



Financial Statements  
June 30, 2020

Independent School District No. 22  
Detroit Lakes Public Schools

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Independent School District No. 22  
Detroit Lakes Public Schools  
School Board and Administration List (Unaudited)  
June 30, 2020

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<b>School Board</b>		
<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Amy Erickson	Chairperson	2020
John Steffl	Vice Chairperson	2020
Kylie Johnson	Clerk	2022
Jane Foltz	Treasurer	2020
Jennifer Pedersen	Director	2022
April Thomas	Director	2022
 <b>Administration</b>		
Mark Jenson	Superintendent	
Ryan Tangen	Business Manager	



## Independent Auditor's Report

The School Board of  
Independent School District No. 22  
Detroit Lakes Public Schools  
Detroit Lakes, 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. 22, Detroit Lakes Public Schools, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

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

## **Emphasis of Matter**

As discussed in Notes 1 and 8 to the financial statements, the District has adopted the provisions of GASB Statement No. 84, *Fiduciary Activities*, which has resulted in an adjustment of the net deficit and fund balance of the General Fund as of July 1, 2019. Our opinions are 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, schedule of changes in the District's net OPEB liability and related ratios, and schedule of employer's share of net pension liability and schedule of employer's contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 as a whole. The School Board and Administration list, combining and individual fund schedules, and uniform accounting and reporting compliance table are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual fund schedules, uniform accounting and reporting compliance table, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

The School Board and administration list has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 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.

**Report on Other Legal and Regulatory Requirements**

In accordance with the Legal Compliance Audit Guide prepared by the Office of the State Auditor pursuant to Minn. Stat. §6.65, we have also issued a report dated December 16, 2020, on our consideration of the District’s compliance with aspects of the provisions of the Minnesota Legal Compliance Audit Guide for School Districts. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with the Office of the State Auditor’s Minnesota Legal Compliance Audit Guide for School Districts in considering the District’s compliance with certain regulatory requirements pursuant to Minn. Stat. §6.65.



Fargo, North Dakota  
December 16, 2020

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

### **Financial Highlights**

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

*General Fund 01* – The overall revenues were \$39,072,425, overall expenditures were \$37,710,032, and other financing sources were \$7,779, increasing the fund balance by \$1,370,172.

*Food Service Fund 02* – The revenues were \$1,781,794, and the expenditures were \$1,766,309, increasing the fund balance by \$15,485.

*Community Service Fund 04* – The revenues were \$1,101,482, and the expenditures were \$1,121,584, decreasing the fund balance by \$20,102.

*Capital Projects Fund 06* – The revenues were \$869,012, expenditures were \$23,557,521, and other financing sources were \$4,079,839, decreasing fund balance by \$18,608,670.

*Debt Service Fund 07* – The revenues were \$4,019,174, and the expenditures were \$3,816,001, increasing fund balance by \$203,173.

### **Overview of the Financial Statements**

#### **District-Wide Statements**

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, 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 district-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 - is 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 overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

### **Fund Financial Statements**

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

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

The District has two kinds of funds:

*Governmental Funds* – All of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.

*Fiduciary Funds* – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only by those to whom the assets belong.



**Financial Analysis of the District as a Whole**

**Net Position**

The District's combined net deficit was \$1,802,123 as of June 30, 2020.

Statement of Net Deficit  
 June 30, 2020 and 2019

	2020	2019
Assets		
Current assets	\$ 59,956,388	\$ 73,708,605
Capital assets	47,282,732	24,302,955
Total assets	107,239,120	98,011,560
Deferred Outflows of Resources	19,247,115	29,574,789
Liabilities		
Other liabilities	7,266,677	4,315,968
Long-term liabilities	83,014,264	80,953,074
Total liabilities	90,280,941	85,269,042
Deferred Inflows of Resources	38,007,417	44,827,782
Net Position (Deficit)		
Net investment in capital assets	23,610,373	21,094,204
Restricted for specific purposes	4,514,805	4,323,569
Unrestricted	(29,927,301)	(27,928,248)
Total net deficit	\$ (1,802,123)	\$ (2,510,475)

Independent School District No. 22  
 Detroit Lakes Public Schools  
 Management's Discussion and Analysis  
 Year Ended June 30, 2020

Statement of Revenues, Expenses and Changes in Net Deficit  
 June 30, 2020 and 2019

	2020	2019
Revenues		
Program revenues		
Charges for service	\$ 1,437,639	\$ 1,389,404
Operating grants and contributions	1,829,678	1,524,877
General		
Property taxes	8,665,397	4,695,584
Aids and payments from state and other	33,125,759	32,820,162
Miscellaneous revenues	1,761,012	1,290,962
Total revenues	46,819,485	41,720,989
Expenses		
Administration	2,072,635	2,111,182
District support services	1,135,922	1,191,108
Regular instruction	19,383,133	8,480,970
Vocational instruction	808,743	724,470
Special education instruction	8,106,840	8,624,944
Community education and services	1,121,581	1,076,836
Instructional support services	1,866,122	1,795,644
Pupil support services	5,771,321	6,279,345
Sites and buildings	3,958,465	4,664,751
Fiscal and other fixed-cost programs	2,169,130	1,032,733
Total expenses	46,393,892	35,981,983
Change in Net Deficit	425,593	5,739,006
Net Deficit - Beginning, as Adjusted (Note 8)	(2,227,716)	(8,249,481)
Net Deficit - Ending	\$ (1,802,123)	\$ (2,510,475)

*Changes in Net Deficit* – The District's total revenues were \$46,819,485 for the year ended June 30, 2020. Property taxes and state formula aid accounted for 89.3% of total revenue for the year. Another 10.7% came from other program revenues and miscellaneous revenues.

The total cost of all programs and services was \$46,393,892. The District's expenses are predominantly related to educating and caring for students. The purely administrative activities of the District accounted for just 4.5% of total costs.

The total revenues exceeded expenses, reducing the net deficit by \$425,593 for fiscal year 2020.

Independent School District No. 22  
 Detroit Lakes Public Schools  
 Management's Discussion and Analysis  
 Year Ended June 30, 2020

**General Fund**

The General Fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12, including pupil transportation activities, buildings and grounds, and capital outlay projects.

The following schedule presents a summary of General Fund Revenues.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2020	2019		
Local property taxes	\$ 4,578,469	\$ 4,484,659	\$ 93,810	2.1%
Other local sources	1,554,276	1,081,031	473,245	43.8%
State sources	31,656,064	31,433,992	222,072	0.7%
Federal sources	1,283,616	1,329,443	(45,827)	-3.4%
Total General Fund revenues	<u>\$ 39,072,425</u>	<u>\$ 38,329,125</u>	<u>\$ 743,300</u>	1.9%

Total General Fund revenue increased by \$743,300 or 1.9% from the previous year. The majority of District revenue, both aid and property tax, is determined by a state established per student funding formula. The formulas include an equalization of property tax that can cause significant shifts of revenue between property tax and state aid. Special education aid was much higher based on prior year expenditures and decreased tuition costs. The increase in revenue is also the result of significant one-time state grants and the addition of student activity accounts to the General Fund.

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2020	2019		
Salaries and benefits	\$ 28,942,923	\$ 29,376,699	\$ (433,776)	-1.5%
Purchased services	5,063,296	5,119,555	(56,259)	-1.1%
Supplies and materials	1,544,689	1,250,741	293,948	23.5%
Capital expenditures	1,985,829	3,811,150	(1,825,321)	-47.9%
Other expenditures	173,361	1,315,488	(1,142,127)	-86.8%
Total General Fund expenditures	<u>\$ 37,710,098</u>	<u>\$ 40,873,633</u>	<u>\$ (3,163,535)</u>	-7.7%

Total General Fund expenditures decreased by \$3,163,535 or 7.7% from the previous year. The overall decrease in the current fiscal year resulted from the prior fiscal year including a major construction project, a one-time payout resulting from teacher negotiations and significantly higher expense for the TRA/PERA Special Funding related to GASB 68.

### **General Fund Budgetary Highlights**

The District's general fund results when compared to the final budget are:

- Actual revenues were \$316,052 *less than* budget. This difference is the result of less revenue generated from reimbursement of expenditures, due to the COVID-19 pandemic. Project schedules were longer than expected and other expenditure were not incurred due to COVID-19.
- Actual expenditures were \$546,540 *less than* budget. The COVID-19 pandemic had an effect on many areas of expenditures resulting in actual results coming in lower than expected. Many open positions were not filled, Q-Compensation payments deferred, activity and related transportation were canceled, and projects were not completed according to schedule.

### **Capital Projects Fund**

The Capital Projects Fund revenues were \$869,012 and expenditures were \$23,557,521. Other financing sources totaled \$4,079,839. Fund balance decreased by approximately \$18,608,670 as expenditures exceeded revenues and other financing sources. The decrease is a result of costs incurred for the ongoing building projects .

### **Debt Service Fund**

The Debt Service Fund revenues were \$4,019,174, and expenditures were \$3,816,001. Fund balance increased by \$203,173 as revenues exceeded expenditures. The increase is a result of payments towards bond interest made before the debt service levy revenue is recognized.

### **Other Non-Major Funds**

The Food Service Fund incurred an increase in the fund balance of \$15,485. The increase is a result of the addition of a Summer Foods Program and increased inventory. The Community Service Fund incurred a decrease in the fund balance of \$20,102. The decrease is a result of reduced School Readiness tuition and Community Service tuition due to the COVID-19 Pandemic.

**Capital Assets and Debt Administration**

**Capital Assets**

By the end of 2020, the District had invested approximately \$69 million in a broad range of capital assets, including school buildings, athletic facilities, school vehicles, and computer and audio-visual equipment. Total depreciation expense for the year was \$1,049,263. Note 4 presents the detail of the District's capital assets.

Capital Assets Governmental Activities  
 June 30, 2020 and 2019

	2020	2019
Land	\$ 720,909	\$ 557,909
Construction in progress	27,202,361	3,609,842
Buildings	30,767,315	30,767,315
Improvements	5,290,933	5,273,403
Vehicles	1,021,559	966,512
Equipment	3,935,841	3,771,233
Accumulated Depreciation	(21,656,186)	(20,643,259)
Total capital assets	\$ 47,282,732	\$ 24,302,955

**Long-Term Debt**

At year end the District had \$57,460,447 of long term debt, consisting of bonded indebtedness and unamortized premium of \$57,327,235 and vacation payable of \$133,212. Note 5 presents the detail of the District's long-term debt.

The District has \$1,616,995 in net OPEB liability at June 30, 2020. See Note 6 for further information.

The District has \$23,936,822 in net pension liability at June 30, 2020. See Note 7 for further information.

### **Factors Bearing on the District's Future**

With the onset of the COVID-19 Pandemic in March 2020, the District anticipates revenue shortfalls and some reduction in expenditures due to the temporary closing of facilities and lack of public program income during the quarantine period. The District continues to provide educational opportunities to students. The District has maintained strong reserve balances which will help bridge financial gaps in revenue projections. During FY 2021, the District received federal grant funding related to the global COVID-19 pandemic under the Elementary and Secondary School Emergency Relief Fund (ESSER) grant, the Governor's Emergency Education Relief Fund (GEER) grant, and the Coronavirus Relief Fund (CRF) grant. All grants will be used to cover COVID-19 expenditures of the district. This global pandemic has created unprecedented challenges for Federal, State and Local Government operations, creating uncertainty in the outcome of the 2021 budget.

Minnesota School Districts depend on student enrollment to generate property tax and state aid. The District realized a decrease in student enrollment in 2019-2020, but other factors in the District will help draw students in the future. The current four building renovation and addition projects will be completed during the 2021-2022 school year. Also, the District has also been working on a four path Academy Model that will be fully implemented when the new 9<sup>th</sup> grade academy wing at the High School is completed.

### **Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or would like additional information, contact the Business Manager at: District Office, Independent School District No. 22, 702 Lake Avenue, Detroit Lakes, Minnesota 56501.

Independent School District No. 22  
 Detroit Lakes Public Schools  
 Statement of Net Deficit  
 June 30, 2020

Assets	
Cash and investments	\$ 50,875,012
Receivables	
Current property taxes	4,298,325
Delinquent property taxes	16,047
Accounts	85,759
Due from other governmental units	4,351,473
Interest	162,644
Prepaid items	51,125
Inventory	116,003
	<u>59,956,388</u>
Capital assets	
Non-depreciable	
Land	720,909
Construction in progress	27,202,361
Depreciable	
Buildings	30,767,315
Improvements	5,290,933
Vehicles	1,021,559
Equipment	3,935,841
Less accumulated depreciation	(21,656,186)
Total capital assets, net of depreciation	<u>47,282,732</u>
Total assets	<u>107,239,120</u>
Deferred Outflows of Resources	
Other postemployments benefits	157,992
Pension plans	19,089,123
Total deferred outflows of resources	<u>19,247,115</u>
Liabilities	
Due to other governmental units	29,310
Accounts payable	5,435,866
Salaries payable	893,916
Accrued interest payable	835,523
Unearned revenue	72,062
Long-term liabilities	
Due within one year - bonds, premiums, and compensated absences	1,938,601
Due in more than one year - bonds, premiums, compensated absences, and severance	55,521,846
Due in more than one year - other postemployment benefits	1,616,995
Due in more than one year - net pension liability	23,936,822
Total liabilities	<u>90,280,941</u>
Deferred Inflows of Resources	
Unavailable revenue-property taxes	8,524,223
Other postemployment benefits	162,925
Pension plans	29,320,269
Total deferred inflows of resources	<u>38,007,417</u>
Net Position (Deficit)	
Net investment in capital assets	23,610,373
Restricted for specific purposes	4,514,805
Unrestricted	(29,927,301)
Total net deficit	<u>\$ (1,802,123)</u>

Independent School District No. 22  
 Detroit Lakes Public Schools  
 Statement of Activities  
 Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	
Governmental activities				
Administration	\$ 2,072,635	\$ 10,042	\$ 4,574	\$ (2,058,019)
District support services	1,135,922	6,241	-	(1,129,681)
Regular instruction	19,383,133	636,967	-	(18,746,166)
Vocational instruction	808,743	-	-	(808,743)
Special education instruction	8,106,840	-	-	(8,106,840)
Community education and services	1,121,581	338,640	493,475	(289,466)
Instructional support services	1,866,122	8,552	1,542	(1,856,028)
Pupil support services	5,771,321	437,197	1,330,087	(4,004,037)
Sites and buildings	3,958,465	-	-	(3,958,465)
Fiscal and other fixed-cost programs	2,169,130	-	-	(2,169,130)
Total governmental activities	<u>\$ 46,393,892</u>	<u>\$ 1,437,639</u>	<u>\$ 1,829,678</u>	<u>(43,126,575)</u>
General Revenues				
Property taxes, levied for general purposes				4,567,805
Property taxes, levied for community education and services				218,069
Property taxes, levied for debt service				3,879,523
Aids and payments from the federal government				1,283,616
Aids and payments from the state				31,771,853
County apportionment				70,290
Unrestricted investment earnings				1,096,895
Gain on disposal of property and equipment				7,779
Miscellaneous revenues				656,338
Total general revenues				<u>43,552,168</u>
Changes in Net Deficit				425,593
Net Deficit - Beginning, as Adjusted (Note 8)				<u>(2,227,716)</u>
Net Deficit - Ending				<u>\$ (1,802,123)</u>



Independent School District No. 22  
 Detroit Lakes Public Schools  
 Governmental Funds  
 Balance Sheet  
 June 30, 2020

	General	Debt Service	Capital Projects	Other Governmental Funds	Totals
<b>Assets</b>					
Cash and investments	\$ 12,032,951	\$ 2,225,667	\$ 35,479,212	\$ 1,137,182	\$ 50,875,012
Receivables					
Current property taxes	2,331,032	1,867,144	-	100,149	4,298,325
Delinquent property taxes	14,531	547	-	969	16,047
Accounts	40,597	-	-	45,162	85,759
Due from other governmental units	4,217,627	11,968	-	121,878	4,351,473
Interest	9,623	-	153,021	-	162,644
Due from other funds	-	-	-	604	604
Prepaid items	51,125	-	-	-	51,125
Inventories	46,621	-	-	69,382	116,003
<b>Total assets</b>	<b>\$ 18,744,107</b>	<b>\$ 4,105,326</b>	<b>\$ 35,632,233</b>	<b>\$ 1,475,326</b>	<b>\$ 59,956,992</b>
<b>Liabilities</b>					
Due to other funds	\$ 604	\$ -	\$ -	\$ -	\$ 604
Due to other governmental units	29,310	-	-	-	29,310
Accounts payable	580,804	-	4,816,571	38,491	5,435,866
Salaries payable	814,310	-	-	79,606	893,916
Unearned revenue	24,206	547	-	62,386	87,139
<b>Total liabilities</b>	<b>1,449,234</b>	<b>547</b>	<b>4,816,571</b>	<b>180,483</b>	<b>6,446,835</b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue-property taxes	4,523,375	3,791,587	-	210,231	8,525,193
<b>Fund Balance</b>					
Nonspendable	97,746	-	-	69,382	167,128
Restricted	3,869,854	313,192	30,815,662	1,015,230	36,013,938
Committed	2,558,467	-	-	-	2,558,467
Assigned	2,428,302	-	-	-	2,428,302
Unassigned	3,817,129	-	-	-	3,817,129
<b>Total fund balance</b>	<b>12,771,498</b>	<b>313,192</b>	<b>30,815,662</b>	<b>1,084,612</b>	<b>44,984,964</b>
<b>Total liabilities, deferred inflows         of resources, and fund balance</b>	<b>\$ 18,744,107</b>	<b>\$ 4,105,326</b>	<b>\$ 35,632,233</b>	<b>\$ 1,475,326</b>	<b>\$ 59,956,992</b>

Independent School District No. 22  
 Detroit Lakes Public Schools  
 Governmental Funds  
 Reconciliation of the Balance Sheet to the Statement of Net Deficit  
 June 30, 2020

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Total Fund Balances - Governmental Funds	\$ 44,984,964
Amounts reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	47,282,732
Accrued interest payable for long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(835,523)
Delinquent property taxes are not considered available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	16,047
Compensated absences and severance payable is not due and payable in the current period and therefore is not reported as liabilities in the funds.	(133,212)
Deferred outflows and inflows of resources related to pensions and OPEB plans are applicable to future periods and, therefore, are not reported in the funds.	(10,236,079)
Long-term liabilities, including bonds payable, net pension liability, pension-related retirement benefits, other post-employment benefits, and pension liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(82,881,052)</u>
Total Net Deficit - Governmental Activities	<u><u>\$ (1,802,123)</u></u>

Independent School District No. 22  
 Detroit Lakes Public Schools  
 Governmental Funds  
 Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Year Ended June 30, 2020

	General	Debt Service	Capital Projects	Other Governmental Funds	Totals
<b>Revenues</b>					
Local property tax levies	\$ 4,578,469	\$ 3,879,523	\$ -	\$ 218,069	\$ 8,676,061
Other local and county sources	1,554,276	19,974	869,012	400,700	2,843,962
State sources	31,656,064	119,677	-	576,247	32,351,988
Federal sources	1,283,616	-	-	1,109,530	2,393,146
Sales and other conversion of assets	-	-	-	578,730	578,730
<b>Total revenues</b>	<b>39,072,425</b>	<b>4,019,174</b>	<b>869,012</b>	<b>2,883,276</b>	<b>46,843,887</b>
<b>Expenditures</b>					
Administration	2,082,600	-	-	-	2,082,600
District support services	1,133,324	-	-	-	1,133,324
Regular instruction	16,049,719	-	-	-	16,049,719
Vocational instruction	596,563	-	-	-	596,563
Special education instruction	8,040,438	-	-	-	8,040,438
Community education and service	-	-	-	1,121,584	1,121,584
Instructional support services	1,990,141	-	-	-	1,990,141
Pupil support services	4,124,058	-	-	1,766,309	5,890,367
Sites and buildings	3,549,594	-	23,557,521	-	27,107,115
Fiscal and other fixed cost programs	143,595	3,816,001	-	-	3,959,596
<b>Total expenditures</b>	<b>37,710,032</b>	<b>3,816,001</b>	<b>23,557,521</b>	<b>2,887,893</b>	<b>67,971,447</b>
Excess (Deficiency) of Revenues over (under) Expenditures	1,362,393	203,173	(22,688,509)	(4,617)	(21,127,560)
<b>Other Financing Sources</b>					
Sale of property and equipment	7,779	-	-	-	7,779
Bond proceeds	-	-	3,940,000	-	3,940,000
Premium on bond issuance	-	-	139,839	-	139,839
<b>Total other financing sources</b>	<b>7,779</b>	<b>-</b>	<b>4,079,839</b>	<b>-</b>	<b>4,087,618</b>
<b>Net Change in Fund Balance</b>	<b>1,370,172</b>	<b>203,173</b>	<b>(18,608,670)</b>	<b>(4,617)</b>	<b>(17,039,942)</b>
Fund Balance, Beginning of Year, as Adjusted (Note 8)	11,401,326	110,019	49,424,332	1,089,229	62,024,906
<b>Fund Balance, End of Year</b>	<b>\$ 12,771,498</b>	<b>\$ 313,192</b>	<b>\$ 30,815,662</b>	<b>\$ 1,084,612</b>	<b>\$ 44,984,964</b>

Independent School District No. 22

Detroit Lakes Public Schools

Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances to the Statement of Activities

Year Ended June 30, 2020

Net Change in Fund Balances - Total Governmental Funds \$ (17,039,942)

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

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay exceeded depreciation expense and net disposals in the current period. 22,979,777

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (32,247)

In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. 61,172

In the statement of activities OPEB liabilities are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used. 28,301

In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense. (3,441,242)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principle of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (2,130,226)

Change in Net Deficit of Governmental Activities \$ 425,593

Independent School District No. 22

Detroit Lakes Public Schools

General Funds

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual  
Year Ended June 30, 2020

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues</b>				
Local property tax levies	\$ 4,495,337	\$ 4,529,314	\$ 4,578,469	\$ 49,155
Other local and county sources	2,261,016	1,788,512	1,554,276	(234,236)
State sources	30,677,780	31,644,994	31,656,064	11,070
Federal sources	1,419,204	1,422,467	1,283,616	(138,851)
Miscellaneous	-	3,190	-	(3,190)
<b>Total revenues</b>	<u>38,853,337</u>	<u>39,388,477</u>	<u>39,072,425</u>	<u>(316,052)</u>
<b>Expenditures</b>				
Administration	2,162,180	2,146,837	2,082,600	64,237
District support services	1,165,456	1,128,292	1,133,324	(5,032)
Regular instruction	15,878,795	16,212,292	16,049,719	162,573
Vocational instruction	669,397	705,810	596,563	109,247
Special education instruction	8,767,224	8,153,136	8,040,438	112,698
Instructional support services	2,145,045	2,062,682	1,990,141	72,541
Pupil support services	4,172,342	4,312,436	4,124,058	188,378
Sites and buildings	3,880,491	3,436,955	3,549,594	(112,639)
Fiscal and other fixed cost programs	91,000	98,132	143,595	(45,463)
<b>Total expenditures</b>	<u>38,931,930</u>	<u>38,256,572</u>	<u>37,710,032</u>	<u>546,540</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(78,593)	1,131,905	1,362,393	230,488
<b>Other Financing Sources</b>				
Sale of property and equipment	-	-	7,779	7,779
<b>Net Change in Fund Balance</b>	<u>\$ (78,593)</u>	<u>\$ 1,131,905</u>	1,370,172	<u>\$ 238,267</u>
Fund Balance, Beginning of Year, as Adjusted (Note 8)			<u>11,401,326</u>	
Fund Balance, End of Year			<u>\$ 12,771,498</u>	

Independent School District No. 22  
 Detroit Lakes Public Schools  
 Fiduciary Fund  
 Statement of Net Position  
 June 30, 2020

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	<u>Custodial Fund</u>
Assets	
Cash and investments	\$ 88,057
Accounts receivable	737
	88,794
Total assets	\$ 88,794
Liabilities and Net Position	
Liabilities	
Accounts payable	2,400
	2,400
Net position	
Unrestricted	86,394
	86,394
Total liabilities and net position	\$ 88,794

Independent School District No. 22  
 Detroit Lakes Public Schools  
 Fiduciary Fund  
 Statement of Changes in Net Position  
 June 30, 2020

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	<u>Custodial Fund</u>
Additions	
Employee flex benefits withheld	\$ 185,102
Miscellaneous	<u>7,000</u>
Total additions	<u>192,102</u>
Deductions	
Employee flex benefits payments	171,532
Miscellaneous	<u>5,787</u>
Total deductions	<u>177,319</u>
Change in Net Position	14,783
Net Position, Beginning of Year, as Adjusted (Note 8)	<u>71,611</u>
Net Position, End of Year	<u><u>\$ 86,394</u></u>

## **Note 1 - Summary of Significant Accounting Policies**

### **A. Organization**

Independent School District No. 22, Detroit Lakes Public Schools, Detroit Lakes, Minnesota, (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

### **B. Reporting Entity**

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

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

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

### **C. District-Wide Financial Statement Presentation**

The district-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are reported in the Statement of Fiduciary Net Position at the fund financial statement level. Generally, the effect of interfund activity has been removed from the district-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment 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 internally directed revenues are reported as general revenues.



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

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

#### **D. Fund Financial Statement Presentation**

Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust, private-purpose trust, and custodial. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the district-wide statements.

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:

*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. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to Minnesota Statutes. Federal revenue is recorded in the year in which the related expenditure is made. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

*Recording of Expenditures* – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, severance and healthcare benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are included within the applicable functional areas.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes.

## **Description of Funds**

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

### **Major Governmental Funds**

*General Fund* – The general fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, and health and safety projects. The District’s Student Activity Funds are under board control and are reported in the general fund.

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

*Capital Projects Fund* – The building construction fund is used to account for construction projects within the District.

### **Nonmajor Governmental Funds**

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

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

### **Fiduciary Fund**

*Custodial Fund* – The custodial fund is used to administer resources received and held by the District as the trustee for others. The custodial fund is used for employee flex benefits and District events in which the district has no administrative involvement.

## **E. Other Significant Accounting Policies**

### **Budgeting**

An operating budget is adopted by July 1 of each fiscal year for all governmental funds on the same modified accrual basis used to reflect actual revenues and expenditures. The superintendent is authorized to transfer budget amounts within line items; however, supplemental appropriations that amend total appropriations of any fund require a board resolution. Reported budgeted amounts are as originally adopted or as amended by board resolution. Unencumbered appropriations lapse at year-end.

### **Cash and Investments**

Cash balances for all district funds are pooled and invested to the extent possible. Interest earned from such investments is allocated to each of the funds based on the fund's average monthly cash and investments balance. Funds that incur a deficit balance in pooled cash and investments during the year are charged interest.

Deposits and investments consist of certificates of deposit and monies deposited with the Minnesota School District Liquid Asset Fund (MSDLAF) and are stated at market.

### **Receivables**

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

### **Prepaid Items**

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

### **Inventories**

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

### **Property Taxes**

The majority of district revenue is determined annually by statutory funding formulas. The total revenue allowed by these formulas is allocated between property taxes and state aids by the Legislature based on education funding priorities.

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. The remaining portion of the taxes collectible in 2020 is recorded as deferred inflows of resources (property taxes levied for subsequent years).

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county general remits taxes to the District at periodic intervals as they are collected. A portion of the 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.

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

### **Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historic cost is not available. Donated assets are recorded as capital assets at acquisition value at the date of donation. The District maintains a threshold level of \$10,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the district-wide financial statements but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 3 to 50 years.

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

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

### **Interfund Transactions**

During the course of operations, transactions occurred between individual funds for goods provided or services rendered. These receivables and payables are properly classified as “due from other funds” or “due to other funds” on the accompanying balance sheet.

### **Long-Term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, if material, are deferred and amortized over the life of the bonds using the straight-line method.

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

### **Compensated Absences**

The District compensates substantially all full-time employees upon termination of employment for unused vacation up to a maximum.

Substantially all employees are entitled to sick leave. Noncertified employees are not compensated for unused sick leave upon a qualified termination of employment. Certified employees are compensated for unused sick leave upon termination of employment, in conjunction with severance pay. Sick leave pay is shown as an expenditure in the year paid in the governmental funds.

### **Post-Employment Severance and Health Benefits**

Full-time teachers are eligible for either a lump sum stipend or participation in an employer matching 403(b) plan. Teachers hired before July 1, 1987, who have 20 or more years of experience in the District as of July 1, 2000, and those hired before July 1, 1987, with less than 20 years' experience who have opted for the first choice, will receive a lump sum stipend based upon unused sick leave. Teachers hired after July 1, 1987, and those hired before July 1, 1987, with less than 20 years' experience who opted for the second retirement plan, will participate in an employer matching 403(b) plan.

Administrators hired before July 1, 1998, who are at least 55 years of age, have 15 years of continuous service in Minnesota and have rendered a minimum of 10 years of service to the District are eligible for severance pay based upon unused sick leave and years of service or an employer matching 403(b) plan.

Administrators hired on or after July 1, 1998, have the option to participate in an employer matching 403(b) program after one year of service in the District.

### **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 the Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA.

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 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. Additional information can be found in Note 7.

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.

### **Unearned Revenue**

The District receives donations from several organizations and the amount that is not spent in the fiscal year is reported as unearned revenue. The donations will be spent in the subsequent fiscal year for miscellaneous projects throughout the District.

### **Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has three items that qualify for reporting in this category. They are contributions made to pension plans and the other postemployment benefit plan after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense reported in the district-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has three types of items that qualify for reporting in this category. The District reports unavailable revenues from property taxes on the district-wide statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other two items are changes in the net pension liability not included in pension expense and changes in the other post-employment benefits liability not included in OPEB expense reported in the district-wide statement of net position.

### **Net Position**

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted net position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

## **Fund Balance**

The following classifications describe the relative strength of spending constraints:

- Nonspendable fund balance amounts are comprised of funds that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. They include items that are inherently unspendable, such as, but not limited to, inventories, prepaid items, long-term receivables, non-financial assets held for resale, or the permanent principal of endowment funds.
- Restricted fund balance amounts are comprised of funds that have legally enforceable constraints placed on their use that are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance amounts are comprised of unrestricted funds used for specific purposes pursuant to constraints imposed by formal action of the School Board and that remain binding unless removed by the School Board by subsequent formal action. The formal action to commit a fund balance must occur prior to fiscal year end; however, the specific amounts actually committed can be determined in the subsequent fiscal year. A committed fund balance cannot be a negative number. A majority vote of the School Board is required to commit a fund balance to a specific purpose and subsequently to remove or change any constraint so adopted by the board.
- Assigned fund balance amounts are comprised of unrestricted funds constrained by the school District's intent that they be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. In funds other than the general fund, the assigned fund balance represents the remaining amount that is not restricted or committed. The assigned fund balance category will cover the portion of a fund balance that reflects the school district's intended use of those resources. The action to assign a fund balance may be taken after the end of the fiscal year. An assigned fund balance cannot be a negative number. A School Board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The board also delegates the power to assign fund balances to the Finance Committee. Assignments so made shall be reported to the School Board on a monthly basis, either separately or as part of ongoing reporting by the assigning party if other than the School Board.
- Unassigned fund balance amounts are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

The first priority is to utilize the balance as restricted fund balance. Committed funds will be considered second with assigned fund balance third when expenditures is incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used like assigned or unassigned.

The School Board will endeavor to maintain a minimum unassigned General Fund balance of 30% of the annual budget.

### **Risk Management**

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

### **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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

As of July 1, 2019, the District adopted GASB Statement No. 84, *Fiduciary Activities*. The objective of this statement is to improve the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by establishing specific criteria for identifying activities that should be reported as fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. The impact to the District resulted in the student activity funds and certain agency funds being changed from reporting as a fiduciary funds, to the General Fund. The effect of the implementation of this standard on beginning net deficit and fund balance is disclosed in Note 8.

## **Note 2 - Deposits and Investments**

### **Deposits**

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the District's School Board. All such depositories are members of the Federal Reserve System.

The following is considered the most significant risk associated with deposits:

*Custodial Credit Risk* – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost.



Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

At June 30, 2020, all deposits were insured or collateralized by securities held by the Districts' agent in the District's name.

### **Investments**

Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, certain repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. The District had no such investments during the year or at year end.

The investment in the Minnesota School District Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40.

*Interest Rate Risk* – This is the risk that market value of securities will fall due to the changes in market interest rates. The District's investment policy states the District should manage their interest rates in a manner to attain a market rate of return through various economic and budget cycles and taking into account constraints on risk and cash flow requirements.

*Credit Risk* – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments to those in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy requires their investments be rated as required by *Minnesota Statutes* 118A.04.

*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 states the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities.

*Custodial Credit Risk* – For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy does not address custodial credit risk for investments.

Independent School District No. 22  
 Detroit Lakes Public Schools  
 Notes to Financial Statements  
 June 30, 2020

The following table presents the District's deposit and investment balances at June 30, 2020:

Type	Fair Value	Investment Maturities (in Years)		
		N/A	< 1	1 - 5
Cash and investments				
Minnesota School District Liquid Asset Fund	\$ 41,047,894	\$ 41,047,894	\$ -	\$ -
Deposits	1,769,948	1,769,948	-	-
Money market	5,687,672	5,687,672	-	-
Certificates of deposit	2,457,555	-	1,439,724	1,017,831
	<u>\$ 50,963,069</u>	<u>\$ 48,505,514</u>	<u>\$ 1,439,724</u>	<u>\$ 1,017,831</u>

Cash and investments are included on the basic financial statements as follows:

Cash and Investments - Statement of Net Deficit	\$ 50,875,012
Cash and Investments - Statement of Fiduciary Net Position	<u>88,057</u>
	<u>\$ 50,963,069</u>

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool's shares.

**Note 3 - Due from Other Governmental Units**

Amounts receivable from other governments as of June 30, 2020, include:

Fund	Federal	State	Other	Total
Major funds				
General	1,150,448	3,063,045	4,134	\$ 4,217,627
Debt service	-	11,968	-	11,968
Non-major funds	<u>77,383</u>	<u>43,674</u>	<u>821</u>	<u>121,878</u>
	<u>\$ 1,227,831</u>	<u>\$ 3,118,687</u>	<u>\$ 4,955</u>	<u>\$ 4,351,473</u>

**Note 4 - Capital Assets**

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

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Capital assets not being depreciated:				
Land	\$ 557,909	\$ 163,000	\$ -	\$ 720,909
Construction in progress	<u>3,609,842</u>	<u>23,592,519</u>	<u>-</u>	<u>27,202,361</u>
Total capital assets, not being depreciated	<u>4,167,751</u>	<u>23,755,519</u>	<u>-</u>	<u>27,923,270</u>
Capital assets being depreciated:				
Buildings	30,767,315	-	-	30,767,315
Improvements	5,273,403	17,530	-	5,290,933
Vehicles	966,512	91,383	36,336	1,021,559
Equipment	<u>3,771,233</u>	<u>164,608</u>	<u>-</u>	<u>3,935,841</u>
Total capital assets being depreciated	<u>40,778,463</u>	<u>273,521</u>	<u>36,336</u>	<u>41,015,648</u>
Less accumulated depreciation for:				
Buildings	16,804,758	570,280	-	17,375,038
Improvements	1,425,093	224,598	-	1,649,691
Vehicles	603,631	49,986	36,336	617,281
Equipment	<u>1,809,777</u>	<u>204,399</u>	<u>-</u>	<u>2,014,176</u>
Total accumulated depreciation	<u>20,643,259</u>	<u>1,049,263</u>	<u>36,336</u>	<u>21,656,186</u>
Net capital assets, depreciated	<u>20,135,204</u>	<u>(775,742)</u>	<u>-</u>	<u>19,359,462</u>
Total capital assets, net	<u>\$ 24,302,955</u>	<u>\$ 22,979,777</u>	<u>\$ -</u>	<u>\$ 47,282,732</u>

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

District support services	\$ 2,598
Regular instruction	10,362
Vocational instruction	2,617
Special education instruction	12,524
Instructional support services	2,499
Pupil support services	54,072
Sites and buildings	<u>964,591</u>
Total depreciation expense	<u>\$ 1,049,263</u>

**Note 5 - Long-Term Liabilities**

Changes in long-term liabilities during the year ended June 30, 2020 are as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due Within One Year
Bonds payable	\$ 52,170,000	\$ 3,940,000	\$ 1,775,000	\$ 54,335,000	\$ 1,650,000
Unamortized premium on bond issuance	3,011,477	139,839	159,081	2,992,235	165,129
Compensated absences and severance payable	194,384	83,849	145,021	133,212	123,472
	<u>\$ 55,375,861</u>	<u>\$ 4,163,688</u>	<u>\$ 2,079,102</u>	<u>\$ 57,460,447</u>	<u>\$ 1,938,601</u>

Following is a summary of bonds payable as of June 30, 2020:

Bond Description	Final	Interest Rate	Original Principal	Outstanding Balance
General Obligation Abatement Bonds Series 2018A	2/33	3.00%	\$ 4,725,000	\$ 4,450,000
General Obligation School Building Bonds, Series 2019A	2/39	3.00% - 5.00%	47,445,000	45,945,000
General Obligation Facilities Maintenance Bonds, Series 2020A	2/35	2.00% - 4.00%	3,940,000	<u>3,940,000</u>
				<u>\$ 54,335,000</u>

*Bonds payable* – This amount consists of various bond instruments issued by the District to finance operations and construction of new facilities.

During the year ended June 30, 2020, the District issued \$3,940,000 in General Obligation Facilities Maintenance Bonds, Series 2020A, to finance facility maintenance projects included in the ten-year facility plan of the District as approved by the Commissioner of Education. The bonds call for semiannual interest payments with rates of 2.00 – 4.00% commencing in 2021 and annual principal payments commencing in 2024, with final maturity in 2035. Bond principal and interest payments are made by the debt service fund.

*Compensated absences and severance payable* – This amount consists of unused vacation and severance as discussed in Note 1. These expenses are paid out of the general fund.

Remaining principal and interest payments on long-term debt are as follows:

Years Ending June 30,	Bonds Payable	
	Principal	Interest
2021	\$ 1,650,000	\$ 2,027,216
2022	1,730,000	1,968,681
2023	1,955,000	1,888,081
2024	2,325,000	1,796,431
2025	2,425,000	1,694,781
2026-2030	13,880,000	6,725,456
2031-2035	16,595,000	3,992,206
2036-2039	13,775,000	1,195,400
	\$ 54,335,000	\$ 21,288,252

**Note 6 - Other Postemployment Benefits**

**A. Plan Description**

All employees are allowed upon meeting the eligibility requirements under Minn. Stat. 471.61 subd, 2b, to participate in the District’s health insurance plan after retirement. This is a single-employer defined benefit plan and covers active and retired employees. Benefit provisions are established through negotiations between the District and the union representing District employees and are renegotiated at the end of each contract period. A separately issued report is not available.

**B. Benefits Provided**

The contract groups have access to other post-retirement benefits of blended medical premiums of \$591 for single and \$1,577 for family coverage. The implicit rate subsidy is only until Medicare eligibility. There are no subsidized post-employment benefits toward medical, dental or life insurance, except for one Superintendent retiring June 2020 with \$11,500 paid into a Health Care Savings Plan.

**C. Employees Covered by Benefit Terms**

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

Inactive employees or beneficiaries currently receiving benefit payments	26
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	345
	371

**D. Net OPEB Liability**

The District’s net OPEB liability of \$1,616,995 was measured as of July 1, 2019, and was determined by an actuarial valuation as of July 1, 2019.

**E. Actuarial Assumptions and Other Inputs**

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

Inflation	2.50 percent	
Salary increases	Service graded table, based on age and years of service	
Healthcare cost trend rates	6.50 percent for 2020 grading to 5.00% over 6 years	
Retiree plan participation	Future retirees electing coverage:	
	-Pre-65 subsidy available	100%
	-Pre-65 subsidy not available	50%
Percent of married retirees electing spouse coverage	15%	

Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-Year Municipal Bond Yield.

Mortality rates were based on the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale.

The actuarial assumptions used in the June 30, 2020 measurement were based on the results of an actuarial experience study as of July 1, 2019.

The following changes in plan provisions were made for the year ending June 30, 2020:

- OPEB benefits for the remaining participants entitled to a lump sum contribution at retirement were changed to instead provide the benefit while still in active service. As a result, these benefits are no longer included in the net OPEB liability.

The following changes in assumptions were made for the year ending June 30, 2020:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale
- The salary increase rates were changed from a flat 3.0% per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 3.40% to 3.10%.

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

Balance at June 30, 2019		\$ 1,797,300
Changes from the Prior Year:		
Service Cost		115,027
Interest Cost		62,549
Assumption changes		(31,050)
Plan changes		(21,274)
Differences between expected and actual experience		(159,030)
Benefit Payments		<u>(146,527)</u>
Net Change		<u>(180,305)</u>
Balance at June 30, 2020		<u>\$ 1,616,995</u>

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

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount rate	2.40%	3.40%	4.40%
Net OPEB Liability	\$ 1,702,543	\$ 1,616,995	\$ 1,534,233

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

	<u>Healthcare Trend Rate</u>	<u>Healthcare Trend Rate</u>	<u>Healthcare Trend Rate</u>
Medical trend rate	5.50% decreasing to 4% over 6 years	6.50% decreasing to 5% over 6 years	7.50% decreasing to 6% over 6 years
Net OPEB Liability	\$ 1,488,466	\$ 1,616,995	\$ 1,766,362

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

For the year ended June 30, 2020, the District recognized OPEB expense of \$129,147. At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability gains	\$ -	\$ 136,311
Assumption changes	-	26,614
Employer contributions made after the measurement date	157,992	-
	\$ 157,992	\$ 162,925

\$157,992 reported as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	OPEB Expense Amount
2021	\$ (27,155)
2022	(27,155)
2023	(27,155)
2024	(27,155)
2025	(27,155)
2026	(27,150)



**Note 7 - Defined Benefit Pension Plans**

Substantially all employees of the District are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by the Public Employees' Retirement Association (PERA) or the Teachers' Retirement Association (TRA), all of which are administered on a state-wide basis. Disclosures relating to these plans are as follows:

**Public Employees Retirement Association (PERA)**

**A. Plan Descriptions**

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

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.

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

**C. Contribution Rate**

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2020 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2020, were \$406,832. The District's contributions were equal to the required contributions for the year as set by state statute.

**D. Pension Costs**

At June 30, 2020, the District reported a liability of \$4,362,204 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 \$135,494. 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 0.0789% at the end of the measurement period and 0.0779% for the beginning of the period.

District's proportionate share of net pension liability	\$	4,362,204
State of Minnesota's proportionate share of the net pension liability associated with the District		135,494
Total	\$	4,497,698

For the year ended June 30, 2020, the District recognized pension expense of \$399,220 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$10,147 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 122,040	\$ -
Changes in actuarial assumptions	-	345,187
Net collective difference between projected and actual investment earnings	-	450,541
Changes in proportion	94,384	86,183
Contributions paid to PERA subsequent to the measurement date	406,832	-
Total	\$ 623,256	\$ 881,911

The \$406,832 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2021	\$ (217,045)
2022	(383,170)
2023	(72,302)
2024	7,030

**E. Actuarial Assumptions**

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

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

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

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 and plan provisions occurred in 2019:

Changes in Actuarial Assumptions:

- The morality projection scale was changed from MP-2017 to MP-2018.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions:

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

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

Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
Domestic Equity	35.5%	5.10%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
International Equity	17.5%	5.90%
Cash Equivalent	2.0%	0.00%
	100.0%	

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2019 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. Pension Liability Sensitivity**

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

Sensitivity Analysis  
 Net Pension Liability (Asset) at Different Discount Rates

	General Employees Fund	
1% Lower	6.50%	\$ 7,171,229
Current Discount Rate	7.50%	\$ 4,362,204
1% Higher	8.50%	\$ 2,042,796

**H. Pension Plan Fiduciary Net Position**

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

**Teachers Retirement Association (TRA)**

**A. Plan Descriptions**

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 other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Define Contribution Plan (DCR) administered by the State of Minnesota.

**B. Benefits Provided**

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

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

*Tier I Benefits.*

Tier 1:	Step Rate Formula	Percentage
Basic	First ten years	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:

1. Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
2. 3 percent per year early retirement reduction factor for all years under normal retirement age.
3. Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

*Tier II Benefits*

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

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

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

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

**C. Contribution Rate**

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

	June 30, 2018		June 30, 2019		June 30, 2020	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.00%	11.50%	11.00%	11.71%	11.00%	11.92%
Coordinated	7.50%	7.50%	7.50%	7.71%	7.50%	7.92%

The following is a reconciliation of employer contributions in TRA’s CAFR “Statement of Changes in Fiduciary Net Position” to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations.

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

**D. Actuarial Assumptions**

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

**Key Methods and Assumptions Used in Valuation of Total Pension Liability**

**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% after June 30, 2028
Projected salary increase	2.85 to 8.85% before July 1, 2028, and 3.25 to 9.25% after June 30, 2028
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually

**Mortality assumptions**

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

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



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

Asset Class	Target Allocations	Long-Term Expected Real Rate of Return
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%
	100.0%	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is six years. The “Difference Between Expected and Actual Experience,” “Changes of Assumptions,” and “Changes in Proportion” use the amortization period of 6 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is 5 years as required by GASB 68.

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

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

**E. Discount Rate**

The discount rate used to measure the total pension liability was 7.50%. There was no change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2019 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

**F. Net Pension Liability**

At June 30, 2020, the District reported a liability of \$19,574,618 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. The District's proportionate share was 0.3071% at the end of the measurement period and 0.3098% 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	<u>\$ 19,574,618</u>
State's proportionate share of the net pension liability associated with the district	<u>\$ 1,732,412</u>

For the year ended June 30, 2020, the District recognized pension expense of \$1,640,818. It also recognized \$131,684 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 2,582	\$ 472,051
Changes in actuarial assumptions	15,382,576	26,079,103
Difference between projected and actual investment earnings	-	1,675,083
Change in proportion and differences between contributions made and District's proportionate share of contributions	1,676,707	212,121
District's contributions to TRA subsequent to the measurement date	1,404,002	-
Total	\$ 18,465,867	\$ 28,438,358

\$1,404,002 was 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 and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2021	\$ 1,220,930
2022	(282,033)
2023	(7,074,388)
2024	(5,162,290)
2025	(78,712)

**G. Net Pension Liability**

The following presents the District’s proportionate share of the net pension liability calculated using the discount rate of 7.50% as well as the liability measured using one percent lower and one percent higher:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
TRA discount rate	6.50%	7.50%	8.50%
District’s proportionate share of the TRA net pension liability	\$ 31,206,728	\$ 19,574,618	\$ 9,984,116

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

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

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

**Note 8 - Adoption of New Standard**

As of July 1, 2019, the District adopted GASB Statement No. 84, *Fiduciary Activities*. Due to the new standard, the District's student activity accounts will now be held in and accounted for in the General Fund. Student activity accounts were previously accounted for in a fiduciary fund. Agency funds where the District has administrative oversight will also be held in and accounted for in the General Fund. These agency funds were previously accounted for in a fiduciary fund. Agency funds where the District does not have administrative oversight will be accounted for in a custodial fund. The following table describes the effects of the implementation of GASB 84 on beginning net position (deficit)/fund balance.

	Governmental Activities	General Fund	Custodial Fund
Net Position (Deficit)/Fund Balance - June 30, 2019, as previously reported	\$ (2,510,475)	\$ 11,118,567	\$ -
Adjustment of student activity funds from an agency fund to the General Fund	237,967	237,967	-
Adjustment of district funds from an agency fund to the General Fund	44,792	44,792	-
Adjustment of funds from an agency fund to a Custodial Fund	-	-	71,611
Net Position (Deficit)/Fund Balance - July 1, 2019, as adjusted	\$ (2,227,716)	\$ 11,401,326	\$ 71,611

**Note 9 - Interfund Receivables and Payables**

Interfund balances are to accrue obligations between funds. Balances at June 30, 2020 are as follows:

	Due From Other Funds	Due To Other Funds
Food Service	\$ 604	\$ -
General	-	604
	\$ 604	\$ 604

**Note 10 - Fund Balance**

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

The following is a summary of fund balances as of June 30, 2020:

	General	Debt Service	Capital Projects	Other Government Funds	Totals
<b>Nonspendable</b>					
Prepaid items	\$ 51,125	\$ -	\$ -	\$ -	\$ 51,125
Inventories	46,621	-	-	69,382	116,003
Total nonspendable	<u>97,746</u>	<u>-</u>	<u>-</u>	<u>69,382</u>	<u>167,128</u>
<b>Restricted</b>					
Student activities	212,693	-	-	-	212,693
Staff development	602,719	-	-	-	602,719
Operating capital	1,253,634	-	-	-	1,253,634
Gifted & talented	31,029	-	-	-	31,029
Safe school - crime levy	208,712	-	-	-	208,712
Medical assistance	1,561,067	-	-	-	1,561,067
Building construction	-	-	30,815,662	-	30,815,662
Debt service	-	313,192	-	-	313,192
Food service	-	-	-	627,668	627,668
Community education	-	-	-	149,988	149,988
Early childhood and family education	-	-	-	45,470	45,470
School readiness	-	-	-	168,784	168,784
Adult basic education	-	-	-	19,789	19,789
Community service	-	-	-	3,531	3,531
Total restricted	<u>3,869,854</u>	<u>313,192</u>	<u>30,815,662</u>	<u>1,015,230</u>	<u>36,013,938</u>
<b>Committed</b>					
Separation/retirement benefit	2,558,467	-	-	-	2,558,467
<b>Assigned</b>					
Construction	2,383,837	-	-	-	2,383,837
Needy children	44,465	-	-	-	44,465
Total assigned	<u>2,428,302</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,428,302</u>
<b>Unassigned</b>					
	<u>3,817,129</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,817,129</u>
Total fund balance	<u>\$ 12,771,498</u>	<u>\$ 313,192</u>	<u>\$ 30,815,662</u>	<u>\$ 1,084,612</u>	<u>\$ 44,984,964</u>

Independent School District No. 22

Detroit Lakes Public Schools

Notes to Financial Statements

June 30, 2020

The UFARS fund balance reporting standards are slightly different than the reporting standards under GASB 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Below is reconciliation between the fund balance reporting under GASB 54 and UFARS reporting standards:

	GASB Balance	Reconciling Items	UFARS Balance
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Nonspendable			
Prepaid items	\$ 51,125	\$ -	\$ 51,125
Inventories	116,003	-	116,003
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total nonspendable	167,128	-	167,128
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Restricted			
Student activities	212,693	-	212,693
Staff development	602,719	-	602,719
Operating capital	1,253,634	-	1,253,634
Gifted & talented	31,029	-	31,029
Safe school - crime levy	208,712	-	208,712
LT facilities maintenance	-	(2,158,069)	(2,158,069)
Medical assistance	1,561,067	-	1,561,067
Building construction	30,815,662	-	30,815,662
Debt service	313,192	-	313,192
Food service	627,668	-	627,668
Community education	149,988	-	149,988
Early childhood and family education	45,470	-	45,470
School readiness	168,784	-	168,784
Adult basic education	19,789	-	19,789
Community service	3,531	-	3,531
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total restricted	36,013,938	(2,158,069)	33,855,869
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Committed			
Separation/retirement benefits	2,558,467	-	2,558,467
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Assigned			
Construction	2,383,837	-	2,383,837
Needy children	44,465	-	44,465
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total assigned	2,428,302	-	2,428,302
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Unassigned	3,817,129	2,158,069	5,975,198
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total fund balance	<u>\$ 44,984,964</u>	<u>\$ -</u>	<u>\$ 44,984,964</u>

**Note 11 - Flexible Benefit Plan**

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

Before the beginning of the Plan year, which is from September 1 to August 31, each participant designates a total amount of pre-tax dollars to be contributed to the Plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants’ annual contributions to the medical reimbursement portion of the Plan, whether or not such contributions have been made.

Payment of insurance premiums (health, dental, life, and disability) are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund and special revenue funds.

Amounts withheld for medical reimbursement and dependent care are paid by the District to an outside administrator upon an employee submitting a request for reimbursement. Payments are made by the outside administrator to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the employee.

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

**Note 12 - Employee Benefit Plan 403(b)**

All teachers are eligible to participate in the matching 403(b) program. The maximum amount of the Elective Deferral under the Plan for any calendar year shall not exceed the lesser of (a) \$18,500 or (b) the Participant’s Includible Compensation. Includible Compensation means an Employee’s actual wages in box 1 of Form W-2 for a year for services to the employer, but subject to a maximum of \$230,000 (or such higher maximum as may apply under Section 401(a)(17) of the Code and increased (up to the dollar maximum) by an compensation reduction election under Section 125, 132(f), 401(k), 403(b) or 457(b) of the Code. The amount of Includible Compensation is determined without regard to any community property laws. Employer contributions for the years ending June 30, 2020, June 30, 2019, and June 30, 2018 totaled \$242,118, \$239,954, and \$240,930, respectively.



**Note 13 - Commitments and Contingencies**

**Federal Revenue**

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

**Contingencies**

The District has the usual and customary legal claims pending at year-end. Although the outcomes of these lawsuits are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

**Construction Commitment**

The District had construction commitments during the year ended June 30, 2020 for the following projects: Roosevelt renovation and addition; Rossman addition, Middle School renovation, and High School renovation and additions. The total amount of these contracts committed as of June 30, 2020 is approximately \$60,766,000, with the work completed on these projects as of June 30, 2020 totaling \$27,114,511. These projects are expected to be completed over the course of fiscal year 2022.

**Operating Lease**

The District is obligated under certain leases accounted for as operating leases. These leases are generally cancelable on an annual basis by the District. Operating leases do not give rise to property rights or lease obligations and, therefore, the results of the lease agreements are not reflected as a liability in the Districts financial statements. The District has several operating leases for various purposes. Lease expense for all leases of the District for the current year was \$303,211.

The following is a summary of future operating lease payments:

Years Ending June 30,	Payment
2021	\$ 309,095
2022	312,065
2023	309,085
2024	187,079
2025	154,762
	\$ 1,272,086

#### **Note 14 - Subsequent Events**

The District has evaluated subsequent events through December 16, 2020, the date which the financial statements were available to be issued. The District received \$1,383,960 of federal grants related to the global COVID-19 pandemic. This funding was received as part of the Coronavirus Relief Funds (CRF), Elementary and Secondary School Emergency Relief Fund (ESSER) and the Governor's Emergency Education Relief Fund (GEER) grant programs. All grants will be used to cover COVID-19 expenditures of the district.

#### **Note 15 - Issued But Non-Effective Accounting Pronouncements**

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. The first statement issued but not yet implemented that will affect the District is Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This Statement will be implemented at the District in the year ended June 30, 2022.

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

The third statement issued but not yet implemented that will affect the District is Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset (the underlying PPP asset), for a period of time in an exchange or exchange-like transaction. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements (APAs). An APA is an arrangement in which a government compensates an operator for services that may include designing, constructing, financing, maintaining, or operating an underlying nonfinancial asset for a period of time in an exchange or exchange-like transaction. The requirements of this Statement will improve financial reporting by establishing the definitions of PPPs and APAs and providing uniform guidance on accounting and financial reporting for transactions that meet those definitions. That uniform guidance will provide more relevant and reliable information for financial statement users and create greater consistency in practice. This Statement will enhance the decision usefulness of a government's financial statements by requiring governments to report assets and liabilities related to PPPs consistently and disclose important information about PPP transactions. The required disclosures will allow users to understand the scale and important aspects of a government's PPPs and evaluate a government's future obligations and assets resulting from PPPs. This Statement will be implemented at the District in the year ended June 30, 2023.

The final statement issued but not yet implemented that will affect the District is Statement No. 96, *Subscription-Based Information Technology Arrangements*. The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. That definition and uniform guidance will result in greater consistency in practice. Establishing the capitalization criteria for implementation costs also will reduce diversity and improve comparability in financial reporting by governments. This Statement also will enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs. This Statement will be implemented at the District in the year ended June 30, 2023.

Management has not yet determined the effect these pronouncements will have on the District's financial statements.



Required Supplementary Information  
June 30, 2020

**Independent School District No. 22**  
**Detroit Lakes Public Schools**

Independent School District No. 22  
 Detroit Lakes Public Schools  
 Schedule of Changes in the District's Total OPEB Liability and Related Ratios  
 June 30, 2020

**Schedule of Changes in the District's Total OPEB Liability and Related Ratios, Last 10 Fiscal Years \***

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Service cost	\$ 115,027	\$ 116,805	\$ 113,403
Interest cost	62,549	61,834	61,615
Assumption changes	(31,050)	-	-
Plan changes	(21,274)	-	-
Differences between expected and actual experience	(159,030)	-	-
Benefit payments	<u>(146,527)</u>	<u>(164,966)</u>	<u>(178,919)</u>
Net change in total OPEB liability	(180,305)	13,673	(3,901)
Total OPEB liability - beginning	<u>1,797,300</u>	<u>1,783,627</u>	<u>1,787,528</u>
Total OPEB liability - ending	<u><u>\$ 1,616,995</u></u>	<u><u>\$ 1,797,300</u></u>	<u><u>\$ 1,783,627</u></u>
Covered-employee payroll	\$18,495,400	\$18,238,706	\$17,707,482
District's net OPEB liability as a percentage of covered-employee payroll	8.74%	9.85%	10.07%

\*GASB Statement No. 75 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**Notes to the Schedule of Changes in the District's Total OPEB Liability and Related Ratios**

- No assets are accumulated in a trust that meets the criteria in paragraph .101 of GASB Statement No. 75.

Independent School District No. 22

Detroit Lakes Public Schools

Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

June 30, 2020

**Schedule of Employer's Share of Net Pension Liability**

**Last 10 Fiscal Years\***

Pension Plan	Measurement Date	Employer's Proportionate Share (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Proportionate Share (Amount) of the Net Pension Liability Associated With District (b)	Total (d) (a+b)	Employer's Covered-Employee Payroll (e)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Payroll (a/e)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	6/30/2019	0.0789%	\$ 4,362,204	\$ 135,494	\$ 4,497,698	\$ 5,147,242	84.7%	80.2%
PERA	6/30/2018	0.0779%	\$ 4,321,573	\$ 141,834	\$ 4,463,407	\$ 5,372,293	80.4%	79.5%
PERA	6/30/2017	0.0806%	\$ 5,145,451	\$ 64,700	\$ 5,210,151	\$ 5,192,453	99.1%	75.9%
PERA	6/30/2016	0.0780%	\$ 6,333,213	\$ 82,695	\$ 6,415,908	\$ 4,837,587	130.9%	68.9%
PERA	6/30/2015	0.0803%	\$ 4,161,563	N/A	\$ 4,161,563	\$ 4,638,933	89.7%	78.2%
PERA	6/30/2014	0.0841%	\$ 3,950,597	N/A	\$ 3,950,597	\$ 4,416,303	89.5%	78.8%
TRA	6/30/2019	0.3071%	\$ 19,574,618	\$ 1,732,412	\$ 21,307,030	\$ 17,435,383	112.3%	78.1%
TRA	6/30/2018	0.3098%	\$ 19,458,340	\$ 1,828,135	\$ 21,286,475	\$ 17,178,227	113.3%	78.1%
TRA	6/30/2017	0.3029%	\$ 68,464,335	\$ 5,845,239	\$ 74,309,574	\$ 16,308,080	419.8%	51.6%
TRA	6/30/2016	0.2868%	\$ 68,408,643	\$ 6,866,720	\$ 75,275,363	\$ 14,917,907	458.6%	44.9%
TRA	6/30/2015	0.2849%	\$ 17,623,883	\$ 2,161,428	\$ 19,785,311	\$ 14,457,520	121.9%	76.8%
TRA	6/30/2014	0.3018%	\$ 13,906,727	\$ 978,225	\$ 14,884,952	\$ 13,775,757	101.0%	81.5%

\*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**Schedule of Employer's Contributions**

**Last 10 Fiscal Years\***

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
PERA	6/30/2020	\$ 406,832	\$ 406,832	\$ -	\$ 5,424,427	7.5%
PERA	6/30/2019	\$ 386,043	\$ 386,043	\$ -	\$ 5,147,242	7.5%
PERA	6/30/2018	\$ 402,922	\$ 402,922	\$ -	\$ 5,372,293	7.5%
PERA	6/30/2017	\$ 389,434	\$ 389,434	\$ -	\$ 5,192,453	7.5%
PERA	6/30/2016	\$ 362,819	\$ 362,819	\$ -	\$ 4,837,587	7.5%
PERA	6/30/2015	\$ 347,920	\$ 347,920	\$ -	\$ 4,638,933	7.5%
PERA	6/30/2014	\$ 320,182	\$ 320,182	\$ -	\$ 4,416,303	7.3%
TRA	6/30/2020	\$ 1,404,002	\$ 1,404,002	\$ -	\$ 17,727,298	7.9%
TRA	6/30/2019	\$ 1,344,268	\$ 1,344,268	\$ -	\$ 17,435,383	7.7%
TRA	6/30/2018	\$ 1,288,367	\$ 1,288,367	\$ -	\$ 17,178,227	7.5%
TRA	6/30/2017	\$ 1,223,106	\$ 1,223,106	\$ -	\$ 16,308,080	7.5%
TRA	6/30/2016	\$ 1,118,843	\$ 1,118,843	\$ -	\$ 14,917,907	7.5%
TRA	6/30/2015	\$ 1,084,314	\$ 1,084,314	\$ -	\$ 14,457,520	7.5%
TRA	6/30/2014	\$ 964,303	\$ 964,303	\$ -	\$ 13,775,757	7.0%

\*GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions**

**PERA**

**2019 Changes**

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

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

**2018 Changes**

Changes in Actuarial Assumptions

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent 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 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, 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 combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent 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.

**2016 Changes:****Changes in Actuarial Assumptions**

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

**Changes in Plan Provisions**

- There have been no changes since the prior valuation.

**2015 Changes:****Changes in Actuarial Assumptions**

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2030 and 2.50 percent per year thereafter to 1.00 percent per year through 2035 and 2.50 percent per year thereafter.

**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 increase 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.

**TRA****2019 Changes****Changes in Actuarial Assumptions**

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



- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

### 2018 Changes

#### Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero% 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 decreased 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.
- 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.
- Augmentation in the early retirement reduction factors is phased out o 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.

#### Change of 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%. Details, if necessary, can be obtained from the TRA CAFR.

PERA's CAFR may be obtained on the PERA's website at [www.mnpera.org](http://www.mnpera.org) for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.

Additional financial and actuarial information can be found in TRA's GASB 67-68 report. Both reports can be obtained at <https://minnesotatra.org/wp-content/uploads/2019/01/2018-MN-TRA-GASB-67-68-Reportscombined.pdf>.

**PERA 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 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, 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 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, 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.

**TRA Changes in Actuarial Assumptions**

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

PERA's CAFR may be obtained on the PERA's website at [www.mnpera.org](http://www.mnpera.org) for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.

TRA's CAFR may be obtained on the TRA's website at [www.MinnesotaTRA.org](http://www.MinnesotaTRA.org) for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.



Combining and Individual Fund Schedules  
June 30, 2020

# Independent School District No. 22 Detroit Lakes Public Schools

Independent School District No. 22  
 Detroit Lakes Public Schools  
 General Fund  
 Schedule of Changes in UFARS Fund Balances  
 Year Ended June 30, 2020

	Fund Balance (Deficit) Beginning of Year, as Adjusted	Net Change in Fund Balance	Fund Balance (Deficit) End of Year
Nonspendable	\$ 96,869	\$ 877	97,746
Restricted for student activities	237,967	(25,274)	212,693
Restricted for staff development	744,595	(141,876)	602,719
Restricted for operating capital	1,053,827	199,807	1,253,634
Restricted for gifted and talented	27,003	4,026	31,029
Restricted for safe schools	72,360	136,352	208,712
Restricted for long-term facilities maintenance	(2,936,032)	777,963	(2,158,069)
Restricted for medical assistance	1,658,356	(97,289)	1,561,067
Committed for separation/retirement benefits	2,674,249	(115,782)	2,558,467
Assigned for construction	2,333,837	50,000	2,383,837
Assigned for needy children	44,792	(327)	44,465
Unassigned	<u>5,393,503</u>	<u>581,695</u>	<u>5,975,198</u>
	<u>\$ 11,401,326</u>	<u>\$ 1,370,172</u>	<u>\$ 12,771,498</u>

Independent School District No. 22  
 Detroit Lakes Public Schools  
 Nonmajor Governmental Funds  
 Combining Balance Sheet  
 June 30, 2020

	<u>Food Service</u>	<u>Community Service</u>	<u>Totals</u>
<b>Assets</b>			
Cash and investments	\$ 657,737	\$ 479,445	\$ 1,137,182
Receivables			
Current property taxes	-	100,149	100,149
Delinquent property taxes	-	969	969
Accounts	30,991	14,171	45,162
Due from other governmental units	68,199	53,679	121,878
Due from other funds	604	-	604
Inventories	69,382	-	69,382
	<u>69,382</u>	<u>-</u>	<u>69,382</u>
Total assets	<u>\$ 826,913</u>	<u>\$ 648,413</u>	<u>\$ 1,475,326</u>
<b>Liabilities</b>			
Accounts payable	\$ 26,468	\$ 12,023	\$ 38,491
Salaries payable	45,749	33,857	79,606
Unearned revenue	57,646	4,740	62,386
	<u>57,646</u>	<u>4,740</u>	<u>62,386</u>
Total liabilities	<u>129,863</u>	<u>50,620</u>	<u>180,483</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue-property taxes	-	210,231	210,231
	<u>-</u>	<u>210,231</u>	<u>210,231</u>
<b>Fund Balance</b>			
Nonspendable	69,382	-	69,382
Restricted	627,668	387,562	1,015,230
	<u>627,668</u>	<u>387,562</u>	<u>1,015,230</u>
Total fund balance	<u>697,050</u>	<u>387,562</u>	<u>1,084,612</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 826,913</u>	<u>\$ 648,413</u>	<u>\$ 1,475,326</u>

Independent School District No. 22  
 Detroit Lakes Public Schools  
 Nonmajor Governmental Funds  
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balance  
 Year Ended June 30, 2020

	<u>Food Service</u>	<u>Community Service</u>	<u>Totals</u>
<b>Revenues</b>			
Local property tax levies	\$ -	\$ 218,069	\$ 218,069
Other local and county sources	14,510	386,190	400,700
State sources	88,769	487,478	576,247
Federal sources	1,099,785	9,745	1,109,530
Sales and other conversion of assets	578,730	-	578,730
	<u>1,781,794</u>	<u>1,101,482</u>	<u>2,883,276</u>
<b>Expenditures</b>			
Community education and service	-	1,121,584	1,121,584
Pupil support services	1,766,309	-	1,766,309
	<u>1,766,309</u>	<u>1,121,584</u>	<u>2,887,893</u>
Net Change in Fund Balance	15,485	(20,102)	(4,617)
Fund Balance, Beginning of Year	<u>681,565</u>	<u>407,664</u>	<u>1,089,229</u>
Fund Balance, End of Year	<u>\$ 697,050</u>	<u>\$ 387,562</u>	<u>\$ 1,084,612</u>



Other Supplementary Information  
June 30, 2020

**Independent School District No. 22**  
**Detroit Lakes Public Schools**



Independent School District No. 22  
 Detroit Lakes Public Schools  
 Uniform Accounting and Reporting Standards Compliance Table  
 Year Ended June 30, 2020

**Fiscal Compliance Report - 6/30/2020**

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**District: DETROIT LAKES (22-1)**   [Back](#)   [Print](#)

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$39,072,425	<u>\$39,072,427</u>	(\$2)	Total Revenue	\$869,012	<u>\$869,012</u>	\$0
Total Expenditures	\$37,710,032	<u>\$37,710,032</u>	\$0	Total Expenditures	\$23,557,521	<u>\$23,557,521</u>	\$0
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$97,746	<u>\$97,746</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.01 Student Activities	\$212,693	<u>\$212,694</u>	(\$1)	4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0
4.02 Scholarships	\$0	<u>\$0</u>	\$0	4.13 Project Funded by COP	\$0	<u>\$0</u>	\$0
4.03 Staff Development	\$602,719	<u>\$602,719</u>	\$0	4.67 LTFM	\$0	<u>\$0</u>	\$0
4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.08 Cooperative Revenue	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$30,815,662	<u>\$30,815,661</u>	\$1
4.13 Project Funded by COP	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
4.14 Operating Debt	\$0	<u>\$0</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.16 Levy Reduction	\$0	<u>\$0</u>	\$0	<b>07 DEBT SERVICE</b>			
4.17 Taconite Building Maint	\$0	<u>\$0</u>	\$0	Total Revenue	\$4,019,174	<u>\$4,019,174</u>	\$0
4.24 Operating Capital	\$1,253,634	<u>\$1,253,634</u>	\$0	Total Expenditures	\$3,816,001	<u>\$3,816,002</u>	(\$1)
4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0	<i>Non Spendable:</i>			
4.27 Disabled Accessibility	\$0	<u>\$0</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
4.28 Learning & Development	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
4.34 Area Learning Center	\$0	<u>\$0</u>	\$0	4.25 Bond Refundings	\$0	<u>\$0</u>	\$0
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	\$0	4.33 Maximum Effort Loan Aid	\$0	<u>\$0</u>	\$0
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	\$0	4.51 QZAB Payments	\$0	<u>\$0</u>	\$0
4.38 Gifted & Talented	\$31,029	<u>\$31,029</u>	\$0	4.67 LTFM	\$0	<u>\$0</u>	\$0
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.41 Basic Skills Programs	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$313,192	<u>\$313,191</u>	\$1
4.48 Achievement and Integration	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
4.49 Safe School Crime - Crime Levy	\$208,712	<u>\$208,712</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.51 QZAB Payments	\$0	<u>\$0</u>	\$0	<b>08 TRUST</b>			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
4.59 Basic Skills Extended Time	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
4.67 LTFM	(\$2,158,069)	<u>(\$2,158,069)</u>	\$0	4.01 Student Activities	\$0	<u>\$0</u>	\$0
4.72 Medical Assistance	\$1,561,067	<u>\$1,561,067</u>	\$0	4.02 Scholarships	\$0	<u>\$0</u>	\$0
4.73 PPP Loan	\$0	<u>\$0</u>	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
4.74 EIDL Loan	\$0	<u>\$0</u>	\$0	<b>18 CUSTODIAL</b>			
<i>Restricted:</i>				Total Revenue	\$192,102	<u>\$192,103</u>	(\$1)
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0	Total Expenditures	\$177,319	<u>\$177,318</u>	\$1
4.75 Title VII Impact Aid	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
4.76 Payments in Lieu of Taxes	\$0	<u>\$0</u>	\$0	4.01 Student Activities	\$0	<u>\$0</u>	\$0
<i>Committed:</i>				4.02 Scholarships	\$0	<u>\$0</u>	\$0
4.18 Committed for Separation	\$2,558,467	<u>\$2,558,467</u>	\$0	4.48 Achievement and Integration	\$0	<u>\$0</u>	\$0
4.61 Committed Fund Balance	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$86,394	<u>\$86,396</u>	(\$2)
<i>Assigned:</i>				<b>20 INTERNAL SERVICE</b>			
4.62 Assigned Fund Balance	\$2,428,302	<u>\$2,428,302</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
<i>Unassigned:</i>				Total Expenditures	\$0	<u>\$0</u>	\$0
4.22 Unassigned Fund Balance	\$5,975,198	<u>\$5,975,204</u>	(\$6)	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
<b>02 FOOD SERVICES</b>				<b>25 OPEB REVOCABLE TRUST</b>			
Total Revenue	\$1,781,794	<u>\$1,781,793</u>	\$1	Total Revenue	\$0	<u>\$0</u>	\$0
Total Expenditures	\$1,766,309	<u>\$1,766,310</u>	(\$1)	Total Expenditures	\$0	<u>\$0</u>	\$0
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$69,382	<u>\$69,382</u>	\$0	<i>Restricted / Reserved:</i>			
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			

Independent School District No. 22  
 Detroit Lakes Public Schools  
 Uniform Accounting and Reporting Standards Compliance Table  
 Year Ended June 30, 2020

	\$0	<u>\$0</u>	<u>\$0</u>
4.74 EIDL Loan	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$627,668	<u>\$627,666</u>	<u>\$2</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<b>04 COMMUNITY SERVICE</b>			
Total Revenue	\$1,101,482	<u>\$1,101,483</u>	(\$1)
Total Expenditures	\$1,121,584	<u>\$1,121,583</u>	\$1
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>
4.31 Community Education	\$149,988	<u>\$149,988</u>	<u>\$0</u>
4.32 E. C. F. E	\$45,470	<u>\$45,470</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>
4.44 School Readiness	\$168,784	<u>\$168,784</u>	<u>\$0</u>
4.47 Adult Basic Education	\$19,789	<u>\$19,789</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
4.73 PPP Loan	\$0	<u>\$0</u>	<u>\$0</u>
4.74 EIDL Loan	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$3,531	<u>\$3,532</u>	(\$1)
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>

**45 OPEB IRREVOCABLE TRUST**

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>

**47 OPEB DEBT SERVICE**

Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

Independent School District No. 22  
 Detroit Lakes Public Schools  
 Schedule of Expenditures of Federal Awards  
 Year Ended June 30, 2020

Federal Grantor/Program Title	Federal CFDA Number	Pass Through Number	Expenditures	
Department of Agriculture				
<i>Passed through Minnesota Department of Education</i>				
Child Nutrition Cluster				
Non-Cash Assistance (Commodities):				
National School Lunch Program (Commodities)	10.555	0022-01-000 FIN 701	\$	129,952
Cash Assistance:				
School Breakfast Program	10.553	0022-01-000 FIN 705		124,213
National School Lunch Program	10.555	0022-01-000 FIN 701		412,831
Summer Food Service Program for Children	10.559	0022-01-000 FIN 709		432,789
Total Child Nutrition Cluster				<u>\$ 1,099,785</u>
Total Department of Agriculture				\$ 1,099,785
Department of Education				
<i>Direct</i>				
Indian Education Grants to Local Educational Agencies	84.060	N/A		119,328
<i>Passed through Minnesota Department of Education</i>				
Adult Education - Basic Grants to States	84.002	0022-01-000 FIN 438		9,745
Title I Grants to Local Educational Agencies	84.010	0022-01-000 FIN 401		526,388
Special Education Cluster (IDEA)				
Special Education Grants to States	84.027	0022-01-000 FIN 419		393,324
Special Education - Coordinated Early Learning				
Intervening Services (CEIS)	84.027A	0022-01-000 FIN 425		80,365
Special Education Preschool Grants	84.173	0022-01-000 FIN 420		30,317
Total Special Education Cluster (IDEA)				504,006
Special Education - Grants for Infants and Families	84.181	0022-01-000 FIN 422		30,614
Supporting Effective Instruction State Grants	84.367	0022-01-000 FIN 414		87,085
Student Support and Enrichment	84.424	0022-01-000 FIN 424		16,195
Total Department of Education				<u>1,293,361</u>
Total expenditures of federal awards				<u><u>\$ 2,393,146</u></u>

**Note 1 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal grant activity of the District under programs of the federal government for the year ended June 30, 2020. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position or changes in net position or fund balance of the District.

**Note 2 - Summary of Significant Accounting Policies**

Expenditures reported in the schedule are reported on the modified accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. No federal financial assistance has been provided to a subrecipient.

**Note 3 - Indirect Cost Rate**

The District has not elected to use the 10% de minimis cost rate.

**Note 4 - Food Distribution**

Non-monetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of commodities received and disbursed. At June 30, 2020, the district had food commodities totaling \$69,382 in inventory.



Additional Reports  
June 30, 2020

**Independent School District No. 22  
Detroit Lakes Public Schools**



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

The School Board of  
Independent School District No. 22  
Detroit Lakes Public Schools  
Detroit Lakes, 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. 22, Detroit Lakes Public Schools (The District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements, and have issued our report thereon dated December 16, 2020.

**Internal Control over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit 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 have not been 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001, that we consider to be a significant deficiency.

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

**Response to Finding**

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Fargo, North Dakota  
December 16, 2020



## **Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance**

The School Board of  
Independent School District No. 22  
Detroit Lakes Public Schools  
Detroit Lakes, Minnesota

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

We have audited the District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2020. The District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the 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, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program 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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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



Fargo, North Dakota  
December 16, 2020



## Report on *Minnesota Legal Compliance*

The School Board of  
Independent School District No. 22  
Detroit Lakes Public Schools  
Detroit Lakes, 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 as of Independent School District No. 22 Detroit Lakes Public Schools as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated December 16, 2020.

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 contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards sections of the Minnesota Legal Compliance Audit Guide for School Districts, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, except as described in the accompanying schedule of findings and questioned costs as items 2020-002 and 2020-003. 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, insofar as they relate to accounting matters.

The District's responses to the findings identified in our audit are described in the accompanying schedule of audit findings and the District's Corrective Action Plan, which is contained in a separate document. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

A handwritten signature in black ink that reads "Eide Bailly LLP".

Fargo, North Dakota  
December 16, 2020

**Section I – Summary of Auditor’s Results**

**FINANCIAL STATEMENTS**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major programs:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

**Identification of major programs:**

Name of Federal Program	CFDA Number
Child Nutrition Cluster	10.553, 10.555, 10.559
Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

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**Section II – Financial Statement Findings**

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**2020-001      Segregation of Duties  
                  Significant Deficiency**

*Condition* – The District had a lack of segregation of duties due to a limited number of office employees.

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

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

*Cause* – There are a limited number of office employees.

*Recommendation* – The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

*Views of Responsible Officials* – There is no disagreement with the audit finding.

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**Section III – Federal Award Findings and Questioned Costs**

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None Reported

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**Section IV – Minnesota Legal Compliance Findings**

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**2020-002      Improper Use of Student Activity Funds  
Uniform Financial Accounting and Reporting Standards Finding**

*Condition* – During the course of our engagement, we noted a payment for expenditures that were not for the benefit of students participating in the activity, as well as a donation to a charity.

*Criteria* – A good system of internal accounting control contemplates an adequate system for compliance with the MAFA guidelines of the proper use of student funds to benefit all students. Page 15 of the MAFA guidelines states that all expenditures must benefit the students participating in the activity.

*Effect* – The finding could result in the misuse of student activity funds.

*Cause* – The District did not follow procedures for paying appropriate expenditures.

*Recommendation* – The district should review the MAFA guidelines to determine which payments are appropriate for student activity accounts.

*Views of Responsible Officials* – There is no disagreement with the audit finding.

**2020-003      Lack of Proper Approval of Student Activity Disbursements  
Uniform Financial Accounting and Reporting Standards Finding**

*Condition* – During the course of our engagement, we noted transactions that were not approved by the activity's student representative.

*Criteria* – A good system of internal accounting control contemplates an adequate system for compliance with the MAFA guidelines requiring that check requests for student activity disbursements must be approved by a student representative, the activity advisor, and the building principal (or his/her designee).

*Effect* – The finding could result in student activity funding being misused.

*Cause* – The District did not follow procedures for disbursements of student activity funds.

*Recommendation* – A thorough policy requiring the review of student activity check requests to ensure that all required signatures are present before disbursements are made.

*Views of Responsible Officials* – There is no disagreement with the audit finding.