service Fund	Nonmajor Funds		Total
				Food Service Fund	Community Service Fund	
Nonspendable for						
Prepaid Expenditures	\$ 82,179	\$ -	\$ -	\$ -	\$ -	\$ 82,179
Inventory	-	-	-	17,840	-	17,840
Restricted for						
Student Activities	115,499	-	-	-	-	115,499
Staff Development	59,620	-	-	-	-	59,620
Operating Capital	138,855	-	-	-	-	138,855
Levy Reduction	68,382	-	-	-	-	68,382
Area Learning Center	1,628	-	-	-	-	1,628
Gifted and Talented	49,322	-	-	-	-	49,322
Basic Skills	126,025	-	-	-	-	126,025
Basic Skills for Ext. Time	27,028	-	-	-	-	27,028
Safe School Crime	34,249	-	-	-	-	34,249
Long Term Facilities Maint.	77,743	388,785	-	-	-	466,528
Food Service	-	-	-	156,132	-	156,132
Community Education	-	-	-	-	126,662	126,662
ECFE	-	-	-	-	65,278	65,278
Adult Basic Ed	-	-	-	-	1,011	1,011
Medical Assistance	95,188	-	-	-	-	95,188
Building Construction	-	10,156,227	-	-	-	10,156,227
Debt Service	-	-	107,573	-	-	107,573
Committed for						
Capital Projects	550,000	-	-	-	-	550,000
Assigned for						
Other Board Assignments	73,203	-	-	-	-	73,203
Retirement Benefits	100,000	-	-	-	-	100,000
Unassigned	2,273,757	-	-	-	(14,240)	2,259,517
<b>Total Fund Balance</b>	<b>\$ 3,872,678</b>	<b>\$ 10,545,012</b>	<b>\$ 107,573</b>	<b>\$ 173,972</b>	<b>\$ 178,711</b>	<b>\$ 14,877,946</b>



**INDEPENDENT SCHOOL DISTRICT #777**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE 5 – FUND BALANCES (continued)**

Deficit Fund balance account restricted under UFARS that is included in unassigned fund balance amounts is School Readiness, \$14,240 in the Community Service Fund.

**Fund Equity**

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. The following is a summary of the potential restricted fund balances for the governmental funds:

**A. Restricted for Construction**

This balance represents the funds restricted for the special capital projects that had bonded for revenues.

**B. Restricted for Food Service Operations**

This balance represents the positive fund balance of the Food Service Fund.

**C. Restricted for Debt Service**

These funds represent the funds restricted for the payment of general long-term obligation, bond principal, interest and related costs.

**D. Restricted for Adult Basic Education**

This account will represent the balance of carryover monies for all activity involving Adult Basic Education. This would include all state aid and any grants or local funding used in support of ABE.

**E. Restricted for ECFE (Early Childhood and Family Education)**

This fund balance restriction represents accumulated resources available to provide services for early childhood family education.

**F. Restricted for Staff Development**

In accordance with state statute, the District is required to restrict 2.0% of basic General Education revenue for staff development. The cumulative excess of such revenues over staff development expenditures is reported as a restriction of fund balance in the General Fund.

**G. Restricted for Levy Reduction**

This account represents the remaining funds transferred from the Debt Service Fund after the debt was paid off. These funds become an available resource in the fiscal year in which the related tax levy adjustment is recognized as revenue.

**H. Restricted for Operating Capital**

The District levies taxes and receives state aid to be used for the purchase of equipment, books and vehicles and to purchase, rent, improve, and repair school facilities as allowed by the state statute. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a restriction of fund balance in the General Fund.

**I. Restricted for Area Learning Center**

Represents amounts restricted for students attending area learning centers. Each district that sends students to an area learning center must restrict an amount equal to at least 90 percent of the district's average general education revenue, minus .0485 times the formula allowance (without the basic skills, transportation sparsity or transportation transition portions) per pupil unit times the number of pupil units attending area learning centers. The amount restricted may only be spent on program costs associated with the area learning center.

**INDEPENDENT SCHOOL DISTRICT #777  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020**

**NOTE 5 – FUND BALANCES (continued)**

**J. Restricted for Gifted and Talented**

This fund balance restriction represents accumulated resources available to provide gifted and talented programming in accordance with funding made available for that purpose.

**K. Restricted for Basic Skills Programs**

Represents resources available for the basic skills uses listed in Minnesota Statutes, section 126C.15, subd. 1.

**L. Restricted for Basic Skills for Extended Time**

This fund balance restriction represents resources available for the Basic Skills Extended Time Revenue of Minnesota Statutes section 126C.10, subd. 3(d).

**M. Restricted for Long-term Facilities Maintenance**

This account represents available resources to be used for LTFM Projects in accordance with the Ten-Year Plan. (Minnesota Statutes section 123B.595, subd. 12)

**N. Restricted for Medical Assistance**

This account represents available resources to be used for Medical Assistance expenditures in Finance Code 372.

**O. Restricted for Student Activities**

This account represents available resources to be used for Student Activities in accordance with the Manual for Activity Fund Accounting.

**NOTE 6 – DEFINED BENEFIT PENSION PLAN – PERA**

**Summary of Significant Accounting Policies**

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

**A. Plan Description**

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

**General Employees Retirement Plan:** (accounted for in the General Employees Fund)

All full-time and certain part-time employees of the [entity's name] are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

**INDEPENDENT SCHOOL DISTRICT #777**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**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.

**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 accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

**C. Contributions**

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

**General Employees Fund Contributions:**

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2020 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2020, were \$242,672. The District's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

**General Employees Fund Pension Costs**

At June 30, 2020, the District reported a liability of \$1,841,082 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 \$57,331. 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 0.0333 percent at the end of the measurement period and 0.0309 percent for the beginning of the period.

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District's proportionate share of net pension liability	\$	1,841,082
State's proportionate share of the net pension liability	\$	57,331

For the year ended June 30, 2020, the District recognized pension expense of \$195,924 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$4,294 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2020, the District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 26,210	\$ -
Change in Assumptions	-	30,010
Net Difference between projected and actual earnings on plan inv	11,867	-
Changes in proportion and differences between District Contributions and proportionate share of contributions	99,857	-
Contributions paid subsequent to the measurement date	165,117	-
Total	<u>\$ 303,051</u>	<u>\$ 30,010</u>

The \$137,934 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2020	\$ 113,820
2021	\$ (27,395)
2022	\$ (75,616)
2023	\$ (35,779)
2024	\$ -

**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 for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the General Employees Plan, 1.0 percent per year for the Police and Fire Plan, and 2.0 percent per year for the Correctional Plan.

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Actuarial assumptions used in the June 30, 2019 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2019. The most recent four-year experience study for Police and Fire Plan was completed in 2016. The five-year experience study for the Correctional Plan, prepared by a former actuary, was completed in 2012. The mortality assumption for the Correctional Plan is based on the Police and Fire Plan experience study completed in 2016. Economic assumptions were updated in 2018 based on a review of inflation and investment return assumptions.

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

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

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

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Domestic Stocks	35.50%	5.10%
International Stocks	25.00%	5.90%
Bonds	20.00%	75.00%
Alternative Assets	17.50%	5.90%
Unallocated Cash	2.00%	0.00%
Total	100.00%	

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2019 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund, the Police and Fire Fund, and the Correctional Fund were 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 following presents the District's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

<b>District's Proportionate share of NPL</b>		
1% decrease	Current	1% increase
6.50%	7.50%	8.50%
\$ 3,026,640	\$ 1,841,082	\$ 862,169

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**H. Pension Plan Fiduciary Net Position**

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

**NOTE 7 – DEFINED PENSION PLAN – TRA**

**Summary of Significant Accounting Policies**

*Pensions.* For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expenses, information about the fiduciary net position of the Teachers Retirement Association (TRA) and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. This 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 in 2015.

**A. Plan Description**

The teachers Retirement Association (TRA) is an administrator of multiple employer, cost-sharing, defined benefit retirement fund. TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security Coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

Educators employed in Minnesota's public elementary and secondary school, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State Colleges and Universities. Educators first hired by Minnesota State may elect TRA coverage or coverage through 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 1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	First ten years if service are up to July 1, 2006	1.2 percent per year
	First ten years if service are July 1, 2006 or after	1.4 percent per year
	All other years of services if service years are up to July 1, 2006	1.7 percent per year
	All other years of services if service years are July 1, 2006 or after	1.9 percent per year

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With these provisions

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

Or

**Tier II Benefits**

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

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

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

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

**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:

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

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

Employer Contributions Reported in TRA's CAFR	
Statement of Changes in Fiduciary Net Position	\$ 403,300,000
Add employer contributions not related to future contribution efforts	(688,000)
Deduct TRA's contributions not Included in allocation	(486,000)
Total Employer contributions	<u>402,126,000</u>
Total Non-Employer contributions	35,588,000
Employer contributions reported in schedule of employer and non-employer pension	<u>\$ 437,714</u>

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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.

**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
Actuarial Assumptions	
Investment Rate of Return	7.50%
Price Inflation	2.50%
Wage Inflation	2.85% before July 1 2028, and 3.25% after June 30, 2028
Projected Salary Increase	2.85% to 8.85% before July 1, 2028 and 3.25% to 9.25% after June 30, 2028
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually

**Mortality Assumptions**

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future 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 Stocks	35.50%	5.10%
International Stocks	25.00%	5.90%
Bonds	20.00%	75.00%
Alternative Assets	17.50%	5.90%
Unallocated Cash	2.00%	0.00%
Total	100.00%	



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The TRA Actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is six years. The *Difference between Expected and Actual Experience*, *Changes of Assumptions*, and *Changes in Proportion* use the amortization period of six years in the schedule presented. The amortization period for *Net Difference between Projected and Actual Investment Earnings On Pension Plan Investments* is five years as required by GASB 68.

**Changes in actuarial assumptions since the 2018 valuation:**

- The COLA was reduced from 2.0% each January to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.5% 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 7.50 percent. There was no change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2019 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was 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 \$5,016,355 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 .0787% at the end of the Measurement period and 0.0828% 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	\$	5,016,355
State's proportionate share of the net pension liability associated with the district	\$	444,115

For the year ended June 30, 2020, the district recognized pension expense of \$384,813. It also recognized \$33,758 as an increase to pension expense for the support provided by direct aid.

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

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 46,498
Change in Actuarial Assumptions	37,044	-
Net Difference between projected and actual earnings on plan inv	-	-
Changes in proportion	-	214,598
Contributions paid subsequent to the measurement date	328,770	-
<b>Total</b>	<b>\$ 365,814</b>	<b>\$ 261,096</b>

Deferred outflows of resources and (Deferred inflows of resources) will be recognized in pension expense as follows:

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2020	\$ (42,958)
2021	\$ (42,958)
2022	\$ (42,958)
2023	\$ (42,958)
2024	\$ (52,220)

**G. Pension Liability Sensitivity**

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

	<b>District's Proportionate share of NPL</b>		
	1% decrease	Current	1% increase
	6.50%	7.50%	8.50%
TRA	\$ 7,997,296	\$ 5,016,355	\$ 2,558,613

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 report can be obtained at [www.MinnesotaTRA.org](http://www.MinnesotaTRA.org), by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-40000; or by calling 651-296-2409 or 800-657-3669.

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

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

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**NOTE 8 – FLEXIBLE BENEFIT PLAN**

The District has a flexible benefit plan which is classified as a “cafeteria plan” under § 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the plan for health care and dependent care benefits.

Before the beginning of the plan year, which is from January 31 to December 31, each participant designates a total amount of pre-tax dollars to be contributed to the plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants’ annual contributions to the medical reimbursement portion of the plan, whether or not such contributions have been made.

Payments of insurance premiums are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund.

All plan property and income attributable to that property is solely the property of the District, subject to the claims of the District’s general creditors. Participants’ rights under the plan are equal to those of general creditors of the District in an amount equal to eligible health care and dependent care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

**NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN**

**A. Plan Description**

The District provides post-employment benefits to certain eligible employees through its OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. These benefits are summarized as follows:

Post-Employment Insurance Benefits – All retirees of the District have the option under state law to continue their medical insurance coverage through the District from the time of retirement until the employee reaches the age of eligibility for Medicare. Under the District’s plan the retirees are 100% responsible for their insurance premiums and the District does not assume any liability for the health insurance payments. The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an “implicit rate subsidy.” This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District’s younger and statistically healthier active employees.

No assets are accumulated in a trust that meets the criteria in GASBs No. 75, Paragraph 4.

The retiree health plan does not issue a publicly available financial report.

**B. Benefits Provided**

The plan provides medical insurance benefits provided to terminated or retired employees and their dependents and beneficiaries. Benefits are provided through a third-party insurer, and the cost of the benefits covered by the plan are described above.

**C. Employees Covered by Benefit Terms**

At the valuation date of July 1, 2019, the following employees were covered by the benefit terms:

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Inactive employees or beneficiaries currently receiving benefit payments	7
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	144
	151
	151

**D. Contributions**

For the year ended June 30, 2019, the District's actuarially computed benefit payments were \$21,290. Employees are not required to contribute to the plan.

**E. Net OPEB Liability**

The District's net OPEB liability was measured as of July 1, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

**F. Actuarial Assumptions**

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

Inflation	2.50 percent
Salary increases	Graded from 2.85% to 8.85%
Investment rate of return	N/A
Healthcare cost trend rates	6.5 percent for 2019 grading to 5.00% over 6 years

Mortality rates were based on the PUB-2010 Public Retirement Plans Headcount-Weighted Mortality Tables 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 as of July 1, 2019.

**G. Discount Rate**

The discount rate used to measure the total OPEB liability was 3.1%. The projection of cash flows used to determine the discount rate assumed that the District contributions will be made at rates equal to the actuarially determined contribution rates. Based on assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees.

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**NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)**

**H. Changes in the Net OPEB Liability**

	Increase (Decrease) Total OPEB Liability
Balances at June 30, 2019	\$ 504,466
Changes from the Prior Year:	
Service Cost	26,282
Interest Cost	17,687
Assumption Changes	(3,763)
Plan Changes	75,633
Difference between Expected and Actual Experience	(74,338)
Benefit Payments	(21,290)
Total Net Changes	20,211
Balances at June 30, 2020	\$ 524,677

The measurement date of the net OPEB liability was July 1, 2019; the date of the actuarial valuation on which the total OPEB liability is based was July 1, 2019. Update procedures were used to roll forward the total OPEB liability to the measurement date.

**H. Changes in the Net OPEB Liability (Continued)**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of changes in the District's new OPEB liability and related ratios, presented as required supplementary information following the notes to the financial statements, presents multiple year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits will be displayed.

**I. Sensitivity of the Net OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trend Rates**

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate 1 percentage point lower and 1 percentage point higher than the current discount rate:

	1% Decrease in Discount	Discount Rate	1% Increase in Discount Rate
Discount rate	2.10%	3.10%	4.10%
Net OPEB Liability	\$ 500,835	\$ 524,677	\$ 548,969

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a healthcare cost trend rate 1 percentage point lower and 1 percentage point higher than the current healthcare cost trend rates:

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NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2020**

**NOTE 9 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)**

	1% Decrease in Healthcare Trend Rate	Selected Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
Net OPEB Liability	\$ 548,969	\$ 524,677	\$ 500,835
Medical trend rate	5.50% decreasing to 4% over 5 years	6.50% decreasing to 5% over 5 years	7.50% decreasing to 6% over 5 years
Dental trend rate	N/A	N/A	N/A

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

For the year ended June 30, 2019 the District recognized OPEB expenses of \$46,494. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to the OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability Gains		\$ 59,470
Assumption Changes		3,010
District contributions made subsequent to the measurement date	\$ 45,339	-
	<u>\$ 45,339</u>	<u>\$ 62,480</u>

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

**A. Service Contracts & Construction**

The District has also entered into contracts for environmental, special education and computer technical services for fiscal year 2019-2020.

During fiscal year 2020 the District entered into various contracts for work to be performed on the school construction project to be completed in fiscal years 2020 and 2021. The total expected cost and commitments on these contracts is \$25,300,000.

**B. Federal and State Revenue and Receivables**

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

**NOTE 11 – INTERFUND RECEIVABLES AND PAYABLES**

At year end, interfund balances were as follows:

**Due to/from other funds: None**

**INDEPENDENT SCHOOL DISTRICT #777**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2020**

**NOTE 11 – INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)**

**Transfers to/from other funds:**

The building Construction Fund made a transfer to the Debt Service Fund during the year for \$2,878. This transfer was related to the requirements in the District's 2020 Debt Issue. The General Fund transferred \$240,708 to the Community Service to eliminate deficits. The General Fund also made various fund balance transfers within the fund to eliminate deficits.

**NOTE 12 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Excess of Expenditures over Budget**

Budget control for the funds is established by its total appropriations.

The Food Service Fund had expenditures exceeding appropriations of \$10,485 for the year ended June 30, 2020. The Community Service Fund had expenditures exceeding appropriations of \$60,982 for the year ended June 30, 2020. The Building Construction Fund had expenditures exceeding appropriations of \$33,584 for the year ended June 30, 2020. These over expenditures were considered necessary by the District Board.

**NOTE 13 – ISSUED BUT NOT YET EFFECTIVE ACCOUNTING PRONOUNCEMENTS**

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. The first statement issued but not yet implemented that will affect the District is Statement No. 87, Leases. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will be implemented at the District in the year ended June 30, 2022.

The second statement issued but not yet implemented that will affect the District is Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement will be implemented at the District in the year ended June 30, 2022.

The third statement issued but not yet implemented that will affect the District is Statement No. 94, Public- Private and Public-Public Partnerships and Availability Payment Arrangements. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This Statement will be implemented at the District in the year ended June 30, 2023.

**REQUIRED SUPPLEMENTARY INFORMATION**



**INDEPENDENT SCHOOL DISTRICT #777**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**YEAR ENDED JUNE 30, 2020**

	Original Budget	Final Budget	Actual	Variance with Final Budget
<b>REVENUES</b>				
Local Property Tax Levies	\$ 1,417,200	\$ 1,417,200	\$ 1,564,487	\$ 147,287
Other Local and County Sources	357,400	357,400	746,077	388,677
State Sources	8,169,000	8,388,300	8,625,584	237,284
Federal Sources	257,500	257,500	314,112	56,612
Sales and Other Conversion of Assets	154,400.00	154,400.00	54,960	(99,440)
Total Revenue	<u>10,355,500</u>	<u>10,574,800</u>	<u>11,305,220</u>	<u>730,420</u>
<b>EXPENDITURES</b>				
Administration	719,100	731,400	785,461	54,061
District Support Services	392,300	370,700	360,396	(10,304)
Regular Instruction	5,030,900	4,820,600	5,064,963	244,363
Vocational Instruction	545,900	399,000	227,711	(171,289)
Special Education Instruction	1,887,950	1,756,450	1,664,828	(91,622)
Instructional Support Services	245,500	203,500	156,018	(47,482)
Pupil Support Services	797,600	764,000	580,536	(183,464)
Sites and Buildings	1,176,800	1,158,400	1,151,679	(6,721)
Fiscal and Other Fixed-Cost Programs	40,800	48,800	39,830	(8,970)
Total Expenditures	<u>10,836,850</u>	<u>10,252,850</u>	<u>10,031,422</u>	<u>(221,428)</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	(481,350)	321,950	1,273,798	951,848
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	-	863,299	863,299
Transfers Out	-	-	(1,104,007)	(1,104,007)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(240,708)</u>	<u>(240,708)</u>
<b>NET CHANGE IN FUND BALANCE</b>	(481,350)	321,950	1,033,090	711,140
Fund Balance - Beginning of Year - as restated	<u>2,839,588</u>	<u>2,839,588</u>	<u>2,839,588</u>	<u>-</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>2,358,238</u>	<u>3,161,538</u>	<u>3,872,678</u>	<u>711,140</u>

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

**A. Basis of Accounting Policies**

The budget for each fund is prepared on the same basis of accounting as the financial statements. Each June the School Board adopts an annual budget for the following fiscal year for the General Fund, Food Service, Community Service, Capital Projects and Debt Service Funds. Under GASB 34 only the General Fund and major special revenue fund budgets should be reported as required supplementary information. The District does not have any major special revenue funds so only the General Fund Budget is being shown as required supplementary information. Budgets presented in this report for comparison to actual amounts are presented in accordance with generally accepted accounting principles.

Formal budgetary integration is employed as a management control device during the year for all the funds.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditures of monies are recorded in order to reserve that portion of the appropriations, is employed by the District to assure effective budgetary control and to facilitate effective cash planning and control. Encumbrance information has not been incorporated into the financial statements, however.

**INDEPENDENT SCHOOL DISTRICT #777**  
**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS AND SCHEDULE OF**  
**EMPLOYER CONTRIBUTIONS - OPEB**  
**YEAR ENDED JUNE 30, 2020**

Schedule of Changes in Net OPEB Liability and Related Ratios		
	June 30, 2020	June 30, 2019
Total Opeb Liability		
Service Cost	26,282	29,700
Interest Cost	17,687	16,794
Assumption Changes	(3,763)	
Plan Changes	75,633	
Differences between Exp. and Act. Experience	(74,338)	
Benefit Payments	(21,290)	(12,424)
Net Change in Total OPEB Liability	20,211	34,070
Net OPEB Obligation, Beginning of Year	504,466	470,396
Net OPEB Obligation, End of Year	\$ 524,677	\$ 504,466
Covered Employee Payroll	\$ 5,781,150	\$ 6,205,519
OPEB Liability as a percentage of covered employees covered employee payroll	9%	8%

Schedule of Employer Contributions - OPEB		
Actuarially Determind Contribution	\$	21,290
Contributions in Relation to the Actuarially Determined Contributions		(12,424)
Contributions Deficiency (Excess)		-

Note: These schedules are intended to show ten- year trend. Additional years will be reported as they become available.

**Note to the Schedule of Changes in Net OPEB Liability and Related Ratios**

The District implemented the standard as of June 30, 2019 and as such there has been Two valuation performed. The valuation date was July 1, 2019 and the measurement date was July 1, 2019. There have been no changes to plan provisions, assumptions, or methods since the prior report except for the following:

No assets are accumulated in a trust that meets the criteria in GASB No.75, Paragraph 4 to pay related benefits.

Changes of assumptions since prior measurement date:

- The health care trend rates, mortality tables, and salary increase rates were updated.
- The discount rate was changed from 3.40% to 3.10%.

**INDEPENDENT SCHOOL DISTRICT #777**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY, AND SCHEDULE**  
**OF EMPLOYER CONTRIBUTIONS**  
**YEAR ENDED JUNE 30, 2020**

**Schedule of Proportionate Share of the Net Pension Liability**

Plan	Actuarial Valuation Date	Employer's Proportion of the Net Pension Liability	Employer's	State's	Employer's Covered-Employee Payroll (b)	Employer's	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
			Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability		Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (a/b)	
PERA	6/30/2019	0.0333%	\$ 1,841,082	\$ 57,331	\$ 2,353,533	78.23%	80.20%
PERA	6/30/2018	0.0309%	\$ 1,714,205	\$ 56,205	\$ 2,075,413	82.60%	79.50%
PERA	6/30/2017	0.0275%	\$ 1,755,582	\$ 22,044	\$ 1,756,333	99.96%	75.90%
PERA	6/30/2016	0.0271%	\$ 2,200,386	\$ 28,681	\$ 1,707,960	128.83%	68.90%
PERA	6/30/2015	0.0264%	\$ 1,368,186	\$ -	\$ 1,582,297	86.47%	78.20%
PERA	6/30/2014	0.0282%	\$ 1,535,229	\$ -	\$ 1,575,794	97.43%	78.70%
TRA	6/30/2019	0.0787%	\$ 5,016,355	\$ 444,115	\$ 4,469,702	112.20%	78.07%
TRA	6/30/2018	0.0828%	\$ 5,200,615	\$ 488,725	\$ 4,598,027	113.11%	78.07%
TRA	6/30/2017	0.0809%	\$ 16,149,108	\$ 1,560,724	\$ 4,348,387	371.38%	51.60%
TRA	6/30/2016	0.0704%	\$ 16,792,080	\$ 1,686,219	\$ 4,107,293	408.84%	44.90%
TRA	6/30/2015	0.0794%	\$ 4,911,675	\$ 602,199	\$ 4,041,880	121.52%	76.80%
TRA	6/30/2014	0.0887%	\$ 4,087,232	\$ 287,410	\$ 4,100,861	99.67%	81.50%

Note: The schedule is provided prospectively with the District's fiscal year ended June 30, 2014 and is intended to show a ten year trend. Additional years will be reported as they become available.

**Schedule of Employer Contributions**

Year Ended June 30,	Statutorily Required Contribution (a)	Contributions	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions
		to the Statutorily Required Contribution (b)			as a Percentage of Covered-Employee Payroll (b/d)
PERA 2020	\$ 176,964	\$ 176,964	\$ -	\$ 2,359,520	7.50%
PERA 2019	\$ 176,515	\$ 176,515	\$ -	\$ 2,353,533	7.50%
PERA 2018	\$ 155,656	\$ 155,656	\$ -	\$ 2,075,413	7.50%
PERA 2017	\$ 131,725	\$ 131,725	\$ -	\$ 1,756,333	7.50%
PERA 2016	\$ 128,097	\$ 128,097	\$ -	\$ 1,707,960	7.50%
PERA 2015	\$ 117,090	\$ 117,090	\$ -	\$ 1,561,200	7.50%
TRA 2020	\$ 344,614	\$ 344,614	\$ -	\$ 4,469,702	7.90%
TRA 2019	\$ 343,015	\$ 343,015	\$ -	\$ 4,454,740	7.70%
TRA 2018	\$ 344,852	\$ 344,852	\$ -	\$ 4,598,027	7.50%
TRA 2017	\$ 326,129	\$ 326,129	\$ -	\$ 4,348,387	7.50%
TRA 2016	\$ 308,047	\$ 308,047	\$ -	\$ 4,107,293	7.50%
TRA 2015	\$ 303,141	\$ 303,141	\$ -	\$ 4,330,581	7.00%

Note: The schedule is provided prospectively with the District's fiscal year ended June 30, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available

**INDEPENDENT SCHOOL DISTRICT #777**  
**NOTES TO SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY, AND**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**YEAR ENDED JUNE 30, 2020**

**PERA – GENERAL EMPLOYEES RETIREMENT FUND**

**2019 Changes in Actuarial Assumptions**

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

**2019 Changes in Plan Provisions**

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

**2018 Changes in Plan Provisions**

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00% to 3.00%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00%, 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 1.00% per year with a provision to increase to 2.50% upon attainment of 90.00% funding ratio, to 50.00% of the Social Security cost of Living Adjustment, not less than 1.00% and not more than 1.50%, 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.

**2018 Changes in Actuarial Assumptions**

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00% per year through 2044, and 2.50% per year thereafter, to 1.25% per year.

**2017 Changes in Plan Provision**

- The state's special funding contribution increased from \$6 million to \$16 million.

**2017 Changes in Actuarial Assumptions**

- The Combined Service Annuity (CSA) loads were changed from 0.80% for active members and 60.00% for vested and nonvested deferred members. The revised CSA loads are now 0.00% for active member liability, 15.0% for vested deferred member liability, and 3.00% for nonvested member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00% per year for all years, to 1.00% per year through 2044, and 2.5% per year thereafter.

**2016 Changes in Actuarial Assumptions**

- The assumed post-retirement benefit increase rate was changed from 1.00% per year through 2035, and 2.50% per year thereafter, to 1.00% per year for all years.
- The assumed investment return was changed from 7.90% to 7.50%. The single discount rate was changed from 7.90% to 7.50%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth, and 2.50% for inflation.

**INDEPENDENT SCHOOL DISTRICT #777**  
**NOTES TO SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY, AND**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**YEAR ENDED JUNE 30, 2020**

**PERA – GENERAL EMPLOYEES RETIREMENT FUND (CONTINUED)**

**2015 Changes in Plan Provision**

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Retirement 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.

**2015 Changes in Actuarial Assumptions**

- The assumed post-retirement benefit increase rate was changed from 1.00% per year through 2030, and 2.50% per year thereafter, to 1.00% per year through 2035, and 2.50% per year thereafter.

**TEACHERS RETIREMENT ASSOCIATION (TRA)**

**2019 Changes in Actuarial Assumptions**

- The COLA was reduced from 2.0% each January to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.5% 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.

**2018 Changes in Actuarial Assumptions**

- The cost-of-living adjustment (COLA) was reduced from 2.00% each January 1 to 1.00%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.10% each year until reaching the ultimate rate of 1.50% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement 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 2.50% if the funded ratio was at least 90.00% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation in deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.00% to 3.00%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.50% to 7.50%, effective July 1, 2018.

**INDEPENDENT SCHOOL DISTRICT #777**  
**NOTES TO SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY, AND**  
**SCHEDULE OF EMPLOYER CONTRIBUTIONS**  
**YEAR ENDED JUNE 30, 2020**

**TEACHERS RETIRMENT ASSOCIATION (TRA) (continued)**

- The employer contribution rate is increased each July 1 over the next six 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.
- The single discount rate changed from 5.12% to 7.50%.

**2017 Changes in Actuarial Assumptions**

- The COLA was assumed to increase from 2.00% annually to 2.50% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.50%, but remain at 2.00% for all future years.
- Adjustments were made to the CSA loads. The active load was reduced from 1.40% to zero percent, the vested inactive load increased from 4.00% to 7.00%, and the nonvested inactive load increased from 4.00% to 9.00%.
- The investment return assumption was changed from 8.00% to 7.50%.
- The price inflation assumption was lowered from 2.75% to 2.50%.
- The payroll growth assumption was lowered from 3.50% to 3.00%.
- The general wage growth assumption was lowered from 3.50% to 2.85% for 10 years, followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate changed from 4.66% to 5.12%.

**2016 Changes in Actuarial Assumptions**

- The single discount rate was changed from 8.00% to 4.66%.

**2015 Changes in Plan Provisions**

- The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

**2015 Changes in Actuarial Assumptions**

- The annual COLA for the June 30, 2015 valuation assumed 2.00%. The prior year valuation used 2.00%, with an increase to 2.50% commencing in 2034.
- The discount rate used to measure the total pension liability was 8.00%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

**OTHER SUPPLEMENTARY INFORMATION**

**INDEPENDENT SCHOOL DISTRICT #777**  
**COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2020**

	<u>Food Service</u>	<u>Community Service</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and Temporary Investments	\$ 157,502	\$ 247,158	\$ 404,660
Receivables			
Current Property Taxes	-	38,541	38,541
Delinquent Property Taxes	-	789	789
Accounts	-	44,697	44,697
Due from Other Governments	87,142	4,082	91,224
Inventories	18,534	-	18,534
Total Assets	<u>263,178</u>	<u>335,267</u>	<u>598,445</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Account Payable	39,120	1,570	40,690
Due to Other Governments	316	430	746
Salaries Payable	49,770	63,354	113,124
Total Liabilities	<u>89,206</u>	<u>65,354</u>	<u>154,560</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Revenue	-	2,164	2,164
Property Taxes Levied for			
Subsequent Year	-	89,038	89,038
Total Deferred Inflows of Resources	<u>-</u>	<u>91,202</u>	<u>91,202</u>
<b>FUND BALANCES</b>			
Nonspendable	17,840	-	17,840
Restricted for Specific Purposes	156,132	192,951	349,083
Unassigned	-	(14,240)	(14,240)
Total Fund Balances	<u>173,972</u>	<u>178,711</u>	<u>352,683</u>
Total Liabilities Deferred Inflows of Resources and Fund Balances	<u>\$ 263,178</u>	<u>\$ 335,267</u>	<u>\$ 598,445</u>



**INDEPENDENT SCHOOL DISTRICT #777**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**- NONMAJOR GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2020**

	<u>Food Service</u>	<u>Community Service</u>	<u>Totals</u>
<b>REVENUES</b>			
Local Property Tax Levies	\$ -	\$ 87,697	\$ 87,697
Other Local and County Sources	35,856	685,562	721,418
State Sources	27,312	61,838	89,150
Federal Sources	516,895	-	516,895
Sales and Other Conversion of Assets	194,273	28,205	222,478
Total Revenue	<u>774,336</u>	<u>863,302</u>	<u>1,637,638</u>
<b>EXPENDITURES</b>			
Community Education and Services	-	835,687	835,687
Pupil Support Services	674,584	-	674,584
Total Expenditures	<u>674,584</u>	<u>835,687</u>	<u>1,510,271</u>
<b>EXCESS OF REVENUES OVER EXPENDITURES</b>	99,752	27,615	127,367
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds from Long Term Debt	-	92,500	92,500
Transfers In	-	240,708	240,708
Total Other Financing Sources (Uses)	<u>-</u>	<u>333,208</u>	<u>333,208</u>
<b>NET CHANGE IN FUND BALANCE</b>	99,752	360,823	460,575
Fund Balance - Beginning of Year	<u>74,220</u>	<u>(182,112)</u>	<u>(107,892)</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 173,972</u>	<u>\$ 178,711</u>	<u>\$ 352,683</u>

**INDEPENDENT SCHOOL DISTRICT #777**  
**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE**  
**YEAR ENDED JUNE 30, 2020**

	Audit	UFARS	Audit UFARS Difference		Audit	UFARS	Audit UFARS Difference
<b>01 GENERAL FUND</b>				<b>04 COMMUNITY SERVICE</b>			
Total Revenue	\$ 11,298,163	\$ 11,298,163	\$ -	Total Revenue	\$ 863,302	\$ 863,302	\$ -
Total Expenditures	10,031,422	10,031,422	-	Total Expenditures	835,687	835,687	-
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	82,179	82,179	-	4.60 Non Spendable Fund Balance	-	-	-
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.01 Student Activities	115,499	115,499	-	4.20 OPEB Liab	-	-	-
4.03 Staff Development	59,620	59,620	-	4.31 Community Education	126,662	126,662	-
4.05 Deferred Maintenance	-	-	-	4.32 E.C.F.E	65,278	65,278	-
4.06 Health and Safety	-	-	-	4.44 School Readiness	(14,240)	(14,240)	-
4.07 Capital Projects Levy	-	-	-	4.47 Adult Basic Education	1,011	1,011	-
4.08 Cooperative Revenue	-	-	-	4.52 OPEB Liab Not In Trust	-	-	-
4.14 Operating Debt	-	-	-	<i>Restricted:</i>			
4.16 Levy Reduction	68,382	68,382	-	4.64 Restricted Fund Balance	-	-	-
4.17 Taconite Building Maint	-	-	-	<i>Unassigned:</i>			
4.23 Certain Teacher Programs	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.24 Operating Capital	138,855	138,855	-	<b>06 BUILDING CONSTRUCTION</b>			
4.26 \$25 Taconite	-	-	-	Total Revenue	\$ 438,667	\$ 438,667	\$ -
4.27 Disabled Accessibility	-	-	-	Total Expenditures	18,830,706	18,830,706	-
4.28 Learning & Development	-	-	-	<i>Non Spendable:</i>			
4.34 Area Learning Center	1,628	1,628	-	4.60 Non Spendable Fund Balance	-	-	-
4.35 Contracted Alt. Programs	-	-	-	<i>Restricted / Reserved:</i>			
4.36 State Approved Alt. Program	-	-	-	4.07 Capital Projects Levy	-	-	-
4.38 Gifted & Talented	49,322	49,322	-	4.67 LTFM	388,785	388,785	-
4.41 Basic Skills Programs	126,025	126,025	-	<i>Restricted:</i>			
4.45 Career Tech Programs	-	-	-	4.64 Restricted Fund Balance	10,156,227	10,156,227	-
4.49 Safe School Crime	34,249	34,249	-	<i>Unassigned:</i>			
4.50 Pre-Kindergarten	-	-	-	4.63 Unassigned Fund Balance	-	-	-
4.59 Basic Skills EXT Time	27,028	27,028	-	<b>07 DEBT SERVICE</b>			
4.53 Unfunded Sev & Retirement Levy	-	-	-	Total Revenue	\$ 1,910,082	\$ 1,910,082	\$ -
4.67 LTFM	77,743	77,743	-	Total Expenditures	1,808,796	1,808,795	(1)
4.72 Medical Assistance	95,188	95,188	-	<i>Non Spendable:</i>			
<i>Restricted:</i>				4.60 Non Spendable Fund Balance	-	-	-
4.64 Restricted Fund Balance	-	-	-	<i>Restricted / Reserved:</i>			
<i>Committed:</i>				4.25 Bond Refundings	-	-	-
4.18 Committed for Separation	-	-	-	4.51 QZAB Payments	-	-	-
4.61 Committed Fund Balance	550,000	550,000	-	<i>Restricted:</i>			
<i>Assigned:</i>				4.64 Restricted Fund Balance	107,573	107,575	2
4.62 Assigned Fund Balance	173,203	173,203	-	<i>Unassigned:</i>			
<i>Unassigned:</i>				4.63 Unassigned Fund Balance	-	-	-
4.22 Unassigned Fund Balance	2,273,757	2,273,759	2	<b>08 TRUST</b>			
<b>02 FOOD SERVICES</b>				Total Revenue	\$ 45,979	\$ 45,980	\$ 1
Total Revenue	\$ 774,336	\$ 774,336	\$ -	Total Expenditures	42,400	42,400	-
Total Expenditures	674,584	674,584	-	4.22 NET ASSETS	362,787	362,787	-
<i>Non Spendable:</i>							
4.60 Non Spendable Fund Balance	17,840	17,840	-				
<i>Restricted / Reserved:</i>							
4.52 OPEB Liab Not In Trust	-	-	-				
<i>Restricted:</i>							
4.64 Restricted Fund Balance	156,131	156,131	-				
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	-	-	-				

**NOTE TO TABLE**

The District has no balances to report in funds 08,20,25,45, or 47.

**INDEPENDENT SCHOOL DISTRICT #777**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND RELATED NOTES**  
**YEAR ENDED JUNE 30, 2020**

<b>U.S. Department of Education</b>	<u>Federal CFDA #</u>	<u>Federal Expenditures</u>
Passed Thru Minnesota Department of Education		
Special Education Cluster		
Special Education - Grants to State	84.027	\$ 61,139
Special Education - Preschool Grants	84.173	<u>378</u>
Total Special Education Cluster		\$ 61,517
Title 1 Grants to Local Education Agencies	84.010	203,936
Improving Teacher Quality State Grants	84.367	46,127
Career and Technical Education - Basic Grants to States	84.048	<u>2,532</u>
Total U.S. Department of Education		<u>314,112</u>
<b>US Department of Agriculture</b>		
Passed through Minnesota Department of Education		
Child Nutrition Cluster:		
School Breakfast Program	10.553	52,597
National School Lunch Program	10.555	155,023
Summer Food Service Program for Children	10.559	<u>285,565</u>
Total Child Nutrition Cluster		<u>493,185</u>
Child and Adult Care Food Program	10.558	<u>23,710</u>
Total U.S. Department of Agriculture		<u>516,895</u>
Total Federal Awards		<u><u>\$ 831,007</u></u>

**Notes to Schedule of Expenditures of Federal Awards**

- Note 1: **Basis of Presentation:** The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2020. The information in this Schedule is presented in accordance with the requirements of 2 CFR Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in fund balance, or cash flows of the District.
- Note 2: **Summary of Significant Accounting Policies:** Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.
- Note 2: Non-monetary assistance of \$35,405 is reported in this schedule, representing the value of commodities received and disbursed for the U.S. Department of Agriculture National School Lunch Program (CFDA No. 10.555).
- Note 3: All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.
- Note 4: During the year ended June 30, 2020 the District did not pass any federal money to sub-recipients.

## **OTHER REPORTS AND COMMUNICATIONS**

**BRIAN D. KOEHN, CPA, PLLC**



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

To the School Board of  
Independent School District #777  
Benson, Minnesota

I 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 #777, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Independent School District #777 's basic financial statements and have issued my report thereon dated December 29, 2020.

**Internal Control Over Financial Reporting**

In planning and performing my audit of the financial statements, I considered Independent School District #777 's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Independent School District #777's internal control. Accordingly, I do not express an opinion on the effectiveness of Independent School District #777s internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and responses, I did identify certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

School Board of  
Independent School District #777

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. I consider the deficiencies described in the accompanying Schedule of Findings and Responses as items, 2020-001, 2020-002 and 2020-003, to be material weaknesses.

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.

### **Compliance and Other Matters**

In connection with my engagement to audit the financial statements of Independent School District #777, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Independent School District #777's Response to Findings**

The Independent School District #777's response to the findings identified in my audit is described in the accompanying Schedule of Findings and Responses. I did not audit Independent School District #777's responses and, accordingly, I express no opinion on them.

### **Purpose of this Report**

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

*Brian D Koehn, CPA, PLLC*

**Brian D Koehn, CPA, PLLC**  
Parkers Prairie, Minnesota  
December 29, 2020

# BRIAN D. KOEHN, CPA, PLLC

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

To the School Board of  
Independent School District #777  
Benson, Minnesota

### **Report on Compliance for Each Major Federal Program**

I have audited the Independent School District #777's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Independent School District #777's major federal programs for the year ended June 30, 2020. Independent School District #777's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

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

### ***Auditor's Responsibility***

My responsibility is to express an opinion on compliance for each of the Independent School District #777's major federal programs based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independent School District #777's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for each major federal program. However, my audit does not provide a legal determination of Independent School District #777 compliance.

### ***Opinion on Each Major Federal Program***

In my opinion, Independent School District #777 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

## Report on Internal Control over Compliance

Management of Independent School District #777 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Independent School District #777 internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Independent School District #777's internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. I did identify one deficiency in internal control over compliance as described in the accompanying schedule of findings and questioned costs as item 2020-008, that I consider to be material weakness.

Independent School District #777's response to the internal control over compliance findings identified in my audit is described in the accompanying schedule of findings and questioned costs. Independent School District #777's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, I express no opinion on the response.

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

*Brian D. Koehn, CPA, PLLC*

**Brian D. Koehn, CPA, PLLC**  
Parkers Prairie, Minnesota  
December 29, 2020



**BRIAN D. KOEHN, CPA, PLLC**

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**REPORT ON MINNESOTA LEGAL COMPLIANCE**

To the School Board of  
Independent School District #777  
Benson, Minnesota

I 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 #777, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Independent School District #777's basic financial statements and have issued my report thereon dated December 29, 2020.

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 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. My audit considered all of the listed categories.

In connection with my audit, nothing came to my attention that caused us to believe that Independent School District #777 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Schools* as listed in the schedule of findings and questioned costs as findings 2020-004, 2020-005, 2020-006, and 2020-007. However, my audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had I performed additional procedures; other matters may have come to my attention regarding the Independent School District #777's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of my 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.



**Brian D Koehn, CPA, PLLC**  
Parkers Prairie, Minnesota  
December 29, 2020

**INDEPENDENT SCHOOL DISTRICT #777  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2020**

**SCHEDULE OF FINDINGS AND RESPONSES**

**FINDING 2020-001: Controls over Period End Financial Reporting Process**

**Conditions:** The District's internal control procedures over financial reporting under generally accepted accounting principles (GAAP) are not sufficient to fully prevent material misstatements in annual financial reporting. Therefore, the potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the District's internal controls.

**Criteria:** The District should have controls in place to prevent and detect a material misstatement in the financial statements and related footnoted disclosures in a timely manner.

**Effect:** Possible material misstatement in the financial statements.

**Cause:** Because of time and monetary constraints, the District has not established controls over the financial reporting process, but relies on the audit firm to prepare the annual financial statements and related disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

**Recommendation:** I recommend the District continue to evaluate its internal control process over period end financial reporting to determine if additional internal control procedures should be implemented to ensure that the financial statements and notes, accounting principles, and accounts are adjusted to their appropriate year-end balances in accordance with GAAP.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings:**

There is no disagreement with the audit finding.

**Actions Planned in Response to Finding:**

The District will continue to rely on the audit firm to assist the District with its preparation of financial statements and related notes, selection and application of accounting principles, and propose certain adjustments to accounts to be in accordance with GAAP; however, the District will accept responsibility for the financial statements and has established internal control procedures to document the annual review of the financial statements by appropriate District personnel.

**Official Responsible for Ensuring CAP:**

The Business Manager will be the official responsible for ensuring corrective action.

**Planned Completion Date for CAP:**

The CAP is ongoing.

**Plan to Monitor Completion of CAP:**

The Board of Education will be monitoring this corrective action plan.

**INDEPENDENT SCHOOL DISTRICT #777  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2020**

**B – FINANCIAL STATEMENT FINDINGS  
Material Weakness**

**Finding 2020-002 Financial Oversight & Monitoring Controls**

**Condition:** The audit firm proposed, and the District posted to its general ledger journal entries to correct material misstatements that was not initially identified by the District's internal control procedures. These adjustments were related to a capital assets and retainage payable related to the building project.

**Criteria:** The District should have controls in place to prevent and detect material misstatements in the financial statements in a timely manner.

**Context:** Due to lack of time and expertise accounting personnel of the District rely upon the audit firm to propose audit adjustments.

**Effect:** These instances resulted in proposed and accepted audit adjustment that materially affected the financial statements.

**Cause:** The District has not established controls to ensure that all material accounts are reviewed and adjusted to their appropriate year end balances.

**Recommendation:** I recommend the District evaluate its oversight and monitoring controls and year end procedures to help reduce the possibility that any of the financial accounts are materially misstated. These types of controls are essential to ensure that the information contained in the financial statements is materially correct.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings:** District does not dispute the finding.

**Actions Planned in Response to Finding:** The Business/Finance employees will review all financial accounts and adjust to year end balances. The Business/Finance employees will seek assistance as needed.

**Official Responsible for Ensuring CAP:** Business Manager.

**Planned Completion Date for CAP:** Ongoing.

**Plan to Monitor Completion of CAP:** School Board Finance Committee

**INDEPENDENT SCHOOL DISTRICT #777  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2020**

**B – FINANCIAL STATEMENT FINDINGS  
Material Weakness**

**Finding 2020-003 Lack of Segregation of Accounting Duties**

**Criteria:** A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping, and reconciliation function, etc.

**Condition:** The District does not have adequate segregation of accounting duties.

**Context:** This finding impacts the internal control for all significant accounting functions.

**Effect:** Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

**Cause:** Due to a small office staff.

**Recommendation:** The accounting functions should be reviewed to determine if additional segregation of duties is feasible. This may be possible by either the addition of staff or shifting some duties of current staff to improve the efficiency and effectiveness of financial management for the District.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings:** District does not dispute this finding.

**Actions Planned in Response to Finding:** Administration will review the segregation of accounting duties to attempt to resolve the lack of segregation of duties.

**Official Responsible for Ensuring CAP:** Superintendent/Business Manager.

**Planned Completion Date for CAP:** Ongoing.

**Plan to Monitor Completion of CAP:** The School Board will monitor this CAP.

**INDEPENDENT SCHOOL DISTRICT #777  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2020**

**B – FINANCIAL STATEMENT FINDINGS  
Minnesota Legal Compliance**

**Finding 2020-004 Bank Balance exceeding FDIC Coverage and Collateral**

**Criteria:** Minnesota Statutes require District to maintain collateral of 110% of all deposits that exceed FDIC Coverage.

**Condition:** The District's bank balance exceeded FDIC coverage and pledged collateral during the month of June 2020.

**Context:** This finding impacts the District's compliance with Minnesota Statutes.

**Effect:** The District's deposits were uninsured for a short time during the year ended June 30, 2020 and the District was not in compliance with Minnesota Statutes.

**Cause:** The District relied on the bank to monitor the deposits and necessary pledged collateral.

**Recommendation:** I recommend the District monitor the FDIC coverage and pledged Collateral when large deposits are made.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings:** District does not dispute this finding.

**Actions Planned in Response to Finding:** The District has already changed its procedures to ensure that all bank accounts are properly insured or covered by adequate collateral.

**Official Responsible for Ensuring CAP:** Business Manager.

**Planned Completion Date for CAP:** June 30, 2021.

**Plan to Monitor Completion of CAP:** The School Board will monitor this CAP.

**INDEPENDENT SCHOOL DISTRICT #777  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2020**

**B – FINANCIAL STATEMENT FINDINGS  
Minnesota Legal Compliance**

**Finding 2020-005 Broker Certification Forms**

**Criteria:** Minnesota Statute 118A.04 requires the District to provide each broker with a written statement of investment restrictions prior to the initial investment transaction. The statute also requires the District to retain documentation from the broker acknowledging and agreement with the investment restrictions.

**Condition:** The District did not provide or retain documentation of the investment restrictions with each broker

**Context:** This finding impacts the District's compliance with Minnesota Statutes.

**Effect:** The District was not in compliance with Minnesota Statutes.

**Cause:** The District did not fully understand the requirement

**Recommendation:** I recommend the District obtain the signed broker certification forms from each broker as soon as possible and annually thereafter.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings:** District does not dispute this finding.

**Actions Planned in Response to Finding:** The District has already begun the process of obtaining the signed broker certification forms from each broker and will continue to do so annually.

**Official Responsible for Ensuring CAP:** Business Manager.

**Planned Completion Date for CAP:** June 30, 2021.

**Plan to Monitor Completion of CAP:** The School Board will monitor this CAP.

**INDEPENDENT SCHOOL DISTRICT #777  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2020**

**B – FINANCIAL STATEMENT FINDINGS**

**Minnesota Legal Compliance**

**Finding 2020-006 Donations Accepted by Resolution**

**Criteria:** Minnesota Statutes 465.03 requires the District to accept all gifts on terms prescribed by the donor by a resolution of the School Board.

**Condition:** The School Board accepted donations by motion during the year ended June 30,2020.

**Context:** This finding impacts the District's compliance with Minnesota Statutes.

**Effect:** The District was not in compliance with Minnesota Statutes.

**Cause:** The District did not fully understand the requirement.

**Recommendation:** I recommend the District accept all gifts and donations by Resolution.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings:** District does not dispute this finding.

**Actions Planned in Response to Finding:** The District has changed its policies during the year ended June 30, 2021 to accept donations by resolution instead of by motion.

**Official Responsible for Ensuring CAP:** Superintendent.

**Planned Completion Date for CAP:** June 30, 2021.

**Plan to Monitor Completion of CAP:** The School Board will monitor this CAP.

**INDEPENDENT SCHOOL DISTRICT #777  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2020**

**B – FINANCIAL STATEMENT FINDINGS  
Minnesota Legal Compliance**

**Finding 2020-007 Compliance with the Manual for Activity Fund Accounting**

**Criteria:** Minnesota Statutes 123b.77 requires the District to adopt the uniform financial accounting and reporting standards for Minnesota school districts provided for in guidelines adopted by the Minnesota Department of Education. This would include chapter 14 Student Activity Accounting or Manual for Activity Fund Accounting (MAFA). There was a new version of MAFA issued that was effective for the year ended June 30, 2020.

**Condition:** The District did not fully implement the procedures and standards required by MAFA for the year ended June 30, 2020. The District was not in compliance with the following provisions:

- Did the School Board annually review and approve the activities?
- Was all fundraising activity approved by the board?
- Did the District obtain a Student Activity Purpose Summary on an annual basis?

**Context:** This finding impacts the District's compliance with Minnesota Statutes.

**Effect:** The District was not in compliance with Minnesota Statutes.

**Cause:** The District did not fully understand the requirement

**Recommendation:** I recommend the District review MAFA and adopt procedures to ensure compliance.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings:** District does not dispute this finding.

**Actions Planned in Response to Finding:** The District has already changed its procedures related to student activities. The School Board has reviewed and approved the activities during the year ended June 30, 2021, and the Student Activity Purpose Summaries have all been obtained for the year ended June 30, 2021. The District will also work to ensure compliance with MAFA during the year ended June 30, 2021.

**Official Responsible for Ensuring CAP:** Business Manager.

**Planned Completion Date for CAP:** June 30, 2021.

**Plan to Monitor Completion of CAP:** The School Board will monitor this CAP.



**INDEPENDENT SCHOOL DISTRICT #777  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
JUNE 30, 2020**

**C – FEDERAL AWARD FINDINGS & QUESTIONED COSTS**

**Audit Finding 2020-008 – Child Nutrition Cluster (CFDA 10.533, 10.555): Grant Period – Year Ended June 30, 2020, Department of Agriculture & Department of Education, passed through Minnesota Department of Education**

**Criteria:** A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping, and reconciliation function. This should be documented in a written policy.

**Condition:** The District does not have adequate segregation of accounting duties or related written policy.

**Context:** This finding impacts the internal control for all significant accounting functions.

**Effect:** Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

**Cause:** Due to personnel changes and circumstances of health & civic duties at times one person is doing all the accounting functions of cash receipts, disbursements & journal entries.

**Questioned Costs:** None

**Recommendation:** The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. The District, if possible, should have a plan in place for temporary absences of current staff. The District should also adopt the policy in writing.

**CORRECTIVE ACTION PLAN (CAP):**

**Explanation of Disagreement with Audit Findings:** District does not dispute this finding.

**Actions Planned in Response to Finding:** Administration will review the segregation of accounting duties to attempt to resolve the lack of segregation of duties within the District office until it becomes cost prohibitive.

**Official Responsible for Ensuring CAP:** Superintendent/Business Manager.

**Planned Completion Date for CAP:** June 30, 2021.

**Plan to Monitor Completion of CAP:** The School Board will monitor this CAP.



# Benson Public Schools

ISD #777

1400 Montana Ave., Benson, MN 56215

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www.benson.k12.mn.us

"Exceptional Opportunities for Every Student's Success"

## CORRECTIVE ACTION PLAN

December 29, 2020

Cognizant or Oversight Agency for Audit

Benson Schools - Independent School District No. 777 (the District) respectfully submits the following corrective action plan for the year ended June 30, 2020.

### **Name and address of independent public accounting firm:**

Brian D. Koehn, CPA, PLLC  
210 South Clayborn Ave  
Parkers Prairie, MN 56361

**Audit Period:** Fiscal Year Ended June 30, 2020

The findings from the year ended June 30, 2020 schedule of findings and questioned costs in accordance with uniform guidance are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

## **FINDINGS - FINANCIAL STATEMENT AUDIT MATERIAL WEAKNESS**

### **FINDING 2020-001: Controls over Period End Financial Reporting Process**

**Recommendation:** I recommend the District continue to evaluate its internal control process over period end financial reporting to determine if additional internal control procedures should be implemented to ensure that the financial statements and notes, accounting principles, and accounts are adjusted to their appropriate year-end balances in accordance with GAAP.

**Actions Planned in Response to Finding:** The District will continue to rely on the audit firm to assist the District with its preparation of financial statements and related notes, selection and application of accounting principles, and propose certain adjustments to accounts to be in accordance with GAAP; however, the District will accept responsibility for the financial statements and has established internal control procedures to document the annual review of the financial statements by appropriate District personnel.

### **Finding 2020-002 Financial Oversight & Monitoring Controls**

**Recommendation:** I recommend the District evaluate its oversight and monitoring controls and year end procedures to help reduce the possibility that any of the financial accounts are materially misstated. These types of controls are essential to ensure that the information contained in the financial statements is materially correct.

**Actions Planned in Response to Finding:** The Business/Finance employees will review all financial accounts and adjust to year end balances. The Business/Finance employees will seek assistance as needed.

### **Finding 2020-003 Lack of Segregation of Accounting Duties**

**Recommendation:** The accounting functions should be reviewed to determine if additional segregation of duties is feasible. This may be possible by either the addition of staff or shifting some duties of current staff to improve the efficiency and effectiveness of financial management for the District.

**Actions Planned in Response to Finding:** Administration will review the segregation of accounting duties to attempt to resolve the lack of segregation of duties.

## **MINNESOTA LEGAL COMPLIANCE**

### **Finding 2020-004 Bank Balance exceeding FDIC Coverage and Collateral**

**Recommendation:** I recommend the District monitor the FDIC coverage and pledged Collateral when large deposits are made.

**Actions Planned in Response to Finding:** The District has already changed its procedures to ensure that all bank accounts are properly insured or covered by adequate collateral.

### **Finding 2020-005 Broker Certification Forms**

**Recommendation:** I recommend the District obtain the signed broker certification forms from each broker as soon as possible and annually thereafter.

**Actions Planned in Response to Finding:** The District has already begun the process of obtaining the signed broker certification forms from each broker and will continue to do so annually.

**Finding 2020-006 Donations Accepted by Resolution**

**Recommendation:** I recommend the District accept all gifts and donations by Resolution.

**Actions Planned in Response to Finding:** The District has changed its policies during the year ended June 30, 2021 to accept donations by resolution instead of by motion.

**Finding 2020-007 Compliance with the Manual for Activity Fund Accounting**

**Recommendation:** I recommend the District review MAFA and adopt procedures to ensure compliance.

**Actions Planned in Response to Finding:** The District has already changed its procedures related to student activities. The School Board has reviewed and approved the activities during the year ended June 30, 2021, and the Student Activity Purpose Summaries have all been obtained for the year ended June 30, 2021. The District will also work to ensure compliance with MAFA during the year ended June 30, 2021.

**Audit Finding 2020-008 – Child Nutrition Cluster (CFDA 10.533, 10.555): Grant Period – Year Ended June 30, 2020, Department of Agriculture & Department of Education, passed through Minnesota Department of Education**

**Recommendation:** The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. The District, if possible, should have a plan in place for temporary absences of current staff. The District should also adopt the policy in writing.

**Actions Planned in Response to Finding:** Administration will review the segregation of accounting duties to attempt to resolve the lack of segregation of duties within the District office until it becomes cost prohibitive.

If there are questions regarding this plan, please call Katie Foley at 320-842-2705.

Sincerely yours,



Katie Foley, Director of Finance