

**Independent School District No. 14
Fridley, Minnesota**

Financial Statements

June 30, 2020



Independent School District No. 14
Table of Contents

Board of Education and Administration	1
Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	20
Statement of Activities	21
Fund Financial Statements	
Balance Sheet – Governmental Funds	22
Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds	23
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds	25
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	26
Statement of Net Position – Proprietary Funds	27
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds	28
Statement of Cash Flows – Proprietary Funds	29
Notes to Financial Statements	31
Required Supplementary Information	
Schedule of Changes in Total OPEB Liability and Related Ratios	70
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability General Employees Retirement Fund	71
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability TRA Retirement Fund	71
Schedule of District Contributions General Employees Retirement Fund	72
Schedule of District Contributions TRA Retirement Fund	72
Notes to the Required Supplementary Information	73
Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds	78
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	79
Combining Statement of Net Position – Internal Service Funds	80
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position – Internal Service Funds	81

Independent School District No. 14
Table of Contents

Supplementary Information (Continued)	
Combining Statement of Cash Flows – Internal Service Funds	82
Uniform Financial Accounting and Reporting Standards Compliance Table	83
Schedule of Expenditures of Federal Awards	84
Notes to the Schedule of Expenditures of Federal Awards	85
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	87
Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance	89
Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance	91
Minnesota Legal Compliance	95

**Independent School District No. 14
Board of Education and Administration
June 30, 2020**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Donna Prewedo	Chair/Vice Chair	January 1, 2024
Carol Thornton	Clerk	January 1, 2022
Avonna Starck	Treasurer	January 1, 2022
Jason Karnopp	Director	January 1, 2024
Abdisalam Adam	Director	January 1, 2024
Vacant	Director	January 1, 2022
<u>Ex Officio Member</u>		
Dr. Kim Hiel	Superintendent	

Independent Auditor's Report

To the School Board
Independent School District No. 14
Fridley, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 14, Fridley, Minnesota, as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 14, Fridley, Minnesota, as of June 30, 2020, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 84

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the financial statements.

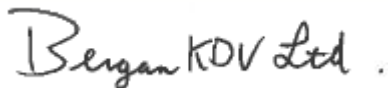
Other Matters (Continued)

Other Information (Continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2020, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Minneapolis, Minnesota
October 9, 2020

Independent School District No. 14 Management's Discussion and Analysis

This section of Independent School District No. 14 (the "District") annual financial report presents its Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ending June 30, 2020. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Key Points of Interest

- The District's Governmental Funds Balance Sheet reflects an Unassigned General Fund balance of \$2,911,436. This is an increase from the prior year of \$368,657.
- The total General Fund balance of \$7,460,945 is an increase of \$1,577,642 from the prior year.
- The government-wide Statement of Activities shows an increase in net position of \$1,677,746.
- The net position value on the government-wide Statement of Net Position is a deficit of \$25,070,295. Net position value is similar to the Balance Sheet's Equity for Private Sector businesses.
- Total government wide long-term liabilities, excluding OPEB and pension liabilities, are \$56,586,902 and are comprised of \$52,627,810 in General Obligation (G.O.) Bonds, \$3,115,642 in capital leases and \$843,450 of severance and compensated absences payable.
- The District's investment in capital assets, net of depreciation, is \$51,463,735. The decrease from the prior year of \$2,611,827 is due to depreciation expense outpacing capital investment with the focus of summer projects on cleaning and preparing for the safe return of students in the fall. The G.O. bonds plus the capital leases (the debt related to investment in capital assets) exceeds the investment in capital assets by \$2,231,159.

Overview of the Financial Statements

This annual report consists of two parts: MD&A (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 government-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 government-wide statements. The governmental fund statements tell how basic services such as regular and special education are financed in the short term as well as what remains for future spending. Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Figure A-1 on the next page shows how the various parts of this annual report are arranged and related to one another.

**Independent School District No. 14
Management's Discussion and Analysis**

Overview of the Financial Statements (Continued)

Figure A-2 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.

Figure A-2			
Major Features of the District-Wide and Fund Financial Statements			
	District-Wide Statements	Fund Financial Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not fiduciary, such as special education and building maintenance	Activities of the District operates similar to private business - Internal Service Fund
Required Financial Statements	- Statement of Net Position - Statement of Activities	- Balance Sheet - Statement of Revenues, Expenditures, and Changes in Fund Balances	- Statement of Net Position - Statement of Revenues, Expenses and Changes in Fund Net Position - Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when good or services have been received and related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

Independent School District No. 14 Management's Discussion and Analysis

Overview of the Financial Statements (Continued)

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets, deferred outflows of resources, liabilities and deferred inflows of resources, are one way to measure the District's financial health or position.

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

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.

The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that indicates whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs and obligations.

Financial Analysis of the District as A Whole

The Statement of Net Position identifies current assets and liabilities from noncurrent assets and long-term debt, respectively. The ratio of these current assets of \$35.5 million to current liabilities of \$8.9 million is 4.0. A "current ratio" greater than 1.0 indicates that sufficient assets are available that can be converted to cash to meet District obligations payable over the next 12-month period.

The Statement of Net Position includes noncurrent assets not reported on the governmental funds balance sheet. These noncurrent assets include the total acquisition cost of the District's capital assets less accumulated depreciation. During the year, the District acquired \$1,064,355 of additional capital assets. The majority of this increase is comprised of work in progress related to stadium lighting replacements and HVAC controller upgrades. The remaining capital asset additions consist of purchases associated with the District's Long-Term Facilities Maintenance program. Depreciation expense for the year equaled \$3,675,580. The current year depreciation expense was greater than the increase in new investment in capital equipment resulting in a decrease in the net capital asset total to \$51,463,735 compared to \$54,075,562 for the prior year.

Independent School District No. 14 Management's Discussion and Analysis

Financial Analysis of the District as A Whole (Continued)

Related to the noncurrent assets are the general obligation bonds. On November 8, 2018, the District issued \$2,450,000 General Obligation Taxable OPEB Refunding Bonds, Series 2018A. These bonds refunded the OPEB bond issued in 2009 to fund the districts obligation for retiree insurance benefits. On February 15, 2017, the District issued \$1,960,000 G.O. Tax Abatement Bonds, Series 2017A. The proceeds funded parking lot construction projects throughout the District. The District issued \$25,890,000 G.O. School Building bonds, Series 2016A in February of 2016. The voters of the District authorized the school building issue in November of 2015. Over the course of three years, the proceeds funded safety and security upgrades, deferred maintenance, building renovations, technology improvements, and building additions. The remaining liability on these bonds, net of unamortized premiums, as of June 30, 2020, is \$52.6 million. The capital asset additions and the amortization of the general obligation resulted in an increase of \$1,164,000 in the net investment in capital assets total compared to the prior year.

Additional long-term debt for severance pay (employee separation pay based on unused sick time) is \$0.4 million. This includes \$0.3 million owed to employees who have retired prior to June 30 and an estimate of \$0.1 million for employees who qualify or will qualify for retirement at a future date.

The District reported an OPEB liability of \$2,984,659, an increase of \$90,212 from the prior year.

Due to changes, primarily in actuarial assumptions used by the State of Minnesota's public pensions, the District reported a total net pension liability of \$26.0 million, a decrease of \$.6 million from the previous year.

Overall, the District's net position increased \$1,677,746 during the year from current year operations and total net position decreased to a deficit of \$25.1 million.

**Independent School District No. 14
Management's Discussion and Analysis**

Financial Analysis of the District as A Whole (Continued)

**Figure A-3
Condensed Statement of Net Position (in Thousands of Dollars)**

	<u>2020</u>	<u>2019</u>	<u>Percent Change</u>
Current and OPEB assets	\$ 35,451	\$ 32,623	8.7%
Capital assets	<u>51,464</u>	<u>54,076</u>	(4.8%)
Total assets	<u>86,915</u>	<u>86,699</u>	0.2%
Deferred outflows of resources	<u>23,075</u>	<u>33,495</u>	(31.1%)
Current liabilities	8,940	9,702	(7.9%)
Long-term liabilities	<u>81,345</u>	<u>85,899</u>	(5.3%)
Total liabilities	<u>90,285</u>	<u>95,601</u>	(5.6%)
Deferred inflows of resources	<u>44,775</u>	<u>51,427</u>	(12.9%)
Net investment in capital assets	(2,231)	(2,566)	13.1%
Restricted for debt service	218	20	(990.0%)
Restricted for other purposes	3,604	1,980	82.0%
Unrestricted net position	<u>(26,661)</u>	<u>(26,268)</u>	1.5%
Total net position	<u>\$ (25,070)</u>	<u>\$ (26,834)</u>	6.6%

**Independent School District No. 14
Management's Discussion and Analysis**

Financial Analysis of the District as A Whole (Continued)

**Figure A-4
Changes in Net Position from Operating Results (in Thousands of Dollars)**

	<u>2020</u>	<u>2019</u>	<u>Percent Change</u>
Revenues			
Program revenues			
Charges for services	\$ 2,014.7	\$ 2,750.8	(26.8%)
Operating grants and contributions	19,181.1	19,969.4	(3.9%)
Capital grants and contributions	604.6	610.2	(0.9%)
General revenues			
Property taxes	11,322.1	10,483.4	8.0%
State formula aid	20,472.8	19,035.0	7.6%
Other	283.9	417.6	(32.0%)
Total revenues	<u>53,879.2</u>	<u>53,266.4</u>	<u>1.2%</u>
Expenses			
Administration and district support	4,117.9	3,114.3	32.2%
Instruction, pupil support, student food, and transportation services	36,798.0	25,490.8	44.4%
Sites and buildings	3,171.4	2,949.7	7.5%
Community services	2,800.5	2,755.1	1.6%
Interest and fiscal charges on long-term debt	1,595.4	1,839.0	(13.2%)
Fiscal and other fixed cost programs	190.0	192.7	(1.4%)
Unallocated depreciation (buildings)	3,527.8	3,485.2	1.2%
Total expenses	<u>52,201.0</u>	<u>39,826.8</u>	<u>31.1%</u>
Increase (decrease) in net position	<u>\$ 1,678.2</u>	<u>\$ 13,439.6</u>	<u>(87.5%)</u>

The Statement of Activities is government-wide and, like the Statement of Net Position, the first year it was prepared was 2003. Figure A-4 illustrates that an increase in net position of \$1,677,746 is attributable to activity during the year.

The pie chart in Figure A-5 on the following page shows the sources of District revenues. Program revenues include operating grants and contributions which totals 35.6% of total revenue. Operating grants and contributions consist mostly of state and federal funding of special education and other state and federal categorical spending. Charges for services, comprised of mostly special education tuition billings, food service and community center receipts make up 3.7% of revenue. Capital Grants consisting of state aid for operating capital is 1.1% of revenue.

General revenues include the state aid formula which accounts for 38.0% of the District's total funding. Property taxes make up 21.0% of the total funding.

**Independent School District No. 14
Management's Discussion and Analysis**

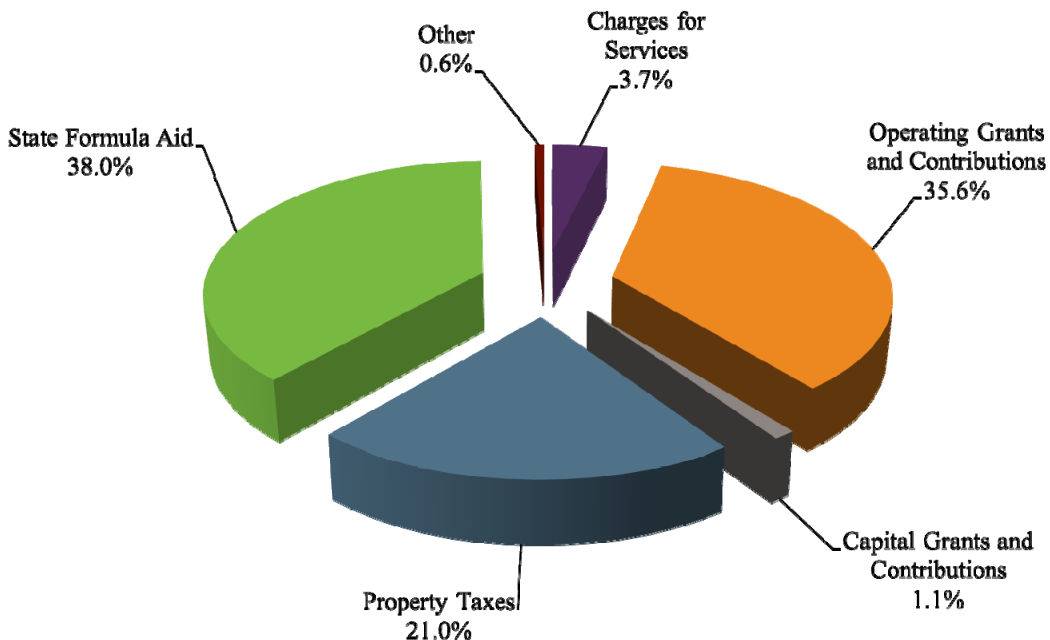
Financial Analysis of the District as A Whole (Continued)

Revenues for the year increased by \$612,800, or 1.2%. State categorical aids increased compared to the prior year by 7.6%, or \$1,437,800. Property tax levy revenues increased 8.0%, or \$838,700. The increase in state aids is due to an increase in enrollment, while property taxes increased due to an increase in the levy. Operating grants and contributions decreased \$788,300 due to a decrease in special education, offset slightly by an increase in integration/desegregation transportation revenue and supplemental safe schools supplemental aid received by the District.

Expenses for the year were \$12,374,200, or 31.1%, higher than the previous year. The largest factor in the increase in expenses was last years' reduction and adjustment in the District's net pension liability for its share of the State of Minnesota Pension Plans. Administration and district support increased 32.2% or \$1,003,600. Instruction, pupil support, student food, and transportation services increased 44.4%, or \$11,307,200.

The pie chart illustrated in Figure A-6 on the following page indicates the costs of the District's programs and services. The District's expenses predominantly related to instructing students and pupil support (including food service and student transportation) accounted for 70.5% of the government-wide expenditures, which is a slightly higher percentage of government-wide expenditures than in prior years. Sites and buildings were 6.1%, administration and district support services accounted for 7.9%, community services expenditures were 5.4% and less than 1% was spent on fiscal and other fixed programs. Interest expense on the District's outstanding long-term debt was 3.0% and 6.8% of expense was attributable to unallocated depreciation (buildings).

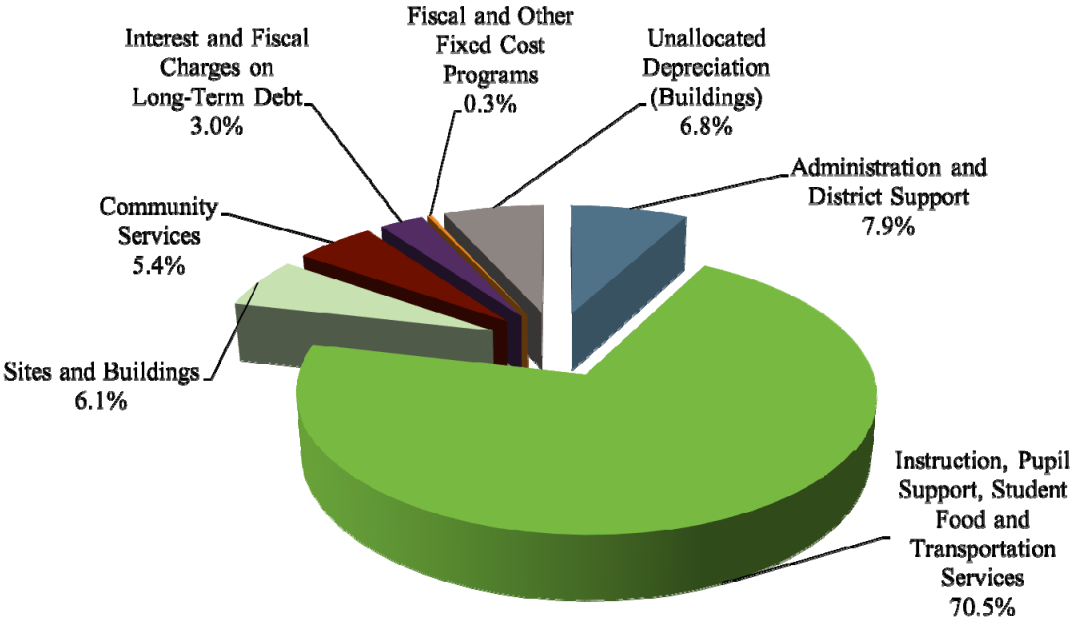
**Figure A-5
Sources of Revenue for Fiscal Year 2020**



**Independent School District No. 14
Management's Discussion and Analysis**

Financial Analysis of the District as A Whole (Continued)

**Figure A-6
Expenses for Fiscal Year 2020**



**Independent School District No. 14
Management's Discussion and Analysis**

Financial Analysis of the District as A Whole (Continued)

Figure A-7 presents the cost of the major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for the specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

**Figure A-7
Net Cost of Activities (in thousands of dollars)**

	Total Cost of Services			Net Cost of Services		
	2020	2019	Percent Change	2020	2019	Percent Change
Administration/district support	\$ 4,118	\$ 3,114	32.2%	\$ 4,104	\$ 3,102	32.3%
Regular instruction	17,572	10,355	69.7%	9,157	1,972	364.4%
Vocational instruction	464	311	49.2%	393	278	41.4%
Special instruction	9,095	6,322	43.9%	2,428	(1,106)	(319.5%)
Instructional support	2,984	2,258	32.2%	2,085	1,267	64.6%
Pupil support services	4,932	4,307	14.5%	3,626	3,238	12.0%
Sites and buildings	3,171	2,949	7.5%	2,556	2,327	9.8%
Fiscal and other fixed programs	190	192	(1.0%)	190	192	(1.0%)
Food service	1,752	1,939	(9.6%)	(48)	(262)	(81.7%)
Community services	2,800	2,755	1.6%	787	164	379.9%
Unallocated depreciation	3,528	3,485	1.2%	3,528	3,485	1.2%
Interest on long-term debt	1,595	1,839	(13.3%)	1,595	1,839	(13.3%)
Total	\$ 52,201	\$ 39,826	31.1%	\$ 30,401	\$ 16,496	84.3%

The cost of all District activities this year was \$52.2 million.

- Users of the District's programs financed some of the costs (\$2.0 million).
- The federal and state governments subsidized certain programs with operating and capital grants and contributions (\$19.2 million).
- District and state taxpayers financed most of the District's activity, \$20.5 million from unrestricted state aid and \$11.3 million from property taxes.
- Investment and other income decreased slightly from the previous year and remains insignificant in comparison to other revenue sources.

Financial Analysis of the District's Funds

As the District completed the year, its governmental funds reported a combined fund balance of \$10,219,113. This is an increase of \$1,986,372 from last year. This increase largely resides in the general fund with decreased spending resulting from the COVID-19 pandemic across wages and benefits and purchased services with programming reduced as mandated.

Independent School District No. 14 Management's Discussion and Analysis

Financial Analysis of the District's Funds (Continued)

The General Fund unassigned fund balance at June 30, 2020, increased \$368,657 to a balance of \$2,911,436. The assigned fund balance at June 30, 2020, was \$2,599,775. The assigned fund balance consists of funds for students, capital projects, separation and retirement benefits, medical assistance (pre 2016-2017), funds for curriculum adoption, and pandemic support to other funds. The restricted fund balance increased from the prior year due to the timing of expenditures as it relates to the District's Medical Assistance (post 2017-2018), long-term facilities maintenance ten-year plan and carry-forward of capital projects levy funds.

The Capital Projects Fund restricted fund balance at June 30, 2020 increased \$385,126 as a result of limited planning time and restricted building access for end-of-year projects.

General Fund Budgetary Points of Interest

General Fund revenues of \$44,394,055 were within 0.8% of budget overall. The District overbudgeted revenues from local property taxes by \$167,714, with delinquent taxes coming in higher than anticipated.

The revenue budget was amended \$292,396 to reflect an anticipated increase in property taxes and other county and local revenues.

General Fund expenditures of \$42,338,911 were under budget, with actual expenditures varying from budgeted expenditures by \$1,916,625. In total, the variance was 4.3%; however, there were variances within several functions of the District. The largest difference was in Elementary and Secondary Regular Instruction, which was under budget by \$907,536, or 5.3%, as a result of conservative budgeting due to an anticipated decline in enrollment, an unsettled teacher master contract and budgeting for extra teaching positions that were not filled. Special education expenditures were under budget by \$332,753 as the District elected to not use federal funds toward tuition billing in the current year as budgeted, and a decrease in purchased services related to the COVID-19 pandemic occurred. Sites and buildings capital outlay expenditures were under budget by \$453,281, or 57.0%, due to the delay of end-of-school year building projects resulting from the COVID-19 pandemic. A portion of the sites and buildings capital outlay budget variance is offset by the non-capital sites and buildings budget coming in over budget by \$350,608 due to how the budget and actual expenditures were classified.

The expenditure budget was amended \$240,369 to a final budget of \$44,255,536. This adjustment was made to reflect an increase in vocational enrollment and corresponding staffing and resources adjustments.

Capital Asset and Debt Administration

Capital Assets

Figure A-8 illustrates a comparison of capital assets between this year and last year. During the year, the District acquired a net \$1,055,331 of capital assets. The improvements category increased \$532,225 during the year due to the completion of Hayes parking lot improvements and the replacement of the High School stadium lights, both of which were in work in progress in the prior year. The Buildings category increased with the completion of the Middle School pool renovation and other various smaller building projects.

**Independent School District No. 14
Management's Discussion and Analysis**

Capital Asset and Debt Administration (Continued)

Capital Assets (Continued)

Depreciation expense for the year was \$3,675,580, which remains consistent with the prior years' depreciation expense.

**Figure A-8
Capital Assets**

	<u>2020</u>	<u>2019</u>	<u>Percent Change</u>
Land	\$ 657,500	\$ 657,500	- %
Work in progress	378,139	439,425	(13.9%)
Improvements	4,284,206	3,751,981	14.2%
Buildings	89,476,992	89,080,095	0.4%
Equipment	<u>3,412,971</u>	<u>3,225,476</u>	5.8%
Total before depreciation	<u>98,209,808</u>	<u>97,154,477</u>	1.1%
Accumulated depreciation	<u>(46,746,073)</u>	<u>(43,078,915)</u>	8.5%
Capital assets (net of accumulated depreciation)	<u>\$ 51,463,735</u>	<u>\$ 54,075,562</u>	(4.8%)

Long-Term Debt

At year-end, the District had \$60,392,227 in total long-term debt as shown in Figure A-9. More detailed information about the District's long-term liabilities is presented in the notes to financial statements.

**Figure A-9
Outstanding Long-Term Debt and Separation and Severance Payable**

	<u>2020</u>	<u>2019</u>	<u>Percent Change</u>
General Obligation Bonds, Leases and Notes	\$ 55,743,452	\$ 59,592,598	(6.5%)
Separation and Severance and Vacation Payable	<u>843,450</u>	<u>799,629</u>	5.5%
Total	<u>\$ 56,586,902</u>	<u>\$ 60,392,227</u>	(6.3%)

The decrease in General Obligation Bonds, Leases and Notes is primarily related to the principal payment of current debt outstanding. In 2018, the District issued \$2,450,000 General Obligation Taxable OPEB Refunding Bonds, Series 2018A. These bonds refund the OPEB bond issued in 2009 to fund the districts obligation for retiree insurance benefits. In 2017, the District issued \$1,960,000 G.O. Abatement Bonds, Series 2017A for parking lot improvements throughout the District. The District issued \$25,890,000 G.O. School Building bonds, Series 2016A in the February of 2016. The voters of the District authorized the bond issue in November of 2015.

Independent School District No. 14 Management's Discussion and Analysis

Factor's Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of a number of existing circumstances that could significantly affect its financial health in the future:

- The Minnesota legislature determines education funding for each biennium. Future increases are uncertain at the time of issuance.
- The District's student enrollment increased to 2,915 students in FY 2019-20. This is a slight increase of 15 students or .55% from FY 2018-19. The District had experienced consistent enrollment growth until the past few years and the District was anticipating another decline in enrollment for FY 2019-20. The District had made it a priority to focus on retaining our resident students while continuing to promote opportunities for all students. In FY 2019-20, the District saw a decrease in the number of resident students enrolling in other districts and an increase in the number of open enrolled students coming to Fridley. Both of these shifts increasing enrollment are the direct result of the efforts made by District leadership and help provide stability for future years. The majority of school district funding has a direct relationship with enrollment. For example, state formula aid will increase or decrease with these changes. The direction of the District's enrollment will be a key factor for the District going forward.
- The District has a potential liability of several million dollars in post-retirement benefits (health insurance) to be paid to current and future retirees of the District. Because the District expects new retirements over the course of the next few years, payments for these benefits will continue for several years to come. Funding for these expenses will come from an OPEB trust established in 2010. The unfunded portion of this liability is reported in the District statements beginning with the fiscal year ended June 30, 2009, as required by GASB 43 and 45, and subsequently GASB 75.
- The single largest expenses for the District are staff salaries. All of the District bargaining groups have contracts in place through June 30, 2021.
- Historically, Fridley has had a relatively high number of open-enrolled and non-resident students. While our District is able to receive state aid for these students, it would put the District in a difficult financial position if these students chose not to attend our schools in future years.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Business Manager, Independent School District 14, 6000 West Moore Lake Drive, Fridley, Minnesota 55432.

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BASIC FINANCIAL STATEMENTS

Independent School District No. 14
Statement of Net Position
June 30, 2020

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 19,671,822
Current property taxes receivable	8,680,219
Delinquent property taxes receivable	179,995
Accounts receivable, net of allowance	72,383
Interest receivable	197,990
Due from Department of Education	5,223,018
Due from Federal Government through Department of Education	1,104,465
Due from other Minnesota school districts	50,522
Due from other governmental units	26,464
Inventory	30,542
Prepaid items	213,368
Capital assets not being depreciated	
Land	657,500
Construction in progress	378,139
Capital assets net of accumulated depreciation	
Buildings	46,407,160
Land improvements	2,908,560
Furniture and equipment	1,112,376
Total assets	<u>86,914,523</u>
Deferred Outflows of Resources	
Deferred charges on refunding	48,558
Deferred outflows of resources related to OPEB	397,953
Deferred outflows of resources related to pensions	22,628,366
Total deferred outflows of resources	<u>23,074,877</u>
 Total assets and deferred outflows of resources	 <u>\$ 109,989,400</u>
Liabilities	
Accounts and contracts payable	\$ 386,002
Salaries and benefits payable	2,017,425
Incurred but not reported claims	218,475
Interest payable	817,283
Due to other Minnesota school districts	40,231
Due to other governmental units	11,995
Unearned revenue	1,178,425
Bond principal payable (net unamortized premium)	
Payable within one year	3,010,000
Payable after one year	49,617,810
Capital lease payable	
Payable within one year	766,379
Payable after one year	2,349,263
Vacation payable	
Payable within one year	422,316
Severance payable	
Payable within one year	70,960
Payable after one year	350,174
Net OPEB Liability	2,984,659
Net pension liability	26,043,479
Total liabilities	<u>90,284,876</u>
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	11,534,332
Deferred inflows of resources related to OPEB	564,749
Deferred inflows of resources related to pensions	32,675,738
Total deferred inflows of resources	<u>44,774,819</u>
Net Position	
Net investment in capital assets	(2,231,159)
Restricted for	
Debt service	217,509
Capital projects	829,228
Other purposes	2,774,688
Unrestricted	(26,660,561)
Total net position	<u>(25,070,295)</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 109,989,400</u>

See notes to financial statements.

Independent School District No. 14
Statement of Activities
Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental activities					
Administration	\$ 2,030,913	\$ -	\$ -	\$ -	\$ (2,030,913)
District support services	2,087,017	-	14,379	-	(2,072,638)
Elementary and secondary regular instruction	17,571,923	121,104	8,293,427	-	(9,157,392)
Vocational education instruction	463,672	-	70,836	-	(392,836)
Special education instruction	9,094,587	468,224	6,198,614	-	(2,427,749)
Instructional support services	2,984,084	-	898,764	-	(2,085,320)
Pupil support services	4,932,509	-	1,306,887	-	(3,625,622)
Sites and buildings	3,171,374	-	10,880	604,584	(2,555,910)
Fiscal and other fixed cost programs	189,989	-	-	-	(189,989)
Food service	1,751,679	250,770	1,548,529	-	47,620
Community education and services	2,800,457	1,174,562	838,758	-	(787,137)
Unallocated depreciation	3,527,811	-	-	-	(3,527,811)
Interest and fiscal charges on long-term debt	1,595,390	-	-	-	(1,595,390)
Total governmental activities	<u>\$ 52,201,405</u>	<u>\$ 2,014,660</u>	<u>\$ 19,181,074</u>	<u>\$ 604,584</u>	(30,401,087)
General revenues					
Taxes					
					6,515,361
					367,680
					4,439,063
					20,472,813
					283,916
					<u>32,078,833</u>
Change in net position					1,677,746
Net position - beginning					(26,834,585)
Change in accounting principle (See Note 11)					86,544
Net position - beginning, restated					<u>(26,748,041)</u>
Net position - ending					<u>\$ (25,070,295)</u>

Independent School District No. 14
Balance Sheet - Governmental Funds
June 30, 2020

	General	Debt Service	Capital Projects	Other Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 5,130,222	\$ 1,797,435	\$ 829,228	\$ 1,349,250	\$ 9,106,135
Current property taxes receivable	5,228,209	2,786,972	-	665,038	8,680,219
Delinquent property taxes receivable	100,876	64,030	-	15,089	179,995
Accounts receivable, net of allowance	10,619	-	-	46,609	57,228
Interest receivable	65,177	-	-	-	65,177
Due from Department of Education	5,137,208	63,699	-	22,111	5,223,018
Due from Federal Government through Department of Education	1,049,320	-	-	55,145	1,104,465
Due from other Minnesota school districts	38,138	-	-	12,384	50,522
Due from other governmental units	24,059	-	-	2,405	26,464
Inventory	-	-	-	30,542	30,542
Prepaid items	207,678	-	-	5,690	213,368
	<u>\$ 16,991,506</u>	<u>\$ 4,712,136</u>	<u>\$ 829,228</u>	<u>\$ 2,204,263</u>	<u>\$ 24,737,133</u>
Liabilities					
Accounts and contracts payable	\$ 300,076	\$ -	\$ -	\$ 12,520	\$ 312,596
Salaries and benefits payable	1,934,744	-	-	82,681	2,017,425
Due to other Minnesota school districts	40,231	-	-	-	40,231
Due to other governmental units	11,850	-	-	145	11,995
Unearned revenue	3,508	-	-	27,472	30,980
Severance payable	421,134	-	-	-	421,134
Total liabilities	<u>2,711,543</u>	<u>-</u>	<u>-</u>	<u>122,818</u>	<u>2,834,361</u>
Deferred Inflows of Resources					
Unavailable revenue - delinquent property taxes	83,648	53,090	-	12,589	149,327
Property taxes levied for subsequent year's expenditures	6,735,370	3,871,186	-	927,776	11,534,332
Total deferred inflows of resources	<u>6,819,018</u>	<u>3,924,276</u>	<u>-</u>	<u>940,365</u>	<u>11,683,659</u>
Fund Balances					
Nonspendable	207,678	-	-	36,232	243,910
Restricted	1,742,056	787,860	829,228	1,104,848	4,463,992
Assigned	2,599,775	-	-	-	2,599,775
Unassigned	2,911,436	-	-	-	2,911,436
Total fund balances	<u>7,460,945</u>	<u>787,860</u>	<u>829,228</u>	<u>1,141,080</u>	<u>10,219,113</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 16,991,506</u>	<u>\$ 4,712,136</u>	<u>\$ 829,228</u>	<u>\$ 2,204,263</u>	<u>\$ 24,737,133</u>

**Independent School District No. 14
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2020**

Total fund balances - governmental funds	\$ 10,219,113
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore, are not reported as assets	
Cost of capital assets	98,209,808
Less accumulated depreciation	(46,746,073)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable	(48,605,000)
Capital lease payable	(3,115,642)
Compensated absences payable	(422,316)
Net discounts/premiums	(4,022,810)
Deferred refundings	48,558
Net OPEB liability	(2,984,659)
Net pension liability	(26,043,479)
Deferred outflows of resources and deferred inflows of resources are created as a result of differences between actual and expected contributions and earnings on plan investments as well as changes in proportion and are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	22,628,366
Deferred inflows of resources related to pensions	(32,675,738)
Deferred outflows of resources related to OPEB	397,953
Deferred inflows of resources related to OPEB	(564,749)
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	149,327
The Internal Service Fund is used by management to charge the cost of the retiree benefit plan. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Position.	4,771,281
The Post Employment Benefits Revocable Trust Internal Service Fund is used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities.	4,503,048
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	(817,283)
Total net position - governmental activities	<u>\$ (25,070,295)</u>

Independent School District No. 14
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2020

	General	Debt Service	Capital Projects	Other Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	\$ 6,457,443	\$ 3,863,438	\$ -	\$ 897,463	\$ 11,218,344
Other local and county revenues	1,422,674	18,830	-	1,361,541	2,803,045
Revenue from state sources	35,171,289	585,815	-	760,720	36,517,824
Revenue from federal sources	1,334,896	-	-	1,443,441	2,778,337
Sales and other conversion of assets	7,753	-	-	250,770	258,523
Total revenues	<u>44,394,055</u>	<u>4,468,083</u>	<u>-</u>	<u>4,713,935</u>	<u>53,576,073</u>
Expenditures					
Current					
Administration	1,801,646	-	-	-	1,801,646
District support services	2,033,572	-	-	-	2,033,572
Elementary and secondary regular instruction	16,446,088	-	-	-	16,446,088
Vocational education instruction	428,749	-	-	-	428,749
Special education instruction	8,641,136	-	-	-	8,641,136
Instructional support services	2,567,525	-	-	-	2,567,525
Pupil support services	4,836,839	-	-	-	4,836,839
Sites and buildings	3,699,696	-	-	-	3,699,696
Fiscal and other fixed cost programs	189,989	-	-	-	189,989
Food service	-	-	-	1,736,002	1,736,002
Community education and services	-	-	-	2,712,714	2,712,714
Capital outlay					
District support services	100,612	-	-	-	100,612
Elementary and secondary regular instruction	77,342	-	-	-	77,342
Instructional support services	286,157	-	-	-	286,157
Sites and buildings	342,073	-	161,946	-	504,019
Food service	-	-	-	13,646	13,646
Community education and services	-	-	-	252	252
Debt service					
Principal	772,701	2,430,000	-	450,000	3,652,701
Interest and fiscal charges	114,786	1,917,350	-	96,895	2,129,031
Total expenditures	<u>42,338,911</u>	<u>4,347,350</u>	<u>161,946</u>	<u>5,009,509</u>	<u>51,857,716</u>
Excess of revenues over (under) expenditures	2,055,144	120,733	(161,946)	(295,574)	1,718,357
Other Financing Sources (Uses)					
Proceeds from capital leases	268,015	-	-	-	268,015
Transfers in	-	-	547,072	284,989	832,061
Transfers out	(832,061)	-	-	-	(832,061)
Total other financing sources (uses)	<u>(564,046)</u>	<u>-</u>	<u>547,072</u>	<u>284,989</u>	<u>268,015</u>
Net change in fund balances	1,491,098	120,733	385,126	(10,585)	1,986,372
Fund Balances					
Beginning of year	5,883,303	667,127	444,102	1,151,665	8,146,197
Change in accounting principle (See Note 11)	86,544	-	-	-	86,544
Beginning of year, restated	<u>5,969,847</u>	<u>667,127</u>	<u>444,102</u>	<u>1,151,665</u>	<u>8,232,741</u>
End of year	<u>\$ 7,460,945</u>	<u>\$ 787,860</u>	<u>\$ 829,228</u>	<u>\$ 1,141,080</u>	<u>\$ 10,219,113</u>

See notes to the financial statements.

Independent School District No. 14
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities -
Governmental Funds
Year Ended June 30, 2020

Net change in fund balances - total governmental funds \$ 1,986,372

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

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

Capital outlays	1,064,355
Depreciation expense	(3,675,580)
Loss on disposal of capital assets	(602)

Compensated absences and severance are recognized as they are paid in the governmental funds but are recognized as the expense is incurred in the Statement of Activities.	44,493
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Net post employment benefit obligations are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	45,143
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Governmental Funds recognize pension contributions as expenditures at the time of payments in the funds whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	(2,460,008)
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Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	3,652,701
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Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however interest expense is recognized as the interest accrues, regardless of when it is due.	77,625
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Governmental funds report the effect of bond discounts, premiums and deferred refundings when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	456,016
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Proceeds from the sale of bonds and issuance of capital leases are recognized as other financing sources in the governmental funds increasing fund balance but have no effect on net position in the Statement of Activities.	
Capital lease payable	(268,015)

The Post Employment Benefits Revocable Trust Internal Service Fund is used to charge the benefits to the fund that incurs the cost. This amount represents the change in assets available to fund the liabilities.	(42,714)
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The Internal Service Fund is used by management to charge the costs of the retiree health insurance plan. The net gain is reported within the governmental activities in the Statement of Activities.	694,200
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Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	<u>103,760</u>
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Change in net position - governmental activities	<u><u>\$ 1,677,746</u></u>
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Independent School District No. 14
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2020

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 6,441,723	\$ 6,625,157	\$ 6,457,443	\$ (167,714)
Other local and county revenues	1,318,974	1,428,974	1,422,674	(6,300)
Revenue from state sources	35,303,641	35,253,963	35,171,289	(82,674)
Revenue from federal sources	1,390,336	1,438,976	1,334,896	(104,080)
Sales and other conversion of assets	9,600	9,600	7,753	(1,847)
Total revenues	<u>44,464,274</u>	<u>44,756,670</u>	<u>44,394,055</u>	<u>(362,615)</u>
Expenditures				
Current				
Administration	1,811,614	1,878,264	1,801,646	(76,618)
District support services	2,207,459	2,259,708	2,033,572	(226,136)
Elementary and secondary regular instruction	17,232,103	17,353,624	16,446,088	(907,536)
Vocational education instruction	343,981	492,313	428,749	(63,564)
Special education instruction	9,212,550	8,973,889	8,641,136	(332,753)
Instructional support services	2,719,575	2,728,664	2,567,525	(161,139)
Pupil support services	4,841,500	4,871,554	4,836,839	(34,715)
Sites and buildings	3,349,088	3,349,088	3,699,696	350,608
Fiscal and other fixed cost programs	191,854	191,854	189,989	(1,865)
Capital outlay				
Administration	5,000	5,000	-	(5,000)
District support services	9,775	9,775	100,612	90,837
Elementary and secondary regular instruction	94,791	94,791	77,342	(17,449)
Special education instruction	9,000	9,000	-	(9,000)
Instructional support services	315,726	315,726	286,157	(29,569)
Sites and buildings	744,219	795,354	342,073	(453,281)
Debt service				
Principal	823,494	823,494	772,701	(50,793)
Interest and fiscal charges	103,438	103,438	114,786	11,348
Total expenditures	<u>44,015,167</u>	<u>44,255,536</u>	<u>42,338,911</u>	<u>(1,916,625)</u>
Excess of revenues over expenditures	449,107	501,134	2,055,144	1,554,010
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	2,000	2,000	-	(2,000)
Proceeds from capital leases	86,400	86,400	268,015	181,615
Transfers out	(610,630)	(610,630)	(832,061)	(221,431)
Total other financing sources (uses)	<u>(522,230)</u>	<u>(522,230)</u>	<u>(564,046)</u>	<u>(41,816)</u>
Net change in fund balances	<u>\$ (73,123)</u>	<u>\$ (21,096)</u>	1,491,098	<u>\$ 1,512,194</u>
Fund Balance				
Beginning of year			5,883,303	
Change in accounting principle (See Note 11)			86,544	
Beginning of year, restated			<u>5,969,847</u>	
End of year			<u>\$ 7,460,945</u>	

Independent School District No. 14
Statement of Net Position - Proprietary Funds
June 30, 2020

	<u>Total Internal Service Funds</u>
Assets	
Cash and cash equivalents	\$ 6,769,513
Investments	3,796,174
Accounts receivable	15,155
Interest receivable	<u>132,813</u>
Total assets	<u><u>\$ 10,713,655</u></u>
Liabilities	
Accounts payable	\$ 73,406
Incurred but not reported claims	218,475
Unearned revenue	<u>1,147,445</u>
Total liabilities	<u>1,439,326</u>
Net Position	
Unrestricted	<u>9,274,329</u>
Total liabilities and net position	<u><u>\$ 10,713,655</u></u>

Independent School District No. 14
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended June 30, 2020

	<u>Total Internal Service Funds</u>
Operating Revenues	
Charges for services	\$ 6,228,518
Operating Expense	
Insurance	5,056,999
Administrative	<u>566,905</u>
Total operating expenses	<u>5,623,904</u>
Operating income	604,614
Nonoperating Revenues	
Investment income	<u>46,872</u>
Change in net position	651,486
Net Position	
Beginning of year	<u>8,622,843</u>
End of year	<u><u>\$ 9,274,329</u></u>

Independent School District No. 14
Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2020

	<u>Total Internal Service Funds</u>
Cash Flows - Operating Activities	
Receipts from district contribution	\$ 220,681
Receipts from employees	5,992,254
Payments to vendors	<u>(5,593,884)</u>
Net cash flows - operating activities	619,051
Cash Flows - Investing Activities	
Net sale/(purchase) of investments	325,662
Interest received	<u>59,355</u>
Net cash flows - investing activities	<u>385,017</u>
Net change in cash and cash equivalents	1,004,068
Cash and Cash Equivalents	
Beginning of year	<u>5,765,445</u>
End of year	<u><u>\$ 6,769,513</u></u>
Reconciliation of Operating Income to Net Cash Flows - Operating Activities	
Operating income	\$ 604,614
Adjustments to reconcile operating income to net cash flows - operating activities	
Change in assets and liabilities	
Accounts receivable	5,149
Unearned revenue	(20,732)
Accounts payable	<u>30,020</u>
Net cash flows - operating activities	<u><u>\$ 619,051</u></u>

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Independent School District No. 14 Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

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

B. Basic Financial Statement Information

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

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

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

Independent School District No. 14
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner.

1. Revenue Recognition

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

2. Recording of Expenditures

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Internal Service Fund are employee and District contributions. Operating expenses for proprietary funds include claims paid and administrative expenses. All revenues and expenses not meeting this definition are reposted as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed, in the order of committed, assigned, and unassigned.

Description of Funds:

Major Funds:

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

Independent School District No. 14
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds: (Continued)

Major Funds: (Continued)

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

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

Nonmajor Funds:

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

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

Post Employment Benefits Debt Service Fund – This fund is used to account for levy proceeds and the payment of G.O. taxable OPEB Bonds principal, interest, and related costs.

Proprietary Funds:

Self Insurance Internal Service Fund – This fund is used to account for operations of the District's self – insured insurance plans. Premiums collected from employees are collected from other governmental funds and insurance claims are paid by this fund.

Post Employment Benefits Revocable Trust Internal Service Fund – This fund is used to account for the accumulation of resources to fund post employment benefits.

D. Cash and Investments

Cash and investments balances from all funds (except a portion of the Post Employment Benefits Revocable Trust Internal Service Fund) 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 individual funds based on the average of month-end cash and investment balances.

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

Independent School District No. 14
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments (Continued)

Cash and investments at June 30, 2020, were comprised of deposits, certificates of deposit and shares in the Minnesota Trust (MNTrust) Securities. MNTrust securities are valued at amortized cost, which approximates fair value.

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

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

In accordance with GASB Statement No. 79, the various MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from MNTrust. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

G. Inventories

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

Independent School District No. 14
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

I. Property Taxes

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

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

J. Capital Assets

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

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

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

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.

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

Independent School District No. 14
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has three items that qualify for reporting in this category. A deferred charge on refunding, deferred outflows of resources related to pensions, and deferred outflows of resources related to OPEB are reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred outflows of resources related to pensions and OPEB are recorded for various estimate differences that will be amortized and recognized over future years.

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

L. Long-Term Obligations

In the government-wide financial statements long-term debt and other long term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts 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.

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 or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Independent School District No. 14
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences

1. Vacation

Teachers are eligible for vacation of 2 days per year which can be accumulated to 7 days. Other employees qualify for vacation ranging from 5 to 45 days per year which are generally accumulated at year-end and payable during the ensuing year. Vacation is accrued for these employees in the Statement of Net Position since it is deemed to be payable at year-end.

2. Sick Leave

Substantially all District employees are entitled to sick leave at various rates. For certain employees, unused sick leave enters into the calculation of severance pay upon termination.

N. Severance Payable

The District maintains severance payment plans for certain employee groups. Each employee group plan contains requirements for lump sum payments based on employment date, years of service and/or minimum age requirements. Benefits are calculated based on various formulas converting accrued sick leave into a lump sum payment. No employee can receive payments exceeding one year's salary. For employees retiring on or before June 30, 2020, who are entitled to receive payments, an accrual is made in the governmental fund incurring the liability.

The amount of severance payment that is based on convertible sick leave is recorded as a liability in the government-wide financial statements as it is earned and when it becomes probable that it will vest at some point in the future.

O. Pensions

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

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

Independent School District No. 14
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District and additions to/deductions from the District's fiduciary net position have been determined on the same basis as they are reported by the District. For this purpose, the District recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Q. Risk Management

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

R. Fund Equity

In the fund financial statements, governmental funds report various levels of spending constraints.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include, but are not limited to, inventories and prepaid items.
- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.
- Assigned Fund Balances – The School Board by majority vote may assign fund balances to be used for specific purposes. The board also delegated power to assign fund balances to the Superintendent and Director of Finance.
- Minimum Fund Balance Policy – The School Board shall strive to maintain a fund balance of between 7% and 10% of total unrestricted expenditures. The fund balance shall be defined as the sum of the undesignated/unreserved fund balance. It shall not include funds reserved for operating capital, health and safety, basic skills, or any other new reserve created by the School Board, state, or federal guidelines.

S. Net Position

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

Independent School District No. 14
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Use of Estimates

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

U. Budgetary Information

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: This is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. *Minnesota Statutes* requires all deposits be protected by federal depository insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The District's policy states funds may not be invested in an institution that does not agree to provide the required collateral as noted.

As of June 30, 2020, the District's bank balance was not exposed to custodial credit risk because it was insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

Independent School District No. 14
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

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

Pooled		
Cash	\$	(107,225)
Certificates of deposit		<u>5,442,400</u>
Total pooled deposits	\$	<u>5,335,175</u>
Non-pooled		
OPEB Revocable Trust Fund		
Certificates of deposit	\$	<u>3,039,400</u>

B. Investments

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

Investment	Maturities	Fair Value	Percent of Total		
Pooled					
MNTrust investment shares	6/30/20	<u>\$ 9,843,651</u>	100.00%		
Investment	Maturities	Fair Value	Percent of Total	Type	Credit Rating
OPEB Revocable Trust Fund non-pooled					
MNTRUST Investment Shares	6/30/20	\$ 696,422	47.92%	MMA	Aam
Summit TXB D Var Purp	12/1/20	203,142	13.98%	SEC	Aa1
Avondale B REF TXBL	7/1/21	101,295	6.97%	SEC	AAA
Axle ISD REF TXBL	2/15/22	230,465	15.86%	SEC	Aa3
Oklahoma City TXBL	3/1/24	<u>221,872</u>	15.27%	SEC	Aaa
Total OPEB Revocable Trust Fund non-pooled investments		<u>\$ 1,453,196</u>	100.00%		

MNTrust is an external investment pool not registered with the SEC and invests according to *Minnesota Statutes*. The fair value position in the pool is the same as the value of the pooled shares.

Credit Risk: This is the risk an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments that are in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy limits its investments to those allowed by state statutes. Additionally, investment in commercial paper is limited to those rated in the highest classifications by at least two of the four nationally recognized rating services.

**Independent School District No. 14
Notes to Financial Statements**

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The District's investment policy states investment maturities shall be scheduled to coincide with projected District cash flow needs.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy places no limit on the amount the District may invest in any one issuer, though it does state the District will limit investments to avoid over concentration in securities from a specific issuer or business sector. As of June 30, 2020, the District was exposed to concentration of credit risk as more than 5% of its total investments were invested in individual investments as indicated by the table on the previous pages.

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

The District has the following recurring fair value measurements as of June 30, 2020:

- \$756,774 of investments are significant other observable inputs (Level 2 inputs)

C. Deposits and Investments

Summary of cash, deposits, and investments as of June 30, 2020:

Petty cash	\$ 400
Deposits (Note 3.A.)	
Pooled	5,335,175
Non-pooled	3,039,400
Investments (Note 3.B.)	
Pooled	9,843,651
Non-pooled	<u>1,453,196</u>
Total deposits and investments	<u><u>\$ 19,671,822</u></u>

Cash, deposits, and investments are presented in the June 30, 2020, basic financial statements as follows:

Statement of Net Position	
Cash and investments	<u><u>\$ 19,671,822</u></u>

Independent School District No. 14
Notes to Financial Statements

NOTE 3 – INTERFUND ACTIVITY

A. Transfers

	Transfers In		Total
	Capital Project Fund	Other Nonmajor Funds	
Transfers out			
General Fund	\$ 547,072	\$ 284,989	\$ 832,061

These transfers were performed to distribute levy dollars dedicated to specific funds in accordance with bond documents. Transfers were also made to offset deficits incurred by Community Education from lost revenues due to covid-19.

NOTE 4 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 657,500	\$ -	\$ -	\$ 657,500
Work in progress	439,425	840,522	901,808	378,139
Total capital assets not being depreciated	<u>1,096,925</u>	<u>840,522</u>	<u>901,808</u>	<u>1,035,639</u>
Capital assets being depreciated				
Buildings	89,080,095	396,897	-	89,476,992
Land improvements	3,751,981	532,225	-	4,284,206
Furniture and equipment	3,225,476	196,519	9,024	3,412,971
Total capital assets being being depreciated	<u>96,057,552</u>	<u>1,125,641</u>	<u>9,024</u>	<u>97,174,169</u>
Less accumulated depreciation for				
Buildings	39,741,653	3,328,179	-	43,069,832
Land improvements	1,189,808	185,838	-	1,375,646
Furniture and equipment	2,147,454	161,563	8,422	2,300,595
Total accumulated depreciation	<u>43,078,915</u>	<u>3,675,580</u>	<u>8,422</u>	<u>46,746,073</u>
Total capital assets being depreciated, net	<u>52,978,637</u>	<u>(2,549,939)</u>	<u>602</u>	<u>50,428,096</u>
Governmental activities, capital assets, net	<u>\$ 54,075,562</u>	<u>\$ (1,709,417)</u>	<u>\$ 902,410</u>	<u>\$ 51,463,735</u>

Independent School District No. 14
Notes to Financial Statements

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of \$3,675,580 for the year ended June 30, 2020, was charged to the following governmental functions:

District support services	\$ 7,948
Regular instruction	3,518
Vocational Instruction	597
Special education instruction	3,622
Instructional support services	64,177
Food service	36,611
Community education and services	31,898
Unallocated	<u>3,527,209</u>
 Total depreciation expense	 <u><u>\$ 3,675,580</u></u>

Independent School District No. 14
Notes to Financial Statements

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

Long-term liabilities as of June 30, 2020, consisted of the following:

	Interest Rate	Maturity Date	Original Issue	Balance	Due Within One Year
G.O. School Building Refunding Bonds	2.00%-3.00%	02/01/26	\$ 11,240,000	\$ 5,990,000	\$ 905,000
G.O. School Building Bonds Series 2016A	3.00%-5.00%	02/01/35	25,890,000	25,465,000	190,000
G.O. Alternative Facilities Bonds Series 2016B	4.00%-5.00%	02/01/28	16,740,000	13,590,000	1,235,000
G.O. Abatement Bonds Series 2017A	3.00%	02/01/27	1,960,000	1,560,000	205,000
G.O. Taxable OPEB Refunding Bonds Series 2018A	2.95%-3.40%	02/01/24	2,450,000	2,000,000	475,000
Unamortized bond discounts and premiums, net				4,022,810	-
Total G.O. bonds (net of unamortized premium)				52,627,810	3,010,000
Energy loan capital lease	4.15%	07/31/22	3,142,381	693,735	361,382
Elementary additions capital lease	2.75%	02/01/28	3,400,000	1,976,166	224,062
Technology Lease	3.072%	12/31/20	34,265	2,571	2,571
Technology Lease	4.00%	02/24/22	204,299	63,254	48,011
Technology Lease	4.00%	02/24/23	82,748	34,622	16,184
Technology Lease	4.22%	02/24/21	25,391	2,074	2,074
Technology Lease	4.69%	08/31/22	102,850	56,687	22,231
Technology Lease	4.65%	08/31/22	34,080	18,548	7,493
Technology Lease	4.70%	08/31/22	117,475	64,003	25,790
Technology Lease	3.65%	08/31/23	92,270	70,232	19,431
Technology Lease	3.56%	02/28/24	175,745	133,750	37,150
Vacation payable				422,316	422,316
Severance payable				421,134	70,960
Total all long-term liabilities				<u>\$ 56,586,902</u>	<u>\$ 4,269,655</u>

The long-term bond and lease liabilities listed above were issued to finance the acquisition and construction, or improvements of capital facilities, or to refinance (refund) previous bond issues. Other liabilities are typically liquidated through the General Fund.

Independent School District No. 14
Notes to Financial Statements

NOTE 5 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds

Year Ending, June 30,	G.O. Bonds		
	Principal	Interest	Total
2021	\$ 3,010,000	\$ 1,871,680	\$ 4,881,680
2022	3,145,000	1,743,355	4,888,355
2023	3,265,000	1,618,315	4,883,315
2024	3,395,000	1,487,950	4,882,950
2025	3,555,000	1,351,800	4,906,800
2026-2030	16,855,000	4,411,500	21,266,500
2031-2035	15,380,000	1,441,750	16,821,750
Total	<u>\$ 48,605,000</u>	<u>\$ 13,926,350</u>	<u>\$ 62,531,350</u>

C. Changes in Long-Term Liabilities

	Beginning Balance, Restated	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	\$ 51,485,000	\$ -	\$ 2,880,000	\$ 48,605,000
Unamortized discount and premium, net	4,487,270	-	464,460	4,022,810
Capital lease	3,620,328	268,015	772,701	3,115,642
Vacation payable	381,034	539,322	498,040	422,316
Severance benefits payable	418,595	6,664	4,125	421,134
Total long-term liabilities	<u>\$ 60,392,227</u>	<u>\$ 814,001</u>	<u>\$ 4,619,326</u>	<u>\$ 56,586,902</u>

D. Capital Lease Obligations

On November 30, 2016, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled \$34,265. The capital lease agreement includes annual principal and interest payments ranging from \$2,654 to \$8,369.

On August 3, 2017, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled \$204,299. The capital lease agreement includes annual principal and interest payments ranging from \$15,811 to \$50,588.

On August 3, 2017, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled \$82,748. The capital lease agreement includes annual principal and interest payments ranging from \$1,722 to \$17,443.

Independent School District No. 14
Notes to Financial Statements

NOTE 5 – LONG-TERM DEBT (CONTINUED)

D. Capital Lease Obligations (Continued)

On August 4, 2017, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled \$25,391. The capital lease agreement includes annual principal and interest payments ranging from \$2,149 to \$8,162.

On May 16, 2018, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled \$102,850. The capital lease agreement includes annual principal and interest payments ranging from \$11,649 to \$24,949.

On May 16, 2018, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled \$34,080. The capital lease agreement includes annual principal and interest payments ranging from \$3,344 to \$8,383.

On June 11, 2018, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled \$117,475. The capital lease agreement includes annual principal and interest payments ranging from \$11,675 to \$22,863.

On August 1, 2019, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled \$92,270. The capital lease agreement includes annual principal and interest payments ranging from \$10,108 to \$22,038.

On February 28, 2020, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled \$175,745. The capital lease agreement includes annual principal and interest payments ranging from \$18,872 to \$41,995.

The future minimum lease obligations and the net present value of these minimum lease payments are listed below.

Year Ending June 30,	
2021	\$ 862,504
2022	707,238
2023	442,243
2024	305,857
2025	276,876
2026-2028	857,578
Total minimum lease payments	<u>3,452,296</u>
Less amount representing interest	<u>(336,654)</u>
Present value of net minimum lease payments	<u><u>\$ 3,115,642</u></u>

Independent School District No. 14
Notes to Financial Statements

NOTE 5 – LONG-TERM DEBT (CONTINUED)

D. Capital Lease Obligations (Continued)

The assets purchased with the 2013 leases are classified as buildings and totaled \$3,211,356. The associated accumulated depreciation for these assets is \$449,590 for a net value of \$2,761,766. The assets added through the 2013 leases are less than the leases issued due to expenditures that did not meet the criteria for capitalization.

The assets purchased through the fiscal year 2017 leases did not meet the threshold for capitalization and are not included in capital assets, therefore there is no depreciation or net value to report.

The assets purchased with the 2018 leases are classified as equipment and totaled \$59,699. The associated accumulated depreciation for these assets is \$35,819 for a net value of \$23,880. The assets added through the 2018 leases are less than the leases issued due to expenditures that did not meet the criteria for capitalization.

The assets purchased through the fiscal year 2020 leases did not meet the threshold for capitalization and are not included in capital assets, therefore there is no depreciation or net value to report.

NOTE 6 – FUND BALANCES

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

Independent School District No. 14
Notes to Financial Statements

NOTE 6 – FUND BALANCES (CONTINUED)

Fund Equity

Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	General Fund	Debt Service	Capital Projects	Other Nonmajor Funds	Total
Nonspendable					
Inventories	\$ -	\$ -	\$ -	\$ 30,542	\$ 30,542
Prepaid items	207,678	-	-	5,690	213,368
Total nonspendable	<u>207,678</u>	<u>-</u>	<u>-</u>	<u>36,232</u>	<u>243,910</u>
Restricted/reserved for					
Student Activities	68,462	-	-	-	68,462
Safe Schools	193,069	-	-	-	193,069
Operating Capital	425,933	-	-	-	425,933
Medical Assistance	715,356	-	-	-	715,356
Long Term Facilities Maintenance	60,196	-	-	-	60,196
Community Education	-	-	-	274,056	274,056
ECFE	-	-	-	4,906	4,906
School Readiness	-	-	-	24,579	24,579
Capital Projects Levy	279,040	-	829,228	-	1,108,268
Debt Service	-	787,860	-	113,526	901,386
Food Service	-	-	-	592,806	592,806
Community Service	-	-	-	94,975	94,975
Total Restricted/reserved	<u>1,742,056</u>	<u>787,860</u>	<u>829,228</u>	<u>1,104,848</u>	<u>4,463,992</u>
Assigned for					
Students	152,661	-	-	-	152,661
Capital Project	1,000,000	-	-	-	1,000,000
Separation/Retirement Benefits	55,089	-	-	-	55,089
Medical Assistance Pre 2016-2017	742,025	-	-	-	742,025
Pandemic support to other funds	400,000	-	-	-	400,000
Curriculum adoption	250,000	-	-	-	250,000
Total assigned	<u>2,599,775</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,599,775</u>
Unassigned	2,911,436	-	-	-	2,911,436
Total fund balance	<u>\$ 7,460,945</u>	<u>\$ 787,860</u>	<u>\$ 829,228</u>	<u>\$ 1,141,080</u>	<u>\$ 10,219,113</u>

Nonspendable for Inventories and Prepaid Items – A portion of the fund balance has been spent on inventory and prepaid expenses and is not available for other uses.

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

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

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

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

Independent School District No. 14
Notes to Financial Statements

NOTE 6 – FUND BALANCES (CONTINUED)

Fund Equity (Continued)

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

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education, and extended day programs.

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

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs. Related to Finance Code 344, School Readiness *Minnesota Statutes* 124D.16.

Restricted/Reserved for Capital Projects Levy – This balance represents available resources from the capital projects levy to be used for building construction and other projects under *Minnesota Statutes* 126C.10, subd. 14. All interest income attributable to the capital projects levy must be credited to this account.

Restricted/Reserved for Debt Service – This balance represents the positive fund balance of the Debt Service Fund.

Restricted for Food Service – This balance represents the positive fund balance of the Food Service Fund.

Restricted for Community Service – This balance represents the positive fund balance of the Community Service Fund not set aside in other restrictions.

Assigned for Students – This balance represents resources set aside for each building based on fundraising done by students and donations for various programs.

Assigned for Capital Projects – This balance represents resources set aside for future capital projects.

Assigned for Separation/Retirement Benefits – This balance represents resources set aside for future separation and retirement obligations.

Assigned for Medical Assistance Revenue – This balance represents medical assistance revenues that have been received but not yet spent and are available for future obligations.

Assigned for pandemic support to other funds – This balance represents resources set aside for pandemic support to other funds.

Independent School District No. 14
Notes to Financial Statements

NOTE 6 – FUND BALANCES (CONTINUED)

Fund Equity (Continued)

Assigned for curriculum adoption – This balance represents resources set aside for curriculum adoption.

Net position restricted for other purposes is comprised of the positive General Fund and total Special Revenue Funds restricted balances.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2020, was \$4,567,313. The components of pension expense are noted in the following plan summaries.

The General Fund, Food Service Fund, and Community Service Funds typically liquidate the liability related to pensions.

Teachers' Retirement Association

A. Plan Description

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

Educators employed in Minnesota's public elementary and secondary schools, charter schools and certain TRA-covered educational institutions maintained by the state are required to be TRA members (except those teachers employed by St. Paul Schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Define Contribution Plan (DCR) administered by the State of Minnesota.

B. Benefits Provided

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

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

Independent School District No. 14
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

B. Benefits Provided

Tier I Benefits

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

With these provisions:

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

Tier II Benefits

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

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

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

Independent School District No. 14
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits (Continued)

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:

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

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

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

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

**Independent School District No. 14
Notes to Financial Statements**

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

Teachers' Retirement Association (Continued)

C. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation date	July 1, 2019
Experience study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028 and 3.25% thereafter
Projected salary increase	2.85% to 8.85% before July 1, 2028 and 3.25% to 9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

Mortality Assumptions

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

Independent School District No. 14
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

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

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

Changes in actuarial assumptions since the 2018 valuation:

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

Independent School District No. 14
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

- Augmentation on deferred benefits will be reduced to 0.0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 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.

E. Discount Rate

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

F. Net Pension Liability

On June 30, 2020, the District reported a liability of \$20,868,545 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.3274% at the end of the measurement period and 0.3409% 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	\$ 20,868,545
State's proportionate share of the net pension liability associated with the District	1,846,938

For the year ended June 30, 2020, the District recognized pension expense of \$3,975,067. It also recognized \$140,389 as an increase to this pension expense for the support provided by direct aid.

Independent School District No. 14
Notes to Financial Statements

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,733	\$ 509,352
Net difference between projected and actual earnings on plan investments	-	1,831,968
Changes in assumptions	16,780,596	28,621,699
Changes in proportion	3,741,352	706,605
District's contributions subsequent to measurement date	1,460,200	-
Total	\$ 21,984,881	\$ 31,669,624

\$1,460,200 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

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

Year Ended June 30,	Pension Expense Amount
2021	\$ 1,517,834
2022	279,857
2023	(7,240,427)
2024	(5,522,198)
2025	(180,009)
Total	\$ (11,144,943)

**Independent School District No. 14
Notes to Financial Statements**

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

Teachers' Retirement Association (Continued)

G. Pension Liability Sensitivity

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

District proportionate share of NPL		
1% decrease (6.5%)	Current (7.5%)	1% increase (8.5%)
\$ 33,269,563	\$ 20,868,545	\$ 10,644,088

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

H. Pension Plan Fiduciary Net Position

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

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Plan

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

B. Benefits Provided

PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state Legislature. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

Independent School District No. 14
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1 the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2020 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2020, were \$494,659. The District's contributions were equal to the required contributions as set by state statute.

**Independent School District No. 14
Notes to Financial Statements**

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

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2020, the District reported a liability of \$5,174,934 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 \$160,993. 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 0.0936% at the end of the measurement period and 0.0940% for the beginning of the period.

District's proportionate share of net pension liability	\$ 5,174,934
State's proportionate share of the net pension liability associated with the District	160,993
Total	\$ 5,335,927

For the year ended June 30, 2020, the District recognized pension expense of \$592,246 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$12,057 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

Independent School District No. 14
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 144,766	\$ -
Changes in actuarial assumptions	-	410,347
Difference between projected and actual investments earnings	-	531,243
Change in proportion	4,060	64,524
Contributions paid to PERA subsequent to the measurement date	494,659	-
Total	\$ 643,485	\$ 1,006,114

\$494,659 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2021	\$ (305,096)
2022	(450,922)
2023	(109,608)
2024	8,338
Total	\$ (857,288)

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 %

Independent School District No. 14
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

General Employees Fund Pension Costs (Continued)

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

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

The following changes in actuarial assumptions occurred in 2019:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

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

Independent School District No. 14
Notes to Financial Statements

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

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

F. Discount Rates

The discount rate used to measure the total pension liability in 2019 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate <u>6.5%</u>	Discount Rate <u>7.5%</u>	1% Increase in Discount Rate <u>8.5%</u>
District's proportionate share of the PERA net pension liability	\$ 8,507,313	\$ 5,174,934	\$ 2,423,393

**Independent School District No. 14
Notes to Financial Statements**

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

Public Employees' Retirement Association (Continued)

H. Pension Plan Fiduciary Net Position

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District defined benefit OPEB plan provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical coverage. It is the District's policy to periodically review its medical coverage, and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Benefits Paid

The District provides post employment retirement benefits to pay health and life insurance premiums for certain retired District personnel. Benefits are paid on behalf of retired administrative personnel to Medicare eligibility and other qualified staff to Medicare eligibility at which time benefits cease. The General Fund, Food Service Fund and Community Service Fund typically liquidate the Liability related to OPEB.

C. Members

As of June 30, 2020, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	22
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	<u>427</u>
Total	<u><u>449</u></u>

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2020, the District contributed \$347,921 to the plan.

**Independent School District No. 14
Notes to Financial Statements**

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Discount Rate	3.10%
Expected Return	n/a
Inflation	2.50%
Healthcare cost trend increases	6.25% in 2020, grading to 5.00% over 5 years
Mortality Assumption	RP-2014 mortality tables with projected mortality improvements based on scale MP- 2017, and other adjustments

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period July 1, 2018 – June 30, 2019.

Assumption Changes:

- The discount rate changing from 3.50% to 3.10%.

The discount rate used to measure the total OPEB liability was 3.10%.

F. Total OPEB Liability

The District's total OPEB liability of \$2,984,659 was measured as of June 30, 2020 and was determined by an actuarial valuation as of that date.

Independent School District No. 14
Notes to Financial Statements

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Total OPEB Liability (Continued)

Changes in the total OPEB liability are as follows:

	<u>Total OPEB Liability</u>
Balances at July 1, 2019	\$ 2,894,447
Changes for the year	
Service cost	285,365
Interest	105,136
Differences between expected and actual economic experience	-
Changes in assumptions	54,604
Employer contributions	-
Plan changes	-
Benefit payments	(354,893)
Administrative expense	-
Other charges	-
Net changes	<u>90,212</u>
Balances at July 1, 2020	<u>\$ 2,984,659</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.50% in 2019 to 3.10% in 2020.

G. OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.10% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease (2.10%)	Current (3.10%)	1% increase (4.10%)
Total OPEB liability (asset)	\$ 3,169,025	\$ 2,984,659	\$ 2,810,170

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

	1% decrease (5.25% decreasing to 4.0%)	Current (6.25% decreasing to 5.0%)	1% increase (7.25 decreasing to 6.0%)
Total OPEB liability (asset)	\$ 2,696,567	\$ 2,984,659	\$ 3,333,112

Independent School District No. 14
Notes to Financial Statements

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

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

For the year ended June 30, 2020, the District recognized OPEB expense of \$285,998. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ -
Liability Gains	-	564,749
Changes of assumptions	50,032	-
Contributions made subsequent to the measurement date	347,921	-
Total	\$ 397,953	\$ 564,749

\$347,921 reported as a deferred outflow of resources related to OPEB resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2020. The remaining balances will be recognized in future years as follows:

Year Ended June 30,	Total
2021	\$ (104,503)
2022	(104,503)
2023	(104,503)
2024	(104,503)
2025	(104,503)
Thereafter	7,798
Total	(514,717)

NOTE 9 – RISK MANAGEMENT

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

Independent School District No. 14
Notes to Financial Statements

NOTE 10 – RISK MANAGEMENT (CONTINUED)

On July 1, 2006, the District began to self-insure for dental insurance. Under this program, the fund provides up to a maximum of \$2,000 of benefit per covered person per calendar year. The General, Food Service, and Community Service Funds of the District participate in the program and make payments to the dental insurance plan recorded in the General Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Payments are made based on actuarial estimates of the amounts needed to pay claims. The Self-Insured Dental Benefits Internal Service Fund includes a reserve of \$265,351 for catastrophe losses. The total claims liability reported in the Fund at June 30, 2019, is \$3,005 and include amounts for known claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

On July 1, 2015, the District began to self-insure for health insurance. A stop-loss policy was purchased that limits the District's loss to \$100,000 of claims per person at which point the reinsurance coverage is available. The District also has aggregate stop-loss coverage in place which limits the District's liability to 115% of the current year's total expected annual claims at which point the reinsurance coverage is available.

The General, Food Service, and Community Service Funds of the District participate in the program and make payments to the Self-Insured Medical Benefits Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Participants in the program make premium payments to the fund based on the insurance premium. The Self-Insured Medical Benefits Internal Service Fund includes a reserve of \$4,505,929 for catastrophe losses. The total claims liability reported in the Fund at June 30, 2019, is \$288,876 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

Changes in the Fund's claims liability amounts for the past three years were as follows:

	Balance, Beginning of Year	Claims, Expense and Estimates	Claims Payments	Balance, End of Year
2017-2018	\$ 167,967	\$ 4,812,473	\$ (4,489,305)	\$ 491,135
2018-2019	491,135	4,743,049	(4,972,323)	261,861
2019-2020	261,861	5,314,371	(5,284,351)	291,881

Independent School District No. 14
Notes to Financial Statements

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE

For the fiscal year ended June 30, 2020, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*. The student activity accounts of the District, as of July 1, 2019, have been taken under board control and will not be reported separately. These adjustments affected beginning fund balance for the General Fund and beginning net position for governmental activities in the amount of \$86,544.

NOTE 12 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

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

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 14
Schedule of Changes in Total OPEB Liability
and Related Ratios

	June 30, 2018	June 30, 2019	June 30, 2020
Total OPEB Liability			
Service cost	\$ 268,733	\$ 261,627	\$ 285,365
Interest	117,244	120,305	105,136
Differenced between expected and actual experience	-	(790,649)	-
Changes of assumptions	-	4,521	54,604
Plan changes	-	159,928	-
Benefit payments	(303,571)	(273,818)	(354,893)
Other changes	-	-	-
Net change in total OPEB liability	<u>82,406</u>	<u>(518,086)</u>	<u>90,212</u>
Beginning of year	<u>3,330,127</u>	<u>3,412,533</u>	<u>2,894,447</u>
End of year	<u>\$ 3,412,533</u>	<u>\$ 2,894,447</u>	<u>\$ 2,984,659</u>
Covered payroll	\$ 21,815,879	\$ 22,997,695	\$ 23,687,626
Total OPEB liability as a percentage of covered-employee payroll	15.64%	12.59%	12.60%

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

Independent School District No. 14
Schedule of District's and Non-Employer Proportionate Share
of Net Pension Liability
Last Ten Years General Employees Retirement Fund

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1101%	\$ 5,171,946	\$ -	\$ 5,171,946	\$ 5,778,869	89.5%	78.7%
2015	0.0986%	5,109,964	-	5,109,964	5,696,880	89.7%	76.8%
2016	0.0953%	7,737,887	101,013	7,838,900	5,910,760	130.9%	68.9%
2017	0.0955%	6,096,657	76,662	6,173,319	6,152,440	99.1%	75.9%
2018	0.0940%	5,214,735	171,082	5,385,817	6,317,693	82.5%	79.5%
2019	0.0936%	5,174,934	160,993	5,335,927	6,627,653	78.1%	80.2%

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

Schedule of District's and Non-Employer Proportionate Share
of Net Pension Liability
Last Ten Years General Employees Retirement Fund

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.3144%	\$ 14,487,326	\$ 1,019,111	\$ 15,506,437	\$ 14,351,614	100.9%	81.5%
2015	0.3011%	18,626,013	2,284,436	20,910,449	15,281,867	121.9%	76.8%
2016	0.3130%	74,657,968	7,493,341	82,151,309	16,280,760	458.6%	44.9%
2017	0.3287%	65,614,483	6,343,192	71,957,675	17,693,453	370.8%	51.6%
2018	0.3409%	21,411,711	2,011,542	23,423,253	18,836,973	113.7%	78.1%
2019	0.3274%	20,868,545	1,846,938	22,715,483	18,586,874	112.3%	78.2%

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

**Independent School District No. 14
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years**

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 418,968	\$ 418,968	\$ -	\$ 5,778,869	7.25%
2015	427,266	427,266	-	5,696,880	7.50%
2016	443,307	443,307	-	5,910,760	7.50%
2017	461,433	461,433	-	6,152,440	7.50%
2018	473,827	473,827	-	6,317,693	7.50%
2019	497,074	497,074	-	6,627,653	7.50%
2020	494,659	494,659	-	6,595,453	7.50%

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

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

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 1,004,613	\$ 1,004,613	\$ -	\$ 14,351,614	7.0%
2015	1,146,140	1,146,140	-	15,281,867	7.5%
2016	1,221,057	1,221,057	-	16,280,760	7.5%
2017	1,327,009	1,327,009	-	17,693,453	7.5%
2018	1,412,773	1,412,773	-	18,836,973	7.5%
2019	1,433,048	1,433,048	-	18,586,874	7.7%
2020	1,460,200	1,460,200	-	18,483,544	7.9%

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

Independent School District No. 14
Notes to the Required Supplementary Information

TRA Retirement Fund

2019 Changes

Changes in Actuarial Assumptions

- None

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was increased to 7.5% from 5.12%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0.0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 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.

2017 Changes

Changes in Actuarial Assumptions

- The discount rate was increased to 5.12% from 4.66%.
- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.

Independent School District No. 14
Notes to the Required Supplementary Information

TRA Retirement Fund (Continued)

2017 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

2016 Changes

Changes in Actuarial Assumptions

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

2015 Changes

Changes of Benefit Terms

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

Changes in Actuarial Assumptions

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

Independent School District No. 14
Notes to the Required Supplementary Information

General Employees Fund

2019 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

2018 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

2017 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- The State's contribution for the Minneapolis Employees Retirement Fund equals \$16,000,000 in 2017 and 2018, and \$6,000,000 thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21,000,000 to \$31,000,000 in calendar years 2019 to 2031. The State's contribution changed from \$16,000,000 to \$6,000,000 in calendar years 2019 to 2031.

Independent School District No. 14
Notes to the Required Supplementary Information

General Employees Fund (Continued)

2016 Changes

Changes in Actuarial Assumptions

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

2015 Changes

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

SUPPLEMENTARY INFORMATION

Independent School District No. 14
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2020

	Special Revenue		Debt Service	Total Nonmajor Funds
	Food Service	Community Service	Post Employment Benefits Debt Service	
Assets				
Cash and investments	\$ 587,127	\$ 497,339	\$ 264,784	\$ 1,349,250
Current property taxes receivable	-	277,294	387,744	665,038
Delinquent property taxes receivable	-	6,107	8,982	15,089
Accounts receivable, net of allowance	-	46,609	-	46,609
Due from Department of Education	-	22,111	-	22,111
Due from other Minnesota school districts	-	12,384	-	12,384
Due from federal government through Department of Education	55,145	-	-	55,145
Due from other governmental units	-	2,405	-	2,405
Inventory	30,542	-	-	30,542
Prepaid items	650	5,040	-	5,690
	<u>\$ 673,464</u>	<u>\$ 869,289</u>	<u>\$ 661,510</u>	<u>\$ 2,204,263</u>
Liabilities				
Accounts payable	\$ 2,696	\$ 9,824	\$ -	\$ 12,520
Salaries and benefits payable	24,746	57,935	-	82,681
Due to other governmental units	-	145	-	145
Unearned revenue	22,024	5,448	-	27,472
Total liabilities	<u>49,466</u>	<u>73,352</u>	<u>-</u>	<u>122,818</u>
Deferred Outflows of Resources				
Unavailable revenue - delinquent property taxes	-	5,078	7,511	12,589
Property taxes levied for subsequent year's expenditures	-	387,303	540,473	927,776
Total deferred inflows of resources	<u>-</u>	<u>392,381</u>	<u>547,984</u>	<u>940,365</u>
Fund Balances				
Nonspendable	31,192	5,040	-	36,232
Restricted	592,806	398,516	113,526	1,104,848
Total fund balances	<u>623,998</u>	<u>403,556</u>	<u>113,526</u>	<u>1,141,080</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 673,464</u>	<u>\$ 869,289</u>	<u>\$ 661,510</u>	<u>\$ 2,204,263</u>

Independent School District No. 14
Combining Statement of Revenues, Expenditures, and Changes
and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2020

	Special Revenue		Debt Service	Total Nonmajor Funds
	Food Service	Community Service	Post Employment Benefits Debt Service	
Revenues				
Local property taxes	\$ -	\$ 364,303	\$ 533,160	\$ 897,463
Other local and county revenues	7,995	1,349,693	3,853	1,361,541
Revenue from state sources	97,093	663,627	-	760,720
Revenue from federal sources	1,443,441	-	-	1,443,441
Sales and other conversion of assets	250,770	-	-	250,770
Total revenues	<u>1,799,299</u>	<u>2,377,623</u>	<u>537,013</u>	<u>4,713,935</u>
Expenditures				
Current				
Food service	1,736,002	-	-	1,736,002
Community education and services	-	2,712,714	-	2,712,714
Capital outlay				
Food service	13,646	-	-	13,646
Community education and services	-	252	-	252
Debt service				
Principal	-	-	450,000	450,000
Interest and fiscal charges	-	-	96,895	96,895
Total expenditures	<u>1,749,648</u>	<u>2,712,966</u>	<u>546,895</u>	<u>5,009,509</u>
Excess of revenues over (under) expenditures	49,651	(335,343)	(9,882)	(295,574)
Other Financing Sources				
Transfers in	-	284,989	-	284,989
Net change in fund balances	49,651	(50,354)	(9,882)	(10,585)
Fund Balances				
Beginning of year	<u>574,347</u>	<u>453,910</u>	<u>123,408</u>	<u>1,151,665</u>
End of year	<u>\$ 623,998</u>	<u>\$ 403,556</u>	<u>\$ 113,526</u>	<u>\$ 1,141,080</u>

Independent School District No. 14
Combining Statement of Net Position - Internal Service Funds
June 30, 2020

	Self Insurance	OPEB Revocable Trust	Total Internal Service Funds
Assets			
Cash and cash equivalents	\$ 6,210,607	\$ 558,906	\$ 6,769,513
Investments	-	3,796,174	3,796,174
Accounts receivable	-	15,155	15,155
Interest receivable	-	132,813	132,813
	<u>\$ 6,210,607</u>	<u>\$ 4,503,048</u>	<u>\$ 10,713,655</u>
Liabilities			
Accounts payable	\$ 73,406	\$ -	\$ 73,406
Incurred but not reported claims	218,475	-	218,475
Unearned revenue	1,147,445	-	1,147,445
	<u>1,439,326</u>	<u>-</u>	<u>1,439,326</u>
Net Position			
Unrestricted	4,771,281	4,503,048	9,274,329
	<u>\$ 6,210,607</u>	<u>\$ 4,503,048</u>	<u>\$ 10,713,655</u>
Total liabilities and net position	<u>\$ 6,210,607</u>	<u>\$ 4,503,048</u>	<u>\$ 10,713,655</u>

Independent School District No. 14
Combining Statement of Revenues, Expenses, and Changes
in Fund Net Position - Internal Service Funds
Year Ended June 30, 2020

	<u>Self Insurance</u>	<u>OPEB Revocable Trust</u>	<u>Total Internal Service Funds</u>
Operating Revenues			
Charges for services	\$ 6,008,570	\$ 219,948	\$ 6,228,518
Operating Expense			
Insurance	4,747,465	309,534	5,056,999
Administrative	566,905	-	566,905
Total operating expenses	<u>5,314,370</u>	<u>309,534</u>	<u>5,623,904</u>
Operating income (loss)	694,200	(89,586)	604,614
Nonoperating Revenues			
Investment income	<u>-</u>	<u>46,872</u>	<u>46,872</u>
Change in net position	694,200	(42,714)	651,486
Net Position			
Beginning of year	<u>4,077,081</u>	<u>4,545,762</u>	<u>8,622,843</u>
End of year	<u>\$ 4,771,281</u>	<u>\$ 4,503,048</u>	<u>\$ 9,274,329</u>

Independent School District No. 14
Combining Statement of Cash Flows - Internal Service Funds
Year Ended June 30, 2020

	Self Insurance	OPEB Revocable Trust	Total Internal Service Funds
Cash Flows - Operating Activities			
Receipts from district contribution	\$ -	\$ 220,681	\$ 220,681
Receipts from employees	5,992,254	-	5,992,254
Payments to vendors	(5,284,350)	(309,534)	(5,593,884)
Net cash flows - operating activities	707,904	(88,853)	619,051
Cash Flows - Investing Activities			
Net sale/(purchase) of investments	-	325,662	325,662
Interest received	-	59,355	59,355
Net cash flows - investing activities	-	385,017	385,017
Net change in cash and cash equivalents	707,904	296,164	1,004,068
Cash and Cash Equivalents			
Beginning of year	5,502,703	262,742	5,765,445
End of year	\$ 6,210,607	\$ 558,906	\$ 6,769,513
Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities			
Operating income (loss)	\$ 694,200	\$ (89,586)	\$ 604,614
Adjustments to reconcile operating income (loss) to net cash flows - operating activities			
Accounts receivable	4,416	733	5,149
Unearned revenue	(20,732)	-	(20,732)
Accounts payable	30,020	-	30,020
Net cash flows - operating activities	\$ 707,904	\$ (88,853)	\$ 619,051

Independent School District No. 14
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2020

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION FUND			
Total revenue	\$ 44,394,055	\$ 44,394,053	\$ 2	Total revenue	\$ -	\$ -	\$ -
Total expenditures	42,338,911	42,338,915	(4)	Total expenditures	161,946	161,946	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
4.60 Nonspendable fund balance	207,678	207,678	-	4.60 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
4.01 Student Activities	68,462	68,462	-	4.07 Capital Projects Levy	829,228	829,228	-
4.02 Scholarships	-	-	-	4.13 Building Projects funded by COP	-	-	-
4.06 Health And Safety	-	-	-	4.67 Long-term Facilities Maintenance	-	-	-
4.07 Capital Projects Levy	279,040	279,040	-	<i>Restricted:</i>			
4.08 Cooperative Programs	-	-	-	4.64 Restricted fund balance	-	-	-
4.13 Alternative Facility Program	-	-	-	<i>Unassigned:</i>			
4.14 Operating Debt	-	-	-	4.63 Unassigned fund balance	-	-	-
4.16 Levy Reduction	-	-	-				
4.17 Taconite Building Maintenance	-	-	-	07 DEBT SERVICE FUND			
4.24 Operating Capital	425,933	425,933	-	Total revenue	\$ 4,468,083	\$ 4,468,083	\$ -
4.26 \$25 Taconite	-	-	-	Total expenditures	4,347,350	4,347,350	-
4.27 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
4.28 Learning and Development	-	-	-	4.60 Nonspendable fund balance	-	-	-
4.34 Area Learning Center	-	-	-	<i>Restricted/reserved:</i>			
4.35 Contracted Alternative Programs	-	-	-	4.25 Bond refunding	-	-	-
4.36 State Approved Alternative Program	-	-	-	4.33 Maximum effort loan aid	-	-	-
4.38 Gifted And Talented	-	1	(1)	4.51 QZAB payments	-	-	-
4.41 Basic Skills Programs	-	-	-	4.67 LTFM	-	-	-
4.45 Career Technical Programs	-	-	-	<i>Restricted:</i>			
4.48 Achievement And Integration Revenue	-	-	-	4.64 Restricted fund balance	787,860	787,860	-
4.49 Safe School Crime	193,069	193,069	-	<i>Unassigned:</i>			
4.51 QZAB Payments	-	-	-	4.63 Unassigned fund balance	-	-	-
4.52 Opeb Liabilities Not Held In Trust	-	-	-				
4.53 Unfunded Severance And Retirement Levy	-	-	-	08 TRUST FUND			
4.59 Basic Skills Extended Time	-	-	-	Total revenue	\$ -	\$ -	\$ -
4.67 Long-term Facilities Maintenance	60,196	60,196	-	Total expenditures	-	-	-
4.72 Medical Assistance	715,356	715,356	-	<i>Unassigned:</i>			
4.64 Restricted Fund Balance	-	-	-	4.01 Student Activities	-	-	-
4.75 Title VII - Impact Aid	-	-	-	4.02 Scholarships	-	-	-
4.76 Payments in Lieu of Taxes	-	-	-	4.22 Net position	-	-	-
<i>Restricted:</i>				18 CUSTODIAL			
4.64 Restricted fund balance	-	-	-	Total revenue	-	-	-
<i>Committed:</i>				Total expenditures	-	-	-
4.18 Committed for separation	-	-	-	<i>Restricted/Reserved:</i>			
4.61 Committed	-	-	-	4.01 Student Activities	-	-	-
<i>Assigned:</i>				4.02 Scholarships	-	-	-
4.62 Assigned fund balance	2,599,775	2,599,776	(1)	4.48 Achievement and Integration	-	-	-
<i>Unassigned:</i>				4.64 Restricted	-	-	-
4.22 Unassigned fund balance	2,911,436	2,911,433	3				
02 FOOD SERVICES FUND				20 INTERNAL SERVICE FUND			
Total revenue	\$ 1,799,299	\$ 1,799,298	\$ 1	Total revenue	\$ 6,008,570	\$ 6,008,570	\$ -
Total expenditures	1,749,648	1,749,649	(1)	Total expenditures	5,314,370	5,314,371	(1)
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable fund balance	31,192	31,192	-	4.22 Net position	4,771,281	4,771,280	1
See notes to required supplementary information.				25 OPEB REVOCABLE TRUST			
452 OPEB Liabilities not Held in Trust	-	-	-	Total revenue	\$ 266,820	\$ 266,820	\$ -
<i>Restricted:</i>				Total expenditures	309,534	309,533	1
464 Restricted fund balance	592,806	592,805	1	<i>Unassigned:</i>			
<i>Unassigned:</i>				4.22 Net position	4,503,048	4,503,048	-
463 Unassigned fund balance	-	-	-				
04 COMMUNITY SERVICE FUND				45 OPEB IRREVOCABLE TRUST			
Total revenue	\$ 2,377,623	\$ 2,377,624	\$ (1)	Total expenditures	\$ -	\$ -	\$ -
Total expenditures	2,712,966	2,712,965	1	Total revenue	-	-	-
<i>Nonspendable:</i>				4.22 Net position	-	-	-
460 Nonspendable fund balance	5,040	5,040	-	47 OPEB DEBT SERVICE			
<i>Restricted/reserved:</i>				Total revenue	\$ 537,013	\$ 537,014	\$ (1)
426 \$25 taconite	-	-	-	Total expenditures	546,895	546,895	-
431 Community Education	274,056	274,056	-	<i>Nonspendable:</i>			
432 ECFE	4,906	4,906	-	4.60 Nonspendable fund balance	-	-	-
444 School Readiness	24,579	24,579	-	<i>Restricted:</i>			
447 Adult Basic Education	-	-	-	4.25 Bond refundings	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-	4.64 Restricted fund balance	113,526	113,526	-
<i>Restricted:</i>				<i>Unassigned:</i>			
464 Restricted fund balance	94,975	94,975	-	4.63 Unassigned fund balance	-	-	-
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-				

Independent School District No. 14
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
Commodities Programs	10.555	\$ 129,645
School Breakfast	10.553	314,645
National School Lunch	10.555	628,669
Summer Food Service	10.559	219,850
Total Child Nutrition Cluster		<u>1,292,809</u>
Child and Adult Care Food Program	10.558	131,637
Fresh Fruit and Vegetables	10.582	18,995
Total U.S. Department of Agriculture		<u>1,443,441</u>
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	454,726
Title II, Part A - Improving Teacher Quality	84.367	144,947
Title III, Part A - English Language Acquisition	84.365	51,357
Title III, Part A - Immigrant Grant	84.365	8,268
Special Education Cluster		
Special Education	84.027	409,473
IDEA, Part B Section 611 Mandatory Coordinated Early Intervening Services	84.027	108,514
Special Education - Preschool Grant	84.173	15,663
Total Special Education Cluster		<u>533,650</u>
Infants and Toddlers	84.181	17,616
Carl Perkins	84.048A	2,768
Through Northwest Suburban Integration District:		
Global Studies Magnet Grant	84.165A	121,275
Total U.S. Department of Education		<u>1,334,607</u>
U.S. Department of the Interior		
Through Minnesota Chippewa Tribe		
Johnson-O'Malley Indian Education Assistance to Schools	15.130	296
Total federal expenditures		<u>\$ 2,778,344</u>

Independent School District No. 14
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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 3 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

NOTE 4 – INDIRECT COST RATE

The District did not elect to use the 10 percent de minimis indirect cost rate.

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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***

Independent Auditor's Report

To the School Board
Independent School District No. 14
Fridley, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 14, Fridley, Minnesota, as of and for the year ending June 30, 2020, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 9, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance that we consider to be a significant deficiency in internal control, described as Audit Finding 2020-001.

Compliance and Other Matters

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

District's Response to the Findings

The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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



Minneapolis, Minnesota
October 9, 2020

**Report on Compliance for Each Major
Federal Program and on Internal Control over
Compliance Required by the Uniform Guidance**

Independent Auditor's Report

To the School Board
Independent School District No. 14
Fridley, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 14, Fridley, Minnesota, compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2020. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs, in Accordance with the Uniform Guidance.

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

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States 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 of Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 14 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

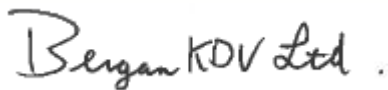
Report on Internal Control over Compliance

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

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

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

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



Minneapolis, Minnesota
October 9, 2020

**Independent School District No. 14
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	We issued an unmodified opinion on the fair presentation of the financial statements of the governmental activities, each major fund and the aggregate remaining fund information in accordance with accounting principles generally accepted in the United States of America (GAAP).
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes, Audit Finding 2020-001
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

CFDA No.:	10.553, 10.555, 10.556, and 10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low risk auditee?	Yes

**Independent School District No. 14
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2020-001

Criteria or Specific Requirement:

Internal control that supports the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:

During the year ended June 30, 2020, the District had a lack of segregation of accounting duties due to a limited number of office employees. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Accounts Payable Clerk enters invoices into the system and prepares the checks.
- The Accounting Supervisor has access to all areas of the accounting system.
- The Accounting Supervisor and Payroll Specialist have overlapping duties within the payroll process

Context:

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

Effect:

The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Cause:

There are a limited number of office employees.

Recommendation:

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
 - a. As a mitigating control, the Accounting Supervisor receives a system report of checks prior to the preparation of checks for review. In addition, the Accounting Supervisor reviews the edit to the check register to verify that the edit was not changed after review.

**Independent School District No. 14
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

CORRECTIVE ACTION PLAN (CAP):

2. Actions Planned in Response to Finding (Continued)
 - b. The Accounting Supervisor has access to all areas of the accounting system. Segregation will be reviewed to determine whether access can feasibly be limited.
 - c. Payroll responsibilities will be reviewed once the HRIS system is fully built out and functional.
3. Official Responsible for Ensuring CAP

Barbra Roessler, Director of Finance and Operations, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP

The planned completion date for the CAP is June 30, 2021.
5. Plan to Monitor Completion of CAP

The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings or questioned costs.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There are no prior year federal award findings or questioned costs.

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Minnesota Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 14
Fridley, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 14, Fridley, Minnesota, as of and for the year ended June 30, 2020, and the related notes to financial statements, and have issued our report thereon dated October 9, 2020.

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

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

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

A handwritten signature in dark ink that reads "BergankDV Ltd." with a period at the end. The signature is written in a cursive, slightly slanted style.

Minneapolis, Minnesota
October 9, 2020