Independent School District No. 709

Duluth, Minnesota

Financial Statements and Supplementary Information

Year Ended June 30, 2021

WIPFLI

Independent School District No. 709

Year Ended June 30, 2021

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Independent School District No. 709

Year Ended June 30, 2021

School Officials

Elective	Office	Term Expires
Jill Lofald	Chair	January 3, 2022
Kelly Durick Eder	Vice Chair	January 3, 2022
Anna Oswald	Clerk	January 8, 2024
Sally Trnka	Treasurer	January 3, 2022
David Kirby	Director	January 8, 2024
Rosalie Loeffler-Kemp	Director	January 3, 2022
Paul Sandholm	Director	January 8, 2024

Appointive	
John Magas	Superintendent
Catherine Erickson	Deputy Clerk

WIPFLI

Independent Auditor's Report

To the School Board
Independent School District No. 709
Duluth, 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. 709, Duluth, Minnesota (District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis, pages 4 – 8 information about the District's other postemployment health care plan, page 61, and information about the District's net pension liability, pages 62 and 63, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor governmental funds financial statements and fiscal compliance table, pages 64 through 67, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements. The combining nonmajor governmental funds financial statements, fiscal compliance table, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the combining nonmajor governmental funds financial statements, fiscal compliance table and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

December 31, 2021
Duluth, Minnesota

Management's Discussion and Analysis

Independent School District No. 709

Management's Discussion and Analysis
Year Ended June 30, 2021

As management of Independent School District No. 709 (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2021.

Financial Highlights

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

- Net position increased $9,972,443 or 36% of the prior year's net position (deficit).
- Overall actual revenues in the Statement of Activities were $151,362,741 and expenses were $141,390,298; leaving expenditures exceeding revenues by $9,972,443.
- General Fund unassigned fund balance increased $1,854,213 compared to Fiscal Year 2020, which accounts for 1.5% of General Fund Revenues.
- Assigned Fund Balances, which include Severance, Technology, Curriculum, Transportation, Facilities, and Textbooks increased by $3,783,359. These funds will be spent in FY22 and future fiscal years for planned investments.
- The District's Debt Service Fund fund balance increased $714,548. This accounts for savings in refunding bonds.

Overview of the Financial Statements

The financial section of the financial statements consists of four parts - Independent Auditor's Report, required supplementary information which includes the Management's Discussion and Analysis (this section), the basic financial statements and supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

Government-wide Statements

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

The two government-wide statements report the District's net position and how it has changed.

The *statement of net position* presents information on all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The *statement of activities* presents information showing how the District's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused compensated absences).

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, state statutes, and to control and manage money for particular purposes. All of the funds of the District can be divided into three categories: *governmental funds, proprietary funds* and *fiduciary funds*.

Governmental funds - Most of the District's basic services are included in governmental funds. Governmental fund financial statements focus on near-term inflows of cash and other financial assets that can readily be converted to cash, as well as the balances at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

Because this information does not encompass the additional long-term focus of the government-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. A reconciliation is provided to facilitate a comparison between governmental fund financial statements and government-wide financial statements.

Proprietary funds - The District maintains two proprietary funds, both internal service funds, which accumulate and allocate costs internally among the District's various functions. The District's internal service funds are used to account for the District's postemployment benefits and health insurance benefits. Because these services predominately benefit the governmental function, they have been included in the governmental activities in the government-wide financial statements.

Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the employee insurance and employee flex benefit plan. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operation.

Financial Analysis of the District as a Whole

Net position may serve over time as a useful indicator of a district's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources as of June 30, 2021.

Independent School District No. 709

Management's Discussion and Analysis
Year Ended June 30, 2021

Statement of Net Position
June 30,

	2021	2020
Capital assets	$ 277,504,097	$ 284,001,433
Current and other assets	82,578,883	74,305,663
Total assets	360,082,980	358,307,096
Deferred Outflows of Resources	34,379,888	59,247,614
Long-term liabilities	289,873,131	292,747,476
Other liabilities	20,992,052	23,419,538
Total liabilities	310,865,183	316,167,014
Deferred Inflows of Resources	101,000,166	128,762,620
Net position		
Net investment in capital assets	94,259,622	87,400,636
Restricted	8,091,942	5,292,559
Unrestricted (deficit)	(119,754,045)	(120,068,119)
Total net position (deficit)	$ (17,402,481)	$ (27,374,924)

Change in Net Position
For the Years Ended June 30,

	2021	2020
Revenues		
Program revenues		
Charges for service	$ 3,910,645	$ 5,979,285
Operating grants and contributions	18,105,123	37,174,478
Capital grants and contributions		
General revenues		
Property taxes	38,289,828	38,966,533
State aids	88,425,532	71,537,909
Other	2,631,613	1,194,654
Total revenues	151,362,741	154,852,859

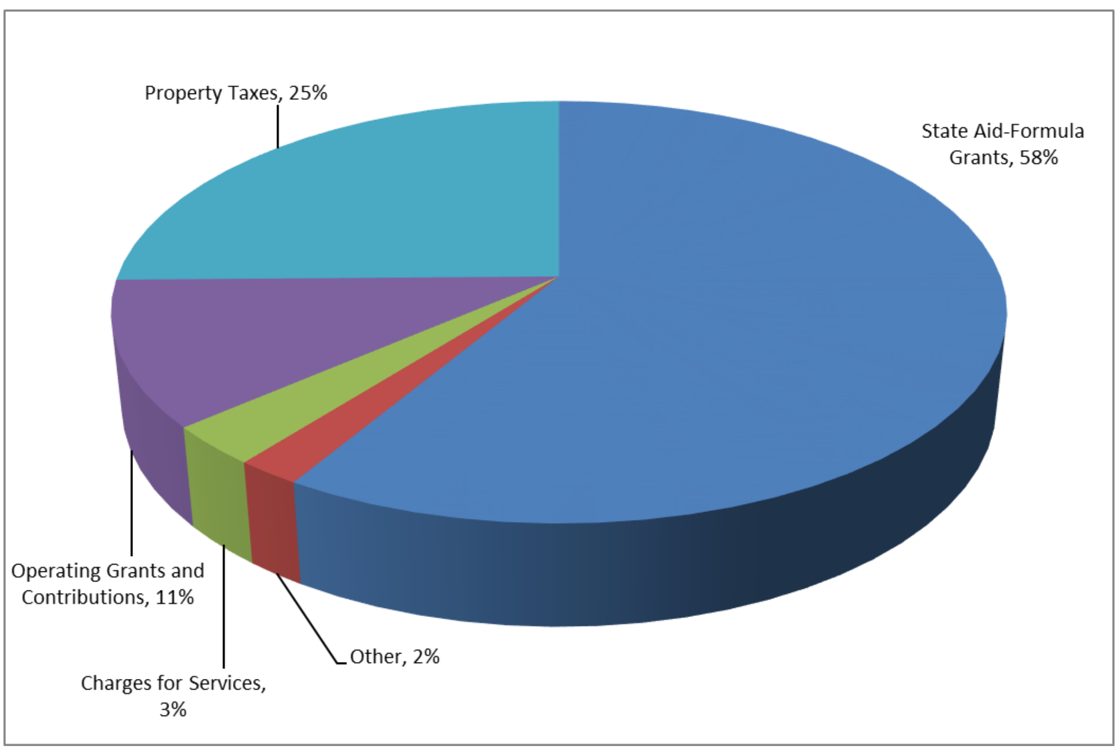
Independent School District No. 709

Management's Discussion and Analysis
Year Ended June 30, 2021

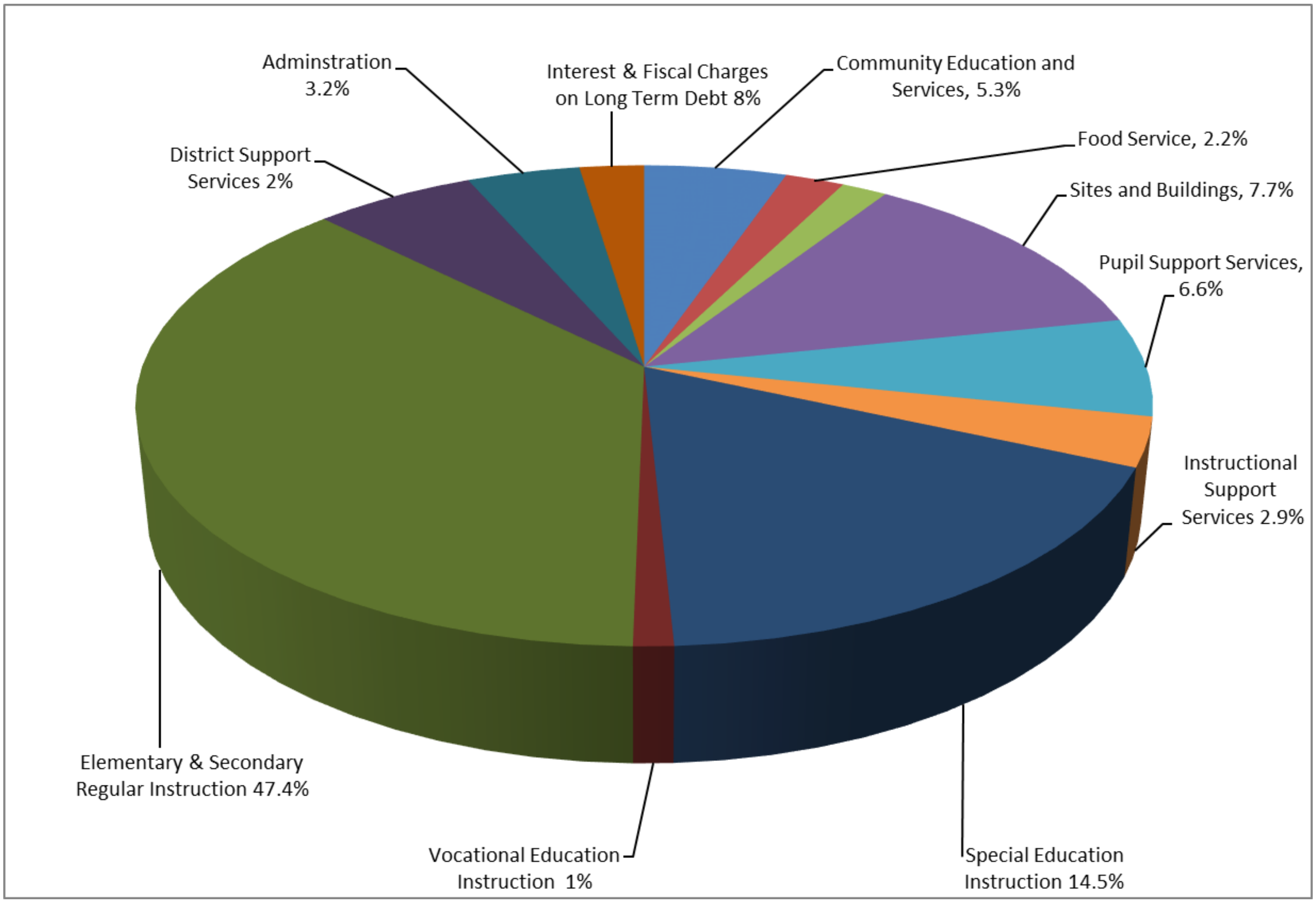
Change in Net Position (Continued)
For the Years Ended June 30,

		2021		2020
Expenses				
District and school administration	$	5,676,011	$	5,739,727
District support services		8,180,796		5,093,589
Regular instruction		50,341,217		52,055,114
Vocational instruction		1,290,460		1,683,720
Exceptional instruction		23,929,868		28,146,414
Instructional support services		4,486,209		5,784,985
Pupil support services		8,963,434		10,472,260
Sites, buildings and equipment		17,001,411		15,983,351
Food service		3,009,046		4,206,337
Community service		7,154,987		8,457,215
Interest and fiscal charges on long-term debt		9,092,203		7,057,695
Fiscal and other fixed cost programs		2,264,656		164,789
Total expenses		141,390,298		144,845,196
Change in net position		9,972,443		10,007,663
Beginning of year net position (deficit)		(27,374,924)		(37,382,587)
End of year net position (deficit)	$	(17,402,481)	$	(27,374,924)

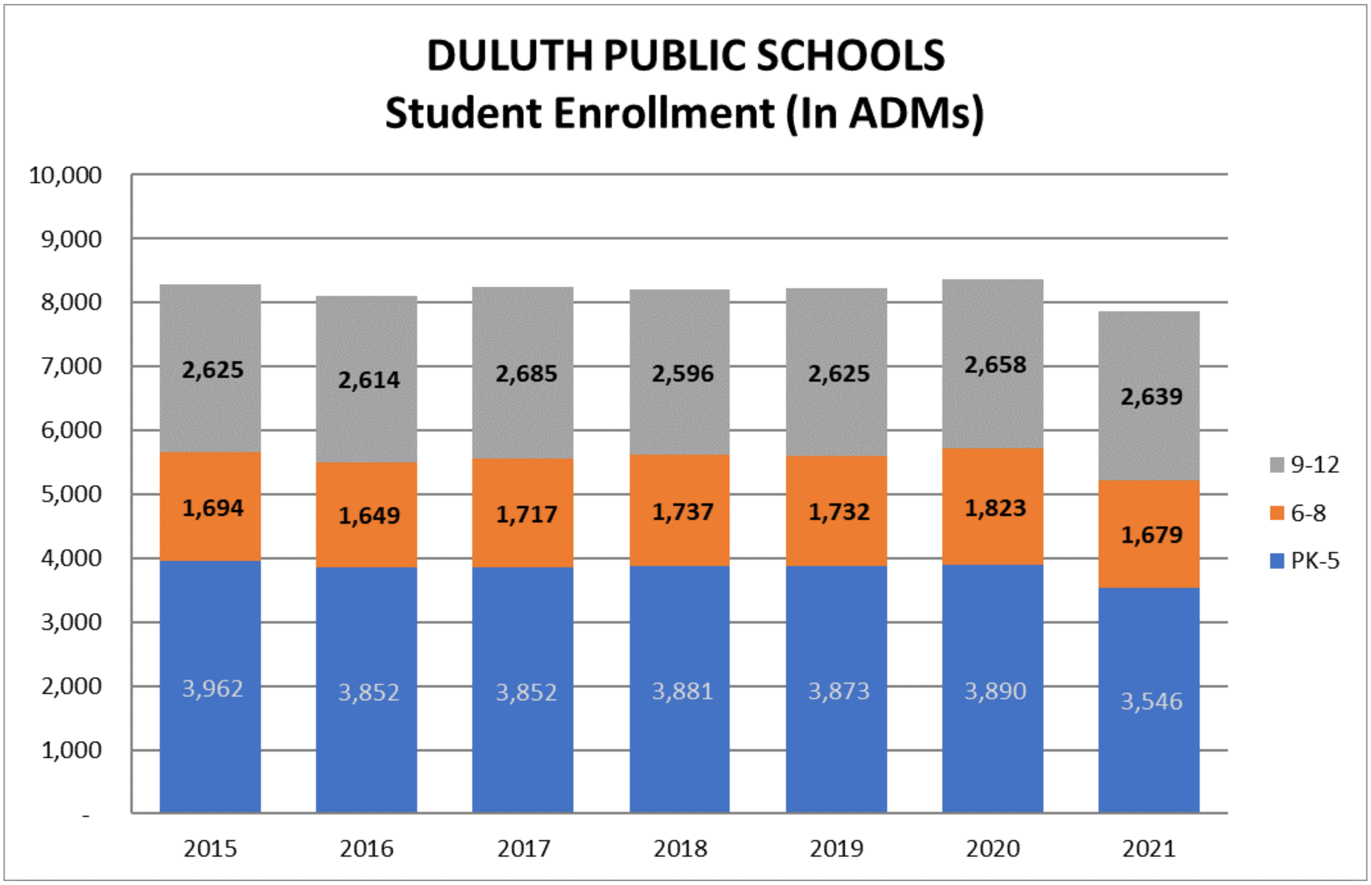
Sources of Revenue for Fiscal Year 2021



Expenses for Fiscal Year 2021



Student Enrollment
Average Daily Membership (ADM)



After seeing three years of small, but consistent enrollment growth, the 2020-21 school year resulted in a loss of 507 ADM compared to FY20. The impact of the COVID-19 pandemic played a large part in our loss, which impacted our elementary enrollment more than secondary.

In addition, due to distance learning in secondary for most of the year, the District saw a decrease in both our Area Learning Center and Academic Excellence Online.

After seeing over 8,370 pupils in the 2019-20 school year, the 2020-21 school year ended with just over 7,864 ADM.

In the coming years, the district will need to monitor what percentage of students will choose to re-enroll and how much will be sustained enrollment loss into the future. As of December 2021, while only estimates, the District is still seeing a loss of over 300 ADM compared to June of 2020.

Financial Analysis of the District's Funds

While the government-wide presentations are designed to present users with a more complete picture of the District's financial position and results of operation, the traditional fund accounting basis provides users with information that can be used by the District to make decisions in the near-term.

General Fund Budgetary Highlights

The General Fund (which includes the District's general, transportation and capital funds) adopted an original revenue and other financing sources budget of $115,391,101, which was revised to $121,835,218. Actual revenues were $306,206 under budget or .25%.

The General Fund adopted an original expenditure budget of $114,059,336, which was revised to $120,575,045, to account for construction projects and the additional costs associated with the Covid Pandemic. In the end, expenditures were $9,787,202 under budget due to timing issues of projects and supply chain related to capital planning, some unfilled staff positions, and the effects of new Federal Funds. A portion of these funds are required to be in reserved fund balances.

While the District's final budget for the General Fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by $1,412,161, the actual results for the year showed revenue and other financing sources exceeded expenditures and other financing uses by $8,195,976.

- Revenues were $300,206 under budget due to the District not being able to use all of the COVID money it planned, netted against the conservative state and federal aid budgets.
- Expenditures were $9,787,202 less than anticipated due to the effects of COVID and distance learning. In addition, capital projects were put off until after the fiscal year end.

Capital Asset and Debt Administration

Capital Assets

By the end of fiscal year 2021, the District had invested $365,944,175 in capital assets, including school buildings and technology equipment. Total depreciation expense for the year was $7,390,742. More detailed information about the District's capital assets is presented in Note 3 to the financial statements.

Debt Administration

At June 30, 2021, the District had $171,274,103 in general obligation bonds, certificates of participation, and capital lease obligations outstanding. The District's debt rating from the State of Minnesota Credit Enhancement Program is Aa2. Under current state statues, the District's general obligation bonded debt issuances are subject to a legal limitation of 10 percent of the fair market value of property in the District. The District is within its legal authority for bonded debt.

The District also had $106,312,141 in compensated absences, severance benefits, postemployment health benefits payable, and net pension liability at June 30, 2021.

More detailed information about the District's long-term liabilities is presented in Notes 4, 5 and 9 to the financial statements.

Factors Bearing on the District's Future

Duluth Public Schools has been working with the District's financial advisors to utilize bonding in relation to the Long-Term Facilities Maintenance (LTFM) 10-year planning. This structure is allowing for more stability in funding and providing flexibility in completing projects.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Business Office, Independent School District #709, 4316 Rice Lake Road, Suite 108, Duluth, MN 55811 or call Simone Zunich, Finance Manager, (218) 336-8700.

Government-Wide Financial Statements

Independent School District No. 709

Statement of Net Position (Deficit)

June 30, 2021

	Governmental Activities
Assets and Deferred Outflows of Resources	
Current assets	
Cash and temporary cash investments	$ 45,078,712
Current property taxes receivable	22,064,032
Delinquent property taxes receivable	2,042,250
Accounts receivable	206,933
Interest receivable	62
Due from other Minnesota school districts	1,195,519
Due from the Minnesota Department of Education	8,942,251
Due from the federal government through the Minnesota Department of Education	2,756,315
Due from other governmental units	44,240
Inventory	133,936
Prepaid items	114,633
Total current assets	82,578,883
Capital assets, net of depreciation	
Assets not being depreciated	9,914,335
Assets being depreciated, net	267,589,762
Total capital assets, net of depreciation	277,504,097
Total assets	360,082,980
Deferred outflows of resources	
Items related to OPEB	751,740
Items related to pension plans	33,628,148
Total deferred inflows of resources	34,379,888
Total assets and deferred outflows of resources	$ 394,462,868

Independent School District No. 709

Statement of Net Position (Deficit) (Continued)

June 30, 2021

	Governmental Activities
Liabilities, Deferred Inflows of Resources, and Net Position	
Current liabilities	
Salaries payable	$ 7,582,721
Accounts payable	2,592,581
Accrued interest payable	5,256,144
Due to other Minnesota school districts	83,688
Due to other governments	11
Accrued expenses	5,151,911
Claims payable	21,420
Unearned revenue	303,576
Current portion of long-term liabilities	20,573,517
Total current liabilities	41,565,569
Long-term liabilities	269,299,614
Total liabilities	310,865,183
Deferred inflows of resources	
Property taxes levied for subsequent year's expenditures	39,280,641
Items related to OPEB	1,452,882
Items related to pension plans	60,266,643
Total deferred inflows of resources	101,000,166
Net position (deficit)	
Net investment in capital assets	94,259,622
Restricted	8,091,942
Unrestricted (deficit)	(119,754,045)
Total net position (deficit)	(17,402,481)
Total liabilities, deferred inflow of resources, and net position (deficit)	$ 394,462,868

See accompanying notes to financial statements.

Independent School District No. 709

Statement of Activities

For the Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expenses) Revenue and Changes in Net Position: Governmental Activities
Governmental activities					
District and school administration	$ 5,676,011		$	$	$ (5,676,011)
District support services	8,180,796	828,127			(7,352,669)
Regular instruction	50,341,217	1,829,374	7,804,278		(40,707,565)
Vocational instruction	1,290,460		150,082		(1,140,378)
Exceptional instruction	23,929,868		2,201,207		(21,728,661)
Instructional support services	4,486,209	145,195	1,800,987		(2,540,027)
Pupil support services	8,963,434		600,329		(8,363,105)
Sites, buildings and equipment	17,001,411				(17,001,411)
Food service	3,009,046	42,022	2,679,566		(287,458)
Community service	7,154,987	1,065,927	2,868,674		(3,220,386)
Interest and fiscal charges on long-term debt	9,092,203				(9,092,203)
Fiscal and other fixed cost programs	2,264,656				(2,264,656)
Total governmental activities	$ 141,390,298	$ 3,910,645	$ 18,105,123	$	(119,374,530)

General revenues	
Taxes	
Property taxes, levied for general purposes	17,282,713
Property taxes, levied for community service	990,279
Property taxes, levied for debt service	20,016,836
State aid-formula grants	88,425,532
Other general revenues	2,612,904
Investment earnings	18,709
Total general revenues	129,346,973
Change in net position	9,972,443
Net position (deficit), beginning of the year	(27,374,924)
Net position (deficit), end of the year	$ (17,402,481)

See accompanying notes to financial statements.

Independent School District No. 709

Governmental Funds – Balance Sheet

June 30, 2021

	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and temporary investments	$ 26,260,066	$ 9	$ 15,212,598	$ 2,983,398	$ 44,456,071
Current property taxes receivable	10,611,540		10,935,081	517,411	22,064,032
Delinquent property taxes receivable	864,078		1,131,098	47,074	2,042,250
Accounts receivable	200,125			5,668	205,793
Interest receivable	62				62
Due from other Minnesota school districts	1,195,519				1,195,519
Due from the Minnesota Department of Education	8,380,948		224,843	336,460	8,942,251
Due from the federal government through the Minnesota Department of Education	2,274,812			481,503	2,756,315
Due from other governmental units	44,240				44,240
Due from other funds	979,471				979,471
Inventory	26,473			107,463	133,936
Prepaid expenses	111,202			3,431	114,633
Total assets	$ 50,948,536	$ 9	$ 27,503,620	$ 4,482,408	$ 82,934,573
Liabilities					
Salaries payable	$ 7,102,861	$	$	$ 479,860	$ 7,582,721
Accounts payable	1,840,884	651,552		33,814	2,526,250
Due to other Minnesota school districts	83,688				83,688
Due to other governments	11				11
Due to other funds		979,471			979,471
Accrued expenses	4,770,243			381,668	5,151,911
Unearned revenue	255,763			21,378	277,141
Total liabilities	14,053,450	1,631,023		916,720	16,601,193
Deferred Inflows of Resources					
Unavailable revenue - delinquent property taxes	864,078		1,131,098	47,074	2,042,250
Property taxes levied for subsequent year's expenditures	16,356,884		21,883,771	1,039,986	39,280,641
Total deferred inflows of resources	17,220,962		23,014,869	1,087,060	41,322,891
Fund balances					
Nonspendable	413,962			121,899	535,861
Restricted	5,280,063	10	4,488,751	2,356,729	12,125,553
Assigned	10,090,319				10,090,319
Unassigned	3,889,780	(1,631,024)			2,258,756
Total fund balances	19,674,124	(1,631,014)	4,488,751	2,478,628	25,010,489
Total liabilities, deferred inflows of resources and fund balances	$ 50,948,536	$ 9	$ 27,503,620	$ 4,482,408	$ 82,934,573

See accompanying notes to financial statements.

Independent School District No. 709

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

June 30, 2021

Total fund balances - governmental funds	$ 25,010,489
Amounts reported for governmental activities in the statement of activities are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	365,944,715
Less accumulated depreciation	(88,440,618)
Long-term liabilities, including bonds, capital leases payable, compensated absences, and severance benefits, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of net position.	
General obligation bonds	(33,390,000)
Certificates of participation	(137,725,000)
Capital leases	(159,103)
Compensated absences	(457,109)
Severance benefits	(14,355,531)
Unamortized bond premium and discounts	(12,286,887)
Other postemployment benefits and the deferred outflows of resources and deferred inflows of resources related to OPEB are only reported in the statement of net position.	
Total OPEB liability	(16,683,844)
Deferred outflows of resources related to OPEB	751,740
Deferred inflows of resources related to OPEB	(1,452,882)
The net pension liability and the deferred outflows of resources and inflow of resources of resources related to pensions are only reported in the statement of net position.	
Net pension liability	(74,815,657)
Deferred outflows of resources related to pensions	33,628,148
Deferred inflows of resources related to pensions	(60,266,643)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	2,042,250
Governmental funds do not report a liability for accrued interest until due and payable.	(5,256,144)
An internal service fund is used by management to charge the costs of OPEB to individual funds. These assets and liabilities of the internal service fund are included in the statement of net position.	509,595
Total net position (deficit) - governmental activities	$ (17,402,481)

See accompanying notes to financial statements.

Independent School District No. 709

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

For the Year Ended June 30, 2021

	General Fund	Capital Projects Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Local property tax levies	$ 17,180,294	$	$ 19,965,769	$ 1,002,863	$ 38,148,926
Other local and county revenues	3,233,643			1,068,177	4,301,820
Revenue from state sources	86,251,788		2,248,427	2,538,220	91,038,435
Revenue from federal sources	11,617,839			5,477,147	17,094,986
Sales and other conversion of assets	560,412			42,021	602,433
Interest income	18,702		7		18,709
Total revenues	118,862,678		22,214,203	10,128,428	151,205,309
Expenditures					
Current					
District and school administration	5,634,874				5,634,874
District support services	8,013,530				8,013,530
Regular instruction	44,164,568				44,164,568
Vocational instruction	1,235,517				1,235,517
Exceptional instruction	23,924,613				23,924,613
Community education and services				7,108,580	7,108,580
Instructional support services	4,483,337				4,483,337
Pupil support services	8,711,197			2,992,832	11,704,029
Site, buildings, and equipment	8,190,499	783			8,191,282
Fiscal and other fixed cost programs	2,264,656				2,264,656
Debt service					
Principal	1,695,052		15,036,344		16,731,396
Interest and other fiscal costs	1,214,379		6,791,752		8,006,131
Capital outlay	1,255,621	1,630,240		60,631	2,946,492
Total expenditures	110,787,843	1,631,023	21,828,096	10,162,043	144,409,005
Excess (deficiency) of revenues over expenditures	8,074,835	(1,631,023)	386,107	(33,615)	6,796,304
Other financing sources (uses)					
Issuance of debt	5,070,000		18,385,000		23,455,000
Premium on the issuance of debt	16,528				16,528
Payment to refunding escrow agent	(4,965,387)		(18,056,559)		(23,021,946)
Total other financing sources	121,141		328,441		449,582
Net change in fund balance	8,195,976	(1,631,023)	714,548	(33,615)	7,245,886
Fund balances, beginning	11,478,148	9	3,774,203	2,512,243	17,764,603
Fund balances, ending	$ 19,674,124	$ (1,631,014)	$ 4,488,751	$ 2,478,628	$ 25,010,489

See accompanying notes to financial statements.

Independent School District No. 709

General Fund – Statement of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual

For the Year Ended June 30, 2021

Total net changes in fund balances - governmental funds	$ 7,245,886
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the costs of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	942,283
Depreciation expense	(7,390,742)
Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities a gain or (loss) is reported for each disposal.	
Loss from disposal of capital assets	(48,877)
The issuance of long-term debt provides current financial resources to governmental funds but increase long-term liabilities in the statement of net position.	
Certificates of participation	(23,455,000)
Premium on issuance of bonds	(16,528)
Repayment of bond and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Principal payments on general obligations bonds	4,735,000
Principal payments on certificates of participation	29,075,425
Principal payments on capital leases	149,480
Issuance of bond discount	841,475
Amortization of bond premiums/discounts	1,709,963
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	2,172,455
Vested employee benefits are reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year.	
Change in total OPEB liability	(783,579)
Change in deferred outflows of resources related to OPEB	(1,119,853)
Change in deferred inflows of resources related to OPEB	231,587
Change in severance benefits	312,849
Change in compensated absences	39,908
Change in net pension liability	(9,237,632)
Change in deferred outflows of resources related to pensions	(23,747,873)
Change in deferred inflows of resources related to pensions	28,043,895
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditure, and therefore are deferred in the funds.	140,904
The net income of the internal service fund is reported in the statement of activities.	131,417
Change in net position - governmental activities	$ 9,972,443

Independent School District No. 709

General Fund – Statement of Revenues, Expenditures, and Change in Fund Balance – Budget and Actual

For the Year Ended June 30, 2021

	Budget			Variance
	Original	Final	Actual	Over (Under)
Revenues				
Local property tax levies	$ 17,874,756	$ 17,874,756	$ 17,180,294	$ (694,462)
Other local and county revenues	4,146,141	4,068,394	3,233,643	(834,751)
Revenue from state sources	83,810,728	83,007,824	86,251,788	3,243,964
Revenue from federal sources	5,878,574	13,203,342	11,617,839	(1,585,503)
Sales and other conversion of assets	656,938	656,938	560,412	(96,526)
Interest income	351,630	351,630	18,702	(332,928)
Total revenues	112,718,767	119,162,884	118,862,678	(300,206)
Expenditures				
Current				
District and school administration	5,522,316	5,933,293	5,634,874	(298,419)
District support services	5,821,487	8,665,486	8,013,530	(651,956)
Regular instruction	47,016,657	50,398,251	44,164,568	(6,233,683)
Vocational instruction	1,508,536	1,368,080	1,235,517	(132,563)
Exceptional instruction	24,503,703	24,501,203	23,924,613	(576,590)
Instructional support services	3,607,140	3,792,982	4,483,337	690,355
Pupil support services	8,962,496	8,294,970	8,711,197	416,227
Site, buildings, and equipment	8,596,611	9,439,821	8,190,499	(1,249,322)
Fiscal and other fixed cost programs	3,363,554	3,363,554	2,264,656	(1,098,898)
Debt service				
Principal	1,550,000	1,612,000	1,695,052	83,052
Interest and other fiscal costs	1,122,334	1,122,334	1,214,379	92,045
Capital outlay	2,484,502	2,083,071	1,255,621	(827,450)
Total expenditures	114,059,336	120,575,045	110,787,843	(9,787,202)
Excess (deficiency) of revenues over expenditures	(1,340,569)	(1,412,161)	8,074,835	9,486,996
Other financing sources (uses)				
Transfers in	2,672,334	2,672,334	2,672,334	
Transfers out	(2,672,334)	(2,672,334)	(2,672,334)	
Issuance of debt			5,070,000	5,070,000
Premium on the issuance of debt			16,528	16,528
Payment to refunding escrow agent			(4,965,387)	(4,965,387)
Total other financing sources (uses)			121,141	121,141
Net change in fund balance	(1,340,569)	(1,412,161)	8,195,976	9,608,137
Fund balance, beginning	11,478,148	11,478,148	11,478,148	
Fund balance, ending	$ 10,137,579	$ 10,065,987	$ 19,674,124	$ 9,608,137

See accompanying notes to financial statements.

Independent School District No. 709

Proprietary Funds – Internal Service Funds - Statement of Net Position

June 30, 2021

		Dental Insurance Fund
Assets		
Cash and temporary cash investments	$	622,641
Accounts receivable		1,140
Total assets	$	623,781
Liabilities		
Accounts payable	$	66,331
Claims payable		21,420
Unearned revenue		26,435
Total liabilities		114,186
Net position		
Unrestricted		509,595
Total net position		509,595
Total liabilities and net position	$	623,781

See accompanying notes to financial statements.

Independent School District No. 709

Proprietary Funds – Internal Service Funds - Statement of Revenues, Expenses, and Changes in Net Position

For the Year Ended June 30, 2021

	Dental Plan Fund
Operating revenues	
Charges for premiums, net of refunds	$ 828,127
Contributions from employees and retirees	
Total operating revenues	828,127
Operating expenses	
Dental care benefits/claims	634,776
Administrative costs	61,934
Total operating expenses	696,710
Operating income	131,417
Net position, beginning of year	378,178
Net position, end of year	$ 509,595

See accompanying notes to financial statements.

Independent School District No. 709

Proprietary Funds – Internal Service Funds - Statement of Cash Flows

For the Year Ended June 30, 2021

	Dental Plan Fund
Cash flows from operating activities	
Contributions from the District and employees	$ 767,370
Receipts from retirees and employees	
Payments for health care premiums	(770,591)
Payments for administrative costs	(61,934)
Net cash used in operating activities	(65,155)
Cash, beginning of year	687,796
Cash, end of year	$ 622,641
Reconciliation of operating loss to net cash used in operating activities	
Operating income (loss)	$ 131,417
Change in assets and liabilities	
Accounts receivable	(685)
Accounts payable	66,331
Claims payable	(202,146)
Unearned revenue	(60,072)
Net cash used in operating activities	$ (65,155)

See accompanying notes to financial statements.

Independent School District No. 709

Fiduciary Funds – Statement of Fiduciary Net Position

June 30, 2021

	Federal Employee Benefit Trust Fund	Private-Purpose Fund
Assets		
Cash and temporary investments	$ 211,322	$
Investments	1,053,791	139,455
Total assets	$ 1,265,113	$ 139,455
Liabilities		
	$	$
Net position		
Restricted for endowment		120,127
Restricted for clock tower		19,328
Restricted for retirees	1,265,113	
Total net position	1,265,113	139,455
Total liabilities and net position	$ 1,265,113	$ 139,455

See accompanying notes to financial statements.

Independent School District No. 709

Fiduciary Funds – Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2021

	Federal Employee Benefit Trust Fund	Private-Purpose Fund
Additions		
Contributions	$ 211,322	$
Interest	703	43
Total additions	212,025	43
Deductions		
Benefits paid	250,000	
Pupil support services		
Total deductions	250,000	
Change in net position	(37,975)	43
Net position		
Beginning of year	1,303,088	139,412
End of year	$ 1,265,113	$ 139,455

See accompanying notes to financial statements.

Note 1 Summary of Significant Accounting Policies

Independent School District No. 709 (District) was formed and operates pursuant to applicable Minnesota laws and statutes. The Governing Body consists of a seven-member Board elected by voters of the District. Members are elected for four-year terms. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States as applied to governmental units. The Governmental Accounting Standards Board is the accepted standard setting board for establishing governmental accounting and financial reporting principles.

Reporting Entity

The District's financial statements include all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable or for which the exclusion of would render the financial statements to be misleading. The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that the exclusion would cause the District's financial statements to be misleading or incomplete. Based on criteria established by the Governmental Accounting Standards Board, there are no organizations considered to be component units of the District.

Basic Financial Statement Presentation

The government-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the statement of fiduciary net position at the fund financial statement level.

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

The District applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function and is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities. Generally, the effect of material inter-fund activity has been removed from the government-wide financial statements.

Separate fund financial statements are provided for governmental, proprietary and fiduciary funds. Major individual governmental funds are reported as a separate column in the fund financial statements. Aggregated information for the remaining non-major governmental funds is reported in a single column in the fund financial statements.

Note 1 Summary of Significant Accounting Policies (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges to customers for service. Operating expenses for the internal service funds include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The fiduciary funds are presented in the fiduciary fund financial statements by type (benefit trust and private trust). Since by definition these assets are being held for the benefit of a third party (employees and donors) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements.

Measurement Focus and Basis of Accounting

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

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

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

2. Recording of Expenditures - Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are primarily financed by user charges. The District's internal service fund is used to account for the revocable trust fund established to provide funds needed for future OPEB obligations for employees and retirees.

A general summary of the nature and purpose of each of the funds maintained by the District follows:

Note 1 Summary of Significant Accounting Policies (Continued)

Major Governmental Funds

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund accounts for administration, early childhood special education through 12th grade instruction, transporting students to and from school, maintenance of facilities, equipment purchases and maintenance and capital projects.

Capital Projects Fund - The Capital Projects Fund is used to account for financial resources used in the acquisition and construction of major capital facilities.

Debt Service Fund - The Debt Service Fund accounts for the accumulation of resources for the retirement of principal and interest on all general obligation bond indebtedness, other than the District's OPEB bonds. Assets of the Debt Service Fund are restricted to the payment of bond principal and interest.

Nonmajor Governmental Funds

Special Revenue Funds - These funds are used to account for the proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specified purposes. The District's has two special revenue funds:

Food Service Fund - is used to account for food service revenues and expenditures. Revenues consist of state and federal aids, grants, and sales to pupils and adults.

Community Service Fund - is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, K-6 extended day programs, or other similar services. Revenues consist of state and federal aids, grants, and program participant fees.

Proprietary Funds

Dental Insurance Fund - This internal service fund is used to account for dental benefits for employees who are covered by the self-insured plan of the District.

Fiduciary Funds

Private Purpose Trust Fund - These funds are used to account for specific purposes that were defined by the individual that gave the funds. The District includes the Miller Memorial Playground endowment and the Clock Tower endowment as Private Purpose Trust Funds.

Federal Employee Benefit Trust Fund - These funds are used to account for employees' severance for federally funded programs.

Note 1 **Summary of Significant Accounting Policies (Continued)**

Budgeting

Formal budgetary accounting is employed as a management control for all funds of the District. For each fund for which a formal budget is adopted, the budget is prepared on the same basis of accounting as the fund financial statements. The budget is adopted through passage of a resolution. The School Board must approve revisions. Legal budgetary control is at the fund account level. The annual budget is not legally binding on the District unless the District has a total deficit in its general fund, which exceeds 2.5 percent of expenditures.

Cash and Temporary Investments

Cash and investments of the individual funds are combined to form a pool, except for fiduciary funds, and are invested to the extent available in various securities as authorized by state law. Investments in state and local government securities are recorded at fair value, based on quoted market price. Negotiable certificates of deposit are recorded at cost, which approximates fair value. Money market accounts and investments in external investment pools are recorded at fair value, based on the fair value of the position in the pool. Earnings from the pooled investments are distributed between the funds based on their prorated portion of monthly cash balances.

The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Receivables

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

Inventory

General Fund inventory includes instructional and other materials held in the central storeroom. Inventory in the Food Service Fund consists of food and supplies. The General Fund central storeroom inventory is priced using the weighted average method. All inventories are accounted for using the consumption method. Under the consumption method, expenditures are recognized when inventory is used rather than when purchased. Food and supplies are valued at cost on a first-in, first-out basis.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Note 1 Summary of Significant Accounting Policies (Continued)

Property Taxes

Property taxes are set by the school board and certified to the county auditor who acts as collecting agent, in December of the year prior to collection. Taxes become a lien on property on the following January 1. Minnesota school districts operate under a levy limitation law that generally limits annual increases in taxes per capita. This law does not cover levies for bonded indebtedness.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The county provides tax settlements to school districts and other taxing districts in January, March, June, and November or December. Portions of the tax levy paid by the state in the form of credits are included in revenue from state sources.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as a deferred inflow of resources (property taxes levied for subsequent year). General fund revenue is determined annually by statutory funding formulas. These formulas allocate revenue between property taxes and state aids based on education funding priorities set by the Minnesota State Legislature. Changes in this allocation result in an annual change in property tax revenue recognition referred to as the “tax shift”. In prior years, the amount of shift has varied between 0 and 50 percent.

The following is a summary of tax shift transactions by fund:

	(0.0%) Total Shift June 30, 2020	State Aid Adjustment	Revenue Adjustment	(0.0%) Total Shift June 30, 2021
General Fund	$ 1,322,033	$	$ 60,330	$ 1,382,363

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources in the fund based financial statements (unavailable revenue – delinquent taxes) because it is not available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

Capital Assets

Capital assets are recorded at historical cost if purchased, or estimated historical cost for assets where actual historical cost is not available, based on an appraisal performed as of June 30, 2003. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Note 1 Summary of Significant Accounting Policies (Continued)

Capital assets are reported in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives, ranging from five to fifty years.

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

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

Unearned Revenue

Unearned revenue results when asset recognition criteria have been met, but revenue recognition criteria have not been met. The balance consists primarily of revenue that will be recognized based on future expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has reported deferred outflows of resources related to pensions for its proportionate shares of collective deferred outflows of resources related to pensions and the District's contributions to pension plans subsequent to the measurement date of the collective net pension liability. The District has also reported deferred outflows of resources related to OPEB for the changes of assumption and the District's contributions subsequent to the measurement date of the total OPEB liability.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has reported unavailable revenue from delinquent property taxes, which arises only under a modified accrual basis of accounting, in the governmental funds balance sheet. The District has also reported property taxes levied for subsequent years expenditures as a deferred inflow of resources in both the governmental funds balance sheet and the statement of net position. The District has also reported deferred inflows of resources for its proportionate share of the collective deferred inflows of resources related to pensions. The District has also reported deferred inflows of resources related to OPEB for the difference between expected and actual liability and changes in assumptions.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenses.

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

Note 1 Summary of Significant Accounting Policies (Continued)

Compensated Absences

Vacation granted and sick pay earned is based on length of service and various bargaining unit contracts. A liability is recorded for earned but unpaid vacation. Unused sick leave enters into the calculation of severance payments for some employees upon termination.

Severance Benefits

Upon retirement, some District employees are entitled to a severance amount based on accumulated unused sick leave, age, years of service and wage rate at the date of retirement, as established by contracts with bargaining units or other employment contracts. These contracts establish the terms and amounts each retiree is eligible to receive and establish when this severance benefit vests, all of which may differ between each bargaining unit and employee group. In the fund financial statements, a liability is recorded for severance pay when the employee retires. In the government-wide financial statements, a liability is recorded for severance pay at the time the employee becomes eligible for retirement.

Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 8.

Other Postemployment Benefits (OPEB)

The District provides postemployment health insurance benefits to some retired employees as established by contracts with bargaining units or other employment contracts. These contracts state the years, age and retiring dates needed to qualify for these postemployment benefits. The contracts also establish the amount the District will contribute towards the purchase of health insurance.

Note 1 Summary of Significant Accounting Policies (Continued)

Fund Balance

In the fund financial statements, governmental funds report fund balance amounts within one of the following categories: nonspendable, restricted, committed, assigned, or unassigned. Nonspendable fund balance consists of amounts that cannot be spent because it is not in spendable form. Restricted fund balance consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions. Committed fund balance consists of amounts that are constrained for specific purposes that are internally imposed by a formal action of the School Board. Assigned fund balance consists of amounts intended to be used for specific purposes but do not meet the criteria to be classified as restricted or committed.

The District applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted fund balance is available. The portion of the fund balance not nonspendable, restricted, committed or assigned is reported as unassigned fund balance. If resources from more than one fund balance classification could be spent, the District will strive to spend resources in the following order: nonspendable, restricted, committed, assigned and unassigned.

In accordance with the District's fund balance policy, a majority vote of the School Board is required to commit a fund balance to a specific purpose and subsequently to remove or change any constraint so adopted by the board and the District's management is authorized to assign fund balance to a specific purpose.

The District strives to maintain a minimum unassigned General Fund fund balance equal to 8 percent of the annual expenditures budget. At June 30, 2021, the District had met the minimum fund balance goal.

Net Position

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

Use of Estimates

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

Note 1 Summary of Significant Accounting Policies (Continued)

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 31, 2021, the date the financial statements were available to be issued. There were no subsequent events identified by the District that are required to be disclosed.

Note 2 Deposits and Investments

Deposits

In accordance with Minnesota Statutes, the District maintains deposits at those depositories authorized by the School Board. Such depositories are members of the Federal Reserve System.

Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. Authorized collateral includes certain notes secured by first mortgages; obligations that are legally authorized investments for debt service funds and certain state or local government obligations. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District requires collateral for deposits over FDIC insurance amounts. At June 30, 2021, the District's deposits were not exposed to custodial credit risk.

Investments

The District may also invest idle funds as authorized by Minnesota statutes, as follows: direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States' bank eligible for purchase by the Federal Reserve System; commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; time deposits fully insured by U.S. banks; guaranteed investment contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

The Minnesota School District Liquid Asset Fund (MSDLAF) and MN Trust are regulated by Minnesota Statutes and are external investment pools not registered with the Securities and Exchange Commission (SEC). The District's investment in MSDLAF and MN Trust are measured at net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. MSDLAF and MN Trust are short-term money market portfolios. The portfolios are managed to maintain a dollar-weighted average

Note 2 Deposits and Investments (Continued)

portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value (NAV) per share of $1.00.

Interest rate risk - Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

The District had the following investments at June 30, 2021:

		Maturities		
	Fair Value	Less than 1 Year	1-3 Years	Over 3 Years
Money Market Funds	$ 57,122	$ 57,122	$	$
External Investments Pools	43,603,035	43,603,035		
U.S. Treasury Note	18,056,573	18,056,573		
Negotiable CDs	249,000	249,000		
Total	$ 61,965,730	$ 61,965,730	$	$

Credit risk - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law limits investments as discussed above. The District has no investment policy that would further limit its investment choices.

S&P or Moody's Rating	Fair Value
AAAm	$ 43,603,035
Not rated	18,362,695
Total	$ 61,965,730

Note 2 Deposits and Investments (Continued)

Concentration of credit risk - The concentration risk is the risk of loss that may be caused by the District's investment in a single issuer. The District places no limit on the amount the District may invest in any one issuer.

Custodial risk - The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. At June 30, 2021, the District's investments were not exposed to custodial risk.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States. The hierarchy is based on the valuation inputs used to measure the fair value of the assets. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 are significant unobservable inputs.

The District has the following investments valued at recurring fair value measurements at June 30, 2021:

		Fair Value Measurements Using		
Investments by fair value level		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Treasury Note	$ 18,056,573	$	$ 18,056,573	$
Negotiable certificates of deposit	249,000		249,000	
Total debt securities/investment by fair value level	18,305,573	$	$ 18,305,573	$
Investments measured at the net asset value (NAV)				
External investment pools	43,603,035			
Other Investments				
Money market funds	57,122			
Total investments	$ 61,965,730			

Note 2 Deposits and Investments (Continued)

The following table sets forth additional disclosures about the District's investments whose value are estimated using net asset value (NAV) as of June 30, 2021:

	Total	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pool - MSDLAF Liquid Class	$ 6,555,428	$ 0	On Demand	2 P.M. Eastern Time transaction deadline.
External Investment Pool - MSDLAF MAX Class	$ 1,124,903	$ 0	14 days, with the exception of direct investments of funds distributed by the State of Minnesota	24-hour notice
External Investment Pool - MN Trust	$ 35,922,704	$ 0	None	None
Total External Pool Investments	$ 43,603,035			

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

Petty Cash	$ 2,405
Deposits	(15,484,855)
Investments	61,965,730
Total	$ 46,483,280

Presented in the basic financial statements as follows:

Statement of Net Position	
Cash and temporary investments	$ 45,078,712
Statement of Fiduciary Net Position	
Private Purpose Trust Fund	
Investments	139,455
Federal Employee Benefit Trust Fund	
Cash and temporary investments	211,322
Investments	1,053,791
Total cash and investments	$ 46,483,280

Note 3 **Capital Assets**

The following is a summary of capital assets:

	Balance July 1, 2020	Additions	Deletions	Balance June 30, 2021
Capital assets not being depreciated				
Land	$ 9,922,793	$	$ 8,458	$ 9,914,335
Construction in progress	1,244,380		1,244,380	
Total capital assets not being depreciated	11,167,173		1,252,838	9,914,335
Capital assets being depreciated				
Land improvements	3,490,538			3,490,538
Buildings	342,956,028	1,667,403		344,623,431
Equipment	8,132,383	519,260	735,232	7,916,411
Total capital assets being depreciated	354,578,949	2,186,663	735,232	356,030,380
Less accumulated depreciation				
Land improvements	2,053,452	160,323		2,213,775
Buildings	74,114,081	6,675,686		80,789,767
Equipment	5,577,156	554,733	694,813	5,437,076
Total accumulated depreciation	81,744,689	7,390,742	694,813	88,440,618
Total capital assets being depreciated, net	272,834,260	(5,204,079)	40,419	267,589,762
Capital assets, net	$ 284,001,433	$ (5,204,079)	$ 1,293,257	$ 277,504,097

Depreciation is charged to governmental functions as follows:

District and school administration	$ 15,719
District support services	81,749
Regular instruction	11,822
Vocational instruction	13,073
Specialized instruction	5,255
Community education	1,990
Instructional support services	2,872
Pupil support services	225,502
Sites, buildings and equipment	7,032,760
Total	$ 7,390,742

Independent School District No. 709

Notes to Financial Statements (Continued)

For the Year Ended June 30, 2021

Note 4 Long-Term Obligations

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

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion
General Obligation Bonds Payable					
$44,320,000 General Obligation School Building Refunding Bonds (Series 2015B) due in annual installments of $30,000 to $5,135,000, plus interest at 2.00% to 5.00% from August 1, 2015 to February 1, 2028	$ 36,390,000		$ (3,880,000)	$ 32,510,000	$ 4,075,000
$3,640,000 Taxable General Obligation Facilities Maintenance Bonds (Series 2017A) due in annual installments of $690,000 to $755,000, plus interest at 2.00% to 3.00% from February 1, 2018 to February 1, 2022	1,485,000		(730,000)	755,000	755,000
$615,000 Taxable General Obligation School Capital Facilities Bonds (Series 2017B) due in annual installments of $115,000 to $130,000, plus interest at 2.00% to 3.00% from February 1, 2018 to February 1, 2022	250,000		(125,000)	125,000	125,000
Plus deferred amounts for net premiums	2,138,157		(270,243)	1,867,914	270,243
Total General Obligation Bonds Payable	40,263,157		(5,005,243)	35,257,914	5,225,243
Certificates of Participation					
$1,605,000 Full-term Non-Refunding Certificates of Participation, Series 2010D due in annual installments of $90,000 to $110,000, beginning in 2011 until 2030, plus semi-annual interest at 2.5% to 4.65%.	$ 910,000	$	$ (910,000)	$ -	$ -
$12,800,425 Full-term Capital Appreciation Certificates of Participation, Series 2012A due in annual installments of $536,344 to $2,304,404 plus interest at 3.70% to 4.25% beginning in 2021	12,800,425		(12,800,425)		
$6,340,000 Certificates of Participation, Series 2012B due in annual installments of $260,000 to $460,000 plus interest at 3.00% to 5.25% beginning in 2013	4,425,000		(4,425,000)		
$82,605,000 Full Term Refunding Certificates of Participation, Series 2016A due in annual installments of $4,470,000 to $9,900,000 plus interest at 3.00% to 5.00% beginning in 2017	62,515,000		(5,935,000)	56,580,000	6,330,000

Note 4 Long-Term Obligations (Continued)

	Balance July 1, 2020	Additions	Reductions	Balance June 30, 2021	Current Portion
$24,130,000 Refunding Certificates of Participation, Series 2019A due in annual installments of $1,350,000 to $2,585,000 plus interest at 3.00% to 4.20% beginning in 2020	22,780,000		(1,175,000)	21,605,000	1,220,000
$41,715,000 Refunding Certificates of Participation, Series 2019B due in annual installments of $4,215,000 to $5,935,000 plus interest at 5.00% beginning in 2020	37,500,000		(3,575,000)	33,925,000	3,860,000
$2,710,000 Full Term Refunding Certificates of Participation, Series 2019C due in annual installments of $295,000 to $350,000 plus interest at 5.00% beginning in 2020	2,415,000		(255,000)	2,160,000	265,000
$18,385,000 Full Term Refunding Certificates of Participation, Series 2021A due in annual installments of $1,570,000 to $4,145,000 plus interest at .71% to 1.72% beginning in 2022		18,385,000		18,385,000	1,570,000
$5,070,000 Refunding Certificates of Participation, Series 2021B due in annual installments of $405,000 to $505,000 plus interest at 2.60% to 3.00% beginning in 2022		5,070,000		5,070,000	
Plus deferred amounts for net premiums/discounts	12,683,640	(824,947)	(1,439,720)	10,418,973	1,495,048
Total Certificates of Participation	156,029,065	22,630,053	(30,515,145)	148,143,973	14,740,048
Capital leases	308,583		(149,480)	159,103	151,117
Compensated absences	497,017		(39,908)	457,109	457,109
Severance benefits	14,668,380	1,428,642	(1,741,491)	14,355,531	
Net pension liability	65,578,025	14,355,702	(5,118,070)	74,815,657	
Total OPEB obligation	15,900,265	2,122,423	(1,338,844)	16,683,844	
Total	$ 293,244,492	$ 40,536,820	$ (43,908,181)	$ 289,873,131	$ 20,573,517

General Obligation Bonds and Certificates of Participation are paid from the Debt Service Fund and the General Fund. Capital leases are paid from the General Fund. Compensated absences, severance benefits, OPEB obligations, and net pension liability are paid from the General Fund, Food Service Fund, Community Service Fund or the Federal Employee Benefit Trust Fund.

Note 4 Long-Term Obligations (Continued)

On March 9, 2021, the District issued $18,385,000 Taxable Full Term Refunding Certificates of Participation, Series 2021A for the purpose of refunding the 2012A bonds in the amount of $18,056,574, which consists of $12,264,080 in outstanding principal and $5,792,494 in outstanding interest. This resulted in an economic gain of $1,255,325 and a decrease in cash flow requirements of $1,340,795.

In relation to the above refunding, the District defeased certain certificates of participation by placing the proceeds of the new certificates in an irrevocable trust to provide for all future debt service payments on the old certificates. At June 30, 2021, $12,264,080 of certificates are considered defeased. These certificates will be called and paid from the trust on February 1, 2022.

Also on March 9, 2021, the District issued $5,070,000 Refunding Certificates of Participation, Series 2021B for the for the purpose of refunding the 2010D bonds in the amount of $835,815 and the 2012B bonds in the amount of $4,129,573. This resulted in an economic gain of $493,487 and a decrease in cash flow requirements of $581,522. The 2010D and 2012B bonds were paid on full on March 9, 2021.

Annual debt service requirements for years ending June 30 are:

	General Obligation Bonds			Certificates of Participation		
	Principal	Interest	Total	Principal	Interest	Total
2022	$ 4,955,000	$ 1,236,000	$ 6,191,000	$ 13,735,000	$ 5,610,403	$ 19,345,403
2023	4,275,000	1,005,850	5,280,850	14,545,000	5,053,587	19,598,587
2024	4,490,000	792,100	5,282,100	15,515,000	4,425,957	19,940,957
2025	4,675,000	612,500	5,287,500	17,055,000	3,746,385	20,801,385
2026	4,870,000	425,500	5,295,500	19,625,000	3,008,640	22,633,640
2027 - 2031	10,125,000	457,800	10,582,800	29,515,000	4,214,750	33,729,750
2032 - 2036				27,735,000	1,389,974	29,124,974
Total	$ 33,390,000	$ 4,529,750	$ 37,919,750	$ 137,725,000	$ 27,449,696	$ 165,174,696

Legal Debt Margin

The District's legal debt limit is 15% of the fair market value of the property within the District. The District's legal debt margin at June 30, 2021 is approximately $1,073,702,356.

Note 5 Capital Leases Payable

The District has entered into two capital leases for six (6) copiers. The terms of the leases are for 60 months beginning September 1, 2017 with a monthly payment of $368.98 and for 60 months beginning February 1, 2019 with a monthly payment of $344.58. The leases contain a bargain purchase options for one dollar at the end of the lease term. The lease qualifies as a capital leases for accounting purposes, and therefore, has been recorded at the present value of future minimum lease payments.

The District entered into a lease-purchase agreement in July 2019 for two (2) 77 passenger buses. The terms consist of annual payments of $62,212 beginning 10/15/2019 and ending 10/15/2021. The lease qualifies as a capital leases for accounting purposes, and therefore, has been recorded at the present value of future minimum lease payments.

The District entered a lease in September 2019 for cleaning equipment. The terms of the lease are for 36 months beginning 10/1/2019 and ending 9/30/2021. There are three annual payments of $79,288.99 with a

Note 5 Capital Leases Payable (continued)

$1 purchase option at the end of the lease. The lease qualifies as a capital leases for accounting purposes, and therefore, has been recorded at the present value of future minimum lease payments.

The District entered into a lease in November 2019 for a copier. The lease is for 36 months beginning 12/22/2019 and ending 11/22/2022 with monthly payments of $228.00. The leases contain a bargain purchase options for one dollar at the end of the lease term. The lease qualifies as a capital leases for accounting purposes, and therefore, has been recorded at the present value of future minimum lease payments.

Future minimum lease payments by year and in the aggregate under the capital leases consist of the following at June 30, 2021:

Year Ending June 30	
2022	$ 152,800
2023	6,087
2024	1,899
Total	160,786
Less: amount representing interest	1,683
Present value of net minimum lease payments lease payments	$ 159,103

Capital assets at June 30, 2021 purchased under capital leases are recorded as follows:

Furniture and equipment	$ 326,717
Less: Accumulated depreciation	72,815
Net Book Value	$ 253,902

Note 6 Postemployment Healthcare Plan (OPEB)

Plan Description - Independent School District No. 709 (District) administers a single-employer defined benefit health care plan which provides medical benefits to eligible retirees and their dependents in accordance with the terms of the plan. The District has not established trust to account for the accumulated plan assets. The District does not issue a stand-alone financial report for the plan.

Employees covered by benefit terms

At June 30, 2021, the following employees were covered by the benefit terms:

Active employees electing coverage	1,124
Actives waiving coverage	51
Retirees electing coverage	764
	1,939

The District's total OPEB liability of $16,683,844 was measured as of June 30, 2020 and was determined by an actuarial valuation as of June 30, 2019.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation rate		2.50%	
Discount rate		2.45%	
Healthcare trend rates	Fiscal Year Beginning	Not Medicare Eligible	Medicare Eligible
	2020	6.40%	5.10%
	2021	6.20%	5.10%
	2022	5.90%	5.10%
	2023	5.50%	5.20%
	2024-2051	5.20%	5.20%
	2052-2075	Transition to ultimate rate	Transition to ultimate rate
	2076+	4.00%	4.00%

The discount rate was determined using the index rate for 20-Year, tax-exempt, municipal bonds (Fidelity 20-year Municipal GO AA Index).

Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on Scale MP-2015 for teachers and RP-2014 with projected mortality improvements based on scale MP-2018 for non-teachers and other adjustments.

Note 6 Postemployment Healthcare Plan (OPEB) (Continued)

Changes in the Total OPEB Liability

Balances at 6/30/2020	$ 15,900,265
Changes for the year:	
Service Cost	1,034,727
Interest	509,112
Changes of assumptions	578,584
Benefit payments	(1,338,844)
Net changes	783,579
Balances at 6/30/2021	$ 16,683,844

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (1.45 percent) or 1-percentage point higher (3.45 percent) than the current discount rate:

	1% Decrease 1.45%	Discount Rate 2.45%	1% Increase 3.45%
Total OPEB Liability	$ 17,551,017	$ 16,683,844	$ 15,836,738

Sensitivity of the Total OPEB Liability to Changes in the Health Care Trend Rates

The following presents the total OPEB Liability of the District, as well as what the District's total OPEB liability would be if calculated using healthcare trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare trend rates:

	1% Decrease (5.4% decreasing to 3.0%)	Discount Rate (6.4% decreasing to 4.0%)	1% Increase (7.4% decreasing to 5.0%)
Total OPEB Liability	$ 17,380,624	$ 16,683,844	$ 16,082,448

Note 6 Postemployment Healthcare Plan (OPEB) (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to OPEB

For the year ended June 30, 2021 the District recognized OPEB expense of $1,378,742. The District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differnce between expected and actual liablity	$	$ 1,150,957
Changes of assumptions	540,418	301,925
Contributions subsequent to the measurement date	211,322	
Totals	$ 751,740	$ 1,452,882

The amount of $211,322 reported as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30	Pension Expense Amount
2022	$ (165,097)
2023	(165,097)
2024	(165,097)
2025	(165,097)
2026	(109,678)
Thereafter	(142,398)
Total	$ (912,464)

Note 7 Net Position/Fund Balance

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

Nonspendable	
General Fund	
Prepaid expenses	$ 111,202
Inventory	26,473
Other	276,287
Community Service Fund	
Prepaid expenses	13,354
Food Service Fund	
Inventory	108,545
Total nonspendable	$ 535,861

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

	Net Position	Fund Balances
General Fund		
Staff development	$ 313,515	$ 313,515
Teacher Development & Evaluation	16,729	16,729
Basic skills	222,148	222,148
Medical assistance	457,282	457,282
Gifted and talented	0	0
Safe schools	419,672	419,672
Operating capital	1,388,162	1,388,162
LTFM	1,993,595	1,993,595
ALC	143,573	143,573
Student activities	325,387	325,387
Total General Fund		5,280,063
Debt Service Fund		
Debt service	363,705	4,484,757
Refinancing	3,994	3,994
Total Debt Service Fund		4,488,751
Building Construction Fund		
Projects funded by COP	10	10
Nonmajor governmental funds		
Food Service Fund	945,504	945,504
Community Service Fund		
Community education	1,154,186	1,102,827
Early childhood family education	7,317	7,317
School readiness	66,303	66,303
Adult basic education	270,860	270,860
Total Nonmajor Funds		2,392,811
Total restricted	$ 8,091,942	$ 12,161,625

Note 7 Net Position/Fund Balance (Continued)

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

Assigned		
General Fund		
Severance-insurance premiums	$	4,100,000
Textbooks		1,960,610
Equipment		1,059,000
Student activities		887,350
Instructional equipment		1,573,359
Special programs		510,000
Total assigned	$	10,090,319

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

Building Construction Fund	$	(1,631,024)

The deficit in Capital Projects Fund is allowed by the Minnesota Department of Education and will be eliminated through future borrowing proceeds.

Note 8 Interfund Transactions

The composition of interfund balances as of June 30, 2021 are as follows:

	Due from Other Funds		Due to Other Funds	
General Fund	$	979,471	$	
Capital Projects Fund				979,471
Total	$	979,471	$	979,471

The interfund receivable/payable from the general fund to the capital projects fund was recorded to cover the cash deficit in the capital projects fund at year-end.

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

Note 9 Defined Benefit Pension Plans

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

A. Teachers Retirement Fund (TRA)

1. Plan Description

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

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

2. Benefits Provided

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

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

Tier I Benefits

Tier I	Step rate formula	Percentage
Basic	1st ten years	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

Note 9 Defined Benefit Pension Plans (Continued)

With these provisions:

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

or

Tier II Benefits

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

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

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

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

Note 9 Defined Benefit Pension Plans (Continued)

3. Contribution Rate

Per Minnesota Statutes, Chapter 354 sets the contribution rates for the employees and employers. Rates for each fiscal year ended June 30, 2019, June 30, 2020, and June 30, 2021, were:

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

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

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$	425,223,000
Add employer contributions not related to future contribution efforts		(56,000)
Deduct TRA's contributions not included in allocation		(508,000)
Total employer contributions		424,659,000
Total nonemployer contributions		35,587,000
Total contributions reported in Schedule of Employer and Non-Employer pension allocations	$	460,246,000

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

4. Actuarial Assumptions

The total pension liability in the June 30, 2020, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information:

Valuation Date	July 1, 2020
Experience Study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Price Inflation	2.50%
Wage growth rate	2.85% before July 1, 2028 and 3.25% thereafter

Note 9 Defined Benefit Pension Plans (Continued)

Projected Salary Increase	2.85 to 8.85% before July 1, 2028 and 3.25 to 9.25% thereafter
Cost of living adjustment	1.0% for January 2020 through January 2023, then increasing by 0.1% each year up to 1.5% annually

Mortality Assumption:

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35.5%	5.10%
International Stocks	17.5%	5.30%
Private Markets	25.0%	5.90%
Fixed Income	20.0%	0.75%
Unallocated cash	2%	0.00%
Total	100%	

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

Note 9 Defined Benefit Pension Plans (Continued)

Changes in actuarial assumptions since the 2018 valuation:

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

5. Discount Rate

The discount rate used to measure the total pension liability was 7.50%. There was no change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the fiscal 2020 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on these assumptions, the pension plan’s fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

6. Net Pension Liability

At June 30, 2021, the District reported a liability of $61,122,033 for its proportionate share of TRA’s net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District’s proportionate share was 0.8273% at the end of the measurement period and 0.8317% for the beginning of the year.

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

Note 9 Defined Benefit Pension Plans (Continued)

District's proportional share of net pension liability	$	61,122,033
State's proportional share of net pension liability associated with the District	$	5,122,031

For the year ended June 30, 2021, the District recognized pension expense of $6,004,708. It also recognized $469,212 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,225,744	$ 962,341
Net difference between projected and actual earnings on plan investments	781,900	-
Changes in proportion	3,129,849	6,032,621
Changes in actuarial assumptions	23,009,918	52,084,690
Contributions made to TRA subsequent to the measurement date	3,979,806	
Total	$ 32,127,217	$ 59,079,652

$3,979,806 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	Pension Expense Amount
2022	$ 2,084,112
2023	(19,999,169)
2024	(14,552,782)
2025	1,327,990
2026	207,608
Total	$ (30,932,241)

7. Pension Liability Sensitivity

The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the liability measured using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

Note 9 Defined Benefit Pension Plans (Continued)

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the TRA net pension liability	$ 93,577,185	$ 61,122,033	$ 34,380,627

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

8. Pension Plan Fiduciary Net Position

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-4000; or by calling (651)296-2409 or 1-800-657-3669.

B. Public Employee Retirement Association (PERA)

1. Plan Description

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

2. Benefits Provided

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

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

Note 9 Defined Benefit Pension Plans (Continued)

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

3. Contributions

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

Coordinated Plan members were required to contribute 6.5% their annual covered salary in fiscal year 2021 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2021, were $1,161,356. The District's contributions were equal to the required contributions as set by state statute.

4. Pension Costs

At June 30, 2021, the District reported a liability of $13,693,624 for its proportionate share of General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $422,365. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019, through June 30, 2020, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, the District's proportion was 0.2284% at the end of the measurement period and 0.2265% for the beginning of the period.

For the year ended June 30, 2021, the District recognized pension expense of $1,216,034 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional $36,759 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million.

Note 9 Defined Benefit Pension Plans (Continued)

At June 30, 2021, the District reported is proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 124,014	$ 51,810
Net difference between projected and actual earnings on plan investments	136,776	-
Changes in proportion	78,785	623,861
Changes in actuarial assumptions		511,320
Contributions made to PERA subsequent to the measurement date	1,161,356	
Total	$ 1,500,931	$ 1,186,991

$1,161,356 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	Pension Expense Amount
2022	$ (1,342,018)
2023	(122,680)
2024	286,441
2025	330,841
Total	$ (847,416)

5. Actuarial Assumptions

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

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

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

Note 9 Defined Benefit Pension Plans (Continued)

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

The following changes in actuarial assumptions occurred in 2020:

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

The following changes in plan provisions occurred in 2020:

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

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

Note 9 Defined Benefit Pension Plans (Continued)

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

6. Discount Rate

The discount rate used to measure the total pension liability in 2020 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at the rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

7. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the PERA net pension liability	$ 21,946,129	$ 13,693,624	$ 6,885,970

8. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and required supplementary information. That report can be obtained at www.mnpera.org.

Note 10 Operating Leases

The District is obligated under the following leases for building space, parking facilities, and equipment.

Mansel Properties
Building – Month to Month lease terminated in October 2021.

City of Duluth
Washington Center - Lease commencing September 2020 through August 2021.
Washington Center - Lease commencing September 2021 through August 2022.

Northwood Children Services
Chester Creek Academy - Lease commencing July 2020 through July 2023.
Merritt Creek Academy – Lease commencing July 2019 through July 2022.

Involta LLC
Data Center - Lease commencing July 2018 through June 2023.

Leaf Capital
Konica Copier System - Lease commencing October 2017 through September 2022.

Macro Technologies
Four Konica Copiers - Lease commencing October 2020 through September 2024.

Pitney Bowes
Postage Machine - Lease commencing January 2017 through December 2021.

Lease expense for the year ended June 30, 2021 was $298,378. Future minimum lease payments are as follows:

Years Ending June 30,	
2022	$ 244,079
2023	105,756
Total	$ 349,835

Note 11 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; injuries to employee health and dental; and natural disasters. Risks of loss related to employee dental claims are self-insured. Risk of loss associated with workers' compensation claims were insured through participation in the Minnesota School Boards Association Insurance Trust and continue to cover claims arising during their period of coverage. The District currently carries commercial workers' compensation insurance. This policy provides coverage for up to a maximum liability limit of $2,000,000 with a medical deductible of $2,500 for each workers' compensation claim. All other risks of loss are insured by the purchase of commercial insurance. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance for any of the past three fiscal years.

Note 12 Dental Self-Insurance Plan

An internal service fund accounts for the District's dental self-insurance program. The District self-insures dental benefits provided to retirees and active employees. The District purchases dental insurance stop-loss reinsurance (plan) that protects against individual claims in excess of $300,000, with no lifetime maximum, and against aggregate annual claims in excess of an amount determined by formula. The plan is administered by a third-party administrator. The plan liabilities for claims incurred but not reported are estimated based on subsequent claims activity.

An analysis of claims activity for the last two fiscal years is presented below:

Year Ended	Claim Liability Beginning of Year	Claims Incurred	Claims Paid	Claim Liability End of Year
June 30, 2021	$ 223,566	$ 634,776	$ 836,920	$ 21,422
June 30, 2020	211,094	662,562	650,090	223,566

Note 13 Commitments and Contingencies

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

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's counsel the resolution of these matters will not have a material adverse effect on the financial conditions of the District.

At June 30, 2021, the District had no commitments under construction contracts for future work on buildings and sites.

Beginning in March 2020, the United States economy began suffering adverse effects from the COVID-19 Virus Crisis ("CV 19 Crisis"). The long-term impact of the CV 19 Crisis on the District cannot be reasonably estimated at this time.

Required Supplementary Information

Independent School District No. 709

Information about the District’s Other Postemployment Health Care Plan

Year Ended June 30, 2021

Schedule of Changes in Net OPEB Liability and Related Ratios

	2021	2020	2019	2018
Total OPEB Liability				
Service Cost	$ 1,034,727	$ 1,046,751	$ 997,070	$ 1,026,879
Interest	509,112	629,943	613,488	518,378
Differences between expected and actual experience	-	(1,471,559)		
Changes of assumptions	578,584	31,787	(49,578)	(531,408)
Benefit payments	(1,338,844)	(1,383,288)	(1,500,194)	(1,507,624)
Net change in total OPEB liability	783,579	(1,146,366)	60,786	(493,775)
Total OPEB Liability - beginning of year	15,900,265	17,046,631	16,985,845	17,479,620
Total OPEB liability - end of year	$ 16,683,844	$ 15,900,265	$ 17,046,631	$ 16,985,845
Covered-employee payroll	67,802,595	57,803,966	55,080,812	56,982,794
Total OPEB liability as a percentage of covered-employee payroll	24.6%	27.5%	30.9%	29.8%

Notes to Schedule:

Funding: There are no assets accumulated in a trust that meets the criteria of GASB NO. 75 paragraph 4, to pay related benefits.

The discount rate was reduced from 3.13% to 2.45% from the previous measurement date.

*The schedule is intended to present information for the last 10 years.
Additional information will be presented as it becomes available.

Independent School District No. 709

Information about the District's Net Pension Liability

Year Ended June 30, 2021

Schedule of Employer's Share of Net Pension Liability

TEACHER'S RETIREMENT ASSOCIATION (TRA)

Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability associated with the District	Total	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2020	0.8273%	$61,122,033	$ 5,122,031	$66,244,064	$48,077,462	127.1%	75.5%
June 30, 2019	0.8317%	$53,012,733	$ 4,691,452	$57,704,185	$47,219,040	112.3%	78.1%
June 30, 2018	0.8293%	$52,088,203	$ 4,893,712	$56,981,915	$45,816,146	113.7%	78.1%
June 30, 2017	0.8874%	$177,141,137	$ 17,123,980	$194,265,117	$47,767,591	370.8%	51.6%
June 30, 2016	0.8681%	$207,062,563	$ 20,782,926	$227,845,489	$45,155,373	458.6%	44.9%
June 30, 2015	0.7225%	$44,693,771	$ 5,481,972	$50,175,743	$36,668,947	121.9%	76.8%

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability associated with the District	Total	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2020	0.2284%	$13,693,624	$ 422,365	$14,115,989	$16,275,133	84.1%	79.1%
June 30, 2019	0.2265%	$12,565,292	$ 389,316	$12,954,608	$16,033,147	78.4%	80.2%
June 30, 2018	0.2357%	$13,075,670	$ 428,850	$13,504,520	$15,809,497	82.7%	79.5%
June 30, 2017	0.2588%	$16,521,621	$ 207,740	$16,729,361	$16,672,067	99.1%	75.9%
June 30, 2016	0.2547%	$20,680,377	$ 270,170	$20,950,547	$15,804,347	130.9%	68.9%
June 30, 2015	0.2582%	$13,381,264	$ -	$13,381,264	$14,926,453	89.6%	78.2%
June 30, 2014	0.2272%	$12,772,500	$ -	$12,772,500	$14,262,185	89.6%	78.7%

DULUTH TEACHER'S RETIREMENT FUND ASSOCIATION (DTRFA)

Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2014	31.6004%	$81,187,076	$42,238,042	192.2%	46.8%

Independent School District No. 709

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

Year Ended June 30, 2021

Schedule of Employer's Contributions

TEACHER'S RETIREMENT ASSOCIATION (TRA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2021	$3,979,806	$3,979,806	$0	$48,952,106	8.13%
June 30, 2020	$3,640,588	$3,640,588	$0	$47,219,040	7.92%
June 30, 2019	$3,636,786	$3,636,786	$0	$47,690,576	7.71%
June 30, 2018	$3,436,211	$3,436,211	$0	$45,816,146	7.50%
June 30, 2017	$3,582,569	$3,582,569	$0	$47,767,591	7.50%
June 30, 2016	$3,386,653	$3,386,653	$0	$45,155,373	7.50%

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2021	$1,161,356	$1,161,356	$0	$15,484,741	7.50%
June 30, 2020	$1,220,635	$1,220,635	$0	$16,275,133	7.50%
June 30, 2019	$1,042,135	$1,042,135	$0	$13,895,137	7.50%
June 30, 2018	$1,185,712	$1,185,712	$0	$15,809,497	7.50%
June 30, 2017	$1,250,405	$1,250,405	$0	$16,672,067	7.50%
June 30, 2016	$1,185,326	$1,185,326	$0	$15,804,347	7.50%
June 30, 2015	$1,119,484	$1,119,484	$0	$14,926,453	7.50%

DULUTH TEACHER'S RETIREMENT ASSOCIATION (DTRFA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2015	$2,750,171	$2,750,171	$0	$36,668,947	7.50%

*The schedule is intended to present information for the last 10 years.
Additional information will be presented as it becomes available.

Supplementary Financial Information

Independent School District No. 709

Nonmajor Governmental Funds – Combining Balance Sheet

For the Year Ended June 30, 2021

	Special Revenue Funds		
	Food Service Fund	Community Service Fund	Total Nonmajor Governmental Funds
Assets			
Cash and temporary cash investments	$ 848,700	$ 2,134,698	$ 2,983,398
Accounts receivable	1,208	4,460	5,668
Current property taxes receivable		517,411	517,411
Delinquent property taxes receivable		47,074	47,074
Due from other Minnesota school districts			
Due from the Minnesota Department of Education		336,460	336,460
Due from the federal government through the Minnesota Department of Education	171,333	310,170	481,503
Prepaid expenses		3,431	3,431
Inventory	107,463		107,463
Total assets	$ 1,128,704	$ 3,353,704	$ 4,482,408
Liabilities			
Salaries payable	$ 15,331	$ 464,529	$ 479,860
Accounts payable	2,480	31,334	33,814
Due to other Minnesota school districts			
Accrued expenses	56,846	324,822	381,668
Deferred revenue		21,378	21,378
Total liabilities	74,657	842,063	916,720
Deferred Inflows of Resources			
Unavailable revenue - delinquent property taxes		47,074	47,074
Property taxes levied for subsequent year's expenditures		1,039,986	1,039,986
Total deferred inflows of resources		1,087,060	1,087,060
Fund balances			
Nonspendable	108,545	13,354	121,899
Restricted	945,502	1,411,227	2,356,729
Total fund balances	1,054,047	1,424,581	2,478,628
Total liabilities, deferred inflows of resources and fund balances	$ 1,128,704	$ 3,353,704	$ 4,482,408

Independent School District No. 709

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

For the Year Ended June 30, 2021

	Special Revenue Funds		Total
	Food Service Fund	Community Service Fund	Nonmajor Governmental Funds
Revenues			
Local property tax levies	$	$ 1,002,863	$ 1,002,863
Other local and county revenues	2,250	1,065,927	1,068,177
Revenue from state sources	68,843	2,469,377	2,538,220
Revenue from federal sources	2,608,473	2,868,674	5,477,147
Sales and other conversion of assets	42,021		42,021
Total revenues	2,721,587	7,406,841	10,128,428
Expenditures			
Current			
Community education and services		7,108,580	7,108,580
Pupil support services	2,992,832		2,992,832
Capital outlay	16,214	44,417	60,631
Total expenditures	3,009,046	7,152,997	10,162,043
Excess (deficiency) of revenues over expenditures	(287,459)	253,844	(33,615)
Net change in fund balances	(287,459)	253,844	(33,615)
Fund balances, beginning	1,341,506	1,170,737	2,512,243
Fund balances, ending	$ 1,054,047	$ 1,424,581	$ 2,478,628

Independent School District No. 709

Fiscal Compliance Table

For the Year Ended June 30, 2021

	Audit	UFARS	Audit - UFARS
01 GENERAL FUND			
Total revenues	$118,460,808	$118,460,808	$ -
Total expenditures	115,753,230	115,753,231	(1)
Non spendable			
460 Non spendable fund balance	413,962	413,962	-
Restricted/Reserve			
401 Student activities	325,387	325,387	-
403 Staff development	313,515	313,515	-
405 Deferred maintenance			-
406 Health and safety			-
407 Capital Projects Levy			-
408 Cooperative revenue			-
411 Severance pay			-
413 Project funded by COP			-
414 Operating debt			-
416 Levy reduction			-
417 Taconite building maintenance			-
423 Certain teacher programs			-
424 Operating capital	1,388,162	1,388,162	-
426 $25 Taconite			-
427 Disabled accessibility			-
428 Learning and development			-
434 Area learning center	143,573	143,573	-
435 Contracted alt. programs			-
436 St. approved alt. program			-
438 Gifted & talented	-	-	-
440 Teacher development & eval	16,729	16,729	
441 Basic skills program	222,148	222,148	-
445 Career and technical programs			-
446 First Grade Preparedness			-
449 Safe schools levy	419,672	419,672	-
450 Prekindergarten			-
451 QZAB payments			-
452 OPEB liability not in trust			-
453 Unfunded sev & retirement levy			-
467 LTFM	1,993,595	1,993,595	-
472 Medical Assistance	457,282	457,282	-
Restricted			
464 Restricted fund balance			-
Committed			
418 Committed for separation			-
461 Committed fund balance			-
Assigned			
462 Assigned fund balance	10,090,319	10,090,319	-
Unassigned			
422 Unassigned fund balance	3,889,780	3,889,780	-
02 FOOD SERVICE			
Total revenues	2,721,587	2,721,587	-
Total expenditures	3,009,046	3,009,044	2
Non spendable			
460 Non spendable fund balance	108,545	108,545	-
Restricted			
452 OPEB liability not in trust			-
464 Restricted fund balance	945,502	945,504	(2)
Unassigned			
463 Unassigned fund balance			-
04 COMMUNITY SERVICE			
Total revenues	7,406,841	7,406,838	3
Total expenditures	7,152,997	7,152,997	-
Non spendable			-
460 Non spendable fund balance	13,354	13,354	-
Restricted/Reserve			
426 $25 taconite			-
431 Community education	1,102,827	1,102,827	-
432 ECFE	7,317	7,317	-
444 School readiness	66,303	66,303	-
447 Adult Basic Education	270,860	270,860	-
452 OPEB liability not in trust			-
Restricted			
464 Restricted fund balance		-	-
Unassigned			
463 Unassigned fund balance	(36,080)	(36,082)	2

	Audit	UFARS	Audit - UFARS
06 BUILDING CONSTRUCTION			
Total revenues	$ -	$ -	$ -
Total expenditures	1,631,023	1,631,023	-
Non spendable			
460 Non spendable fund balance			-
Restricted/Reserve			
407 Down payment levy			
413 Projects funded by COP	10	10	-
409 Alternative facility program			-
467 LTFM			-
Restricted			
464 Restricted fund balance			-
Unassigned			
463 Unassigned fund balance	(1,631,024)	(1,631,023)	(1)
			-
07 DEBT SERVICE - SEE NEXT PAGE FOR DISCUSSION OF VARIANCES			-
Total revenues	22,214,203	22,214,202	1
Total expenditures	39,884,655	21,833,097	18,051,558
Non spendable			
460 Non spendable fund balance			-
Restricted/Reserve			
425 Bond refundings	3,994	18,067,997	(18,064,003)
451 QZAB payments			-
Restricted			
464 Restricted fund balance	4,484,757	4,472,317	12,440
Unassigned			
463 Unassigned fund balance			-
08 TRUST			
Total revenues	212,068	212,068	-
Total expenditures	250,000	250,000	-
401 Student activities	-	-	-
402 Scholarships	1,404,568	1,404,568	-
18 CUSTODIAL FUND			
Total revenues			-
Total expenditures			-
401 Student activities			-
402 Scholarships			-
20 INTERNAL SERVICE			
Total revenues	828,127	828,127	-
Total expenditures	696,710	696,710	-
422 Net position	509,595	509,596	(1)
25 OPEB REVOCABLE TRUST FUND			
Total revenues			-
Total expenditures			-
422 Net position			-
45 OPEB IRREVOCABLE TRUST FUND			
Total revenues			-
Total expenditures			-
422 Net position			-
47 OPEB DEBT SERVICE FUND			
Total revenues			-
Total expenditures			-
Non spendable			-
460 Non spendable fund balance			
Restricted			
425 Bond refundings			-
464 Restricted fund balance			-
Unassigned			
463 Unassigned fund balance			-

Independent School District No. 709

Fiscal Compliance Table

For the Year Ended June 30, 2021

Debt Service Fund Variance between Audit and UFARS:

After the audited financials were prepared and approved by Wipfli and the UFARS table submitted it was determined by a secondary professional review that the amounts deposited to escrow on the 2021A debt refunding of 2012A should have been recorded as an other financing use (expense) of $18,056,564 rather than as cash held in escrow. Under Generally Accepted Accounting Principles, refunded bond proceeds that are deposited to a trustee to pay off an old debt on its call date should no longer be recorded as a debt to the District on the date of the refinancing and the cash transferred to the irrevocable escrow account should not be recorded on the books of the district. Rather, the bond proceeds should be recorded as an expense (other financing use) in the fund financial statements on the date the new refunding bond is issued. Once this error was discovered by the secondary professional reviewers the District agreed to the misstatement and reached out to the Minnesota Department of Education for further guidance. This footnote serves as the explanation shared with MDE on how increased expenses in the debt service fund by $18,051,558 and reduced fund balance in the debt service fund by $18,051,558 needed to be adjusted. This change is reflected in the fiscal compliance table issued in the audited financial statements on December 31, 2021 but was not reflected in the initial compliance table submitted to UFARS on December 15, 2021. This debt will be paid in fill out of escrow on February 1, 2022.

Reports Required by *Government Auditing Standards*, Uniform Guidance, and the State of Minnesota

Independent School District No. 709

Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal AL Number	Expenditures
U.S. Department of Agriculture		
Passed-through Minnesota Department of Education:		
Child Nutrition Cluster		
School Breakfast Program	10.553	$ 858,610
Non-Cash Assistance (Commodities)	10.555	247,068
National School Lunch Program	10.555	1,030,069
Total 10.555		1,277,137
Summer Food Service Program for Children	10.559	441,021
Total Child Nutrition Cluster		2,576,768
Child and Adult Care Food Program	10.558	21,707
Total U.S. Department of Agriculture		2,598,475
U.S. Department of Interior		
Passed-through Fond du Lac Band of Lake Superior Chippewa		
Indian Education - Grants to Schools	15.130	10,941
U.S. Department of Justice		
Passed-through City of Duluth		
COPS Grant	16.710	277,601
U.S. Department of Treasury		
Passed-through Minnesota Department of Revenue		
Coronavirus Relief Fund	21.019	2,980,407
U.S. Department of Education		
Direct Program		
Title VII Indian Education, Grants to Local Education Agencies	84.060	161,345
Passed-through Minnesota Department of Education:		
Adult Basic Education - Basic Grants to States	84.002	25,691
Title I, Part A	84.010	2,582,598
Title I, Neglected and Delinquent	84.010	194,633
Total 84.010		2,777,231
Special Education Cluster		
IDEA, Part B	84.027	1,688,682
IDEA, Part B Preschool Grant for Children with Disabilities	84.173	47,347
Total Special Education Cluster		1,736,029
Career and Technical Education - Basic Grants to States	84.048	69,574
Special Education Infants and Toddlers Program	84.181	51,454
Education for Homeless Children and Youth	84.196	40,000
Special Education - State Personnel Development	84.323	176,069
Title III - English Language Acquisition	84.365	1,687
Title II, Part A	84.367	221,106
Student Support and Academic Enrichment Program	84.424	115,103
COVID-19 Elementary and Secondary School Emergency Relief Fund	84.425	3,075,373
U.S. Department of Health and Human Services		
Direct Program		
Head Start	93.600	2,776,900
Total expenditures of federal awards		$ 17,094,986

Independent School District No. 709

Notes to the Schedule of Expenditures of Federal Awards

For the Year Ended June 30, 2021

Note 1 **Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Independent School District No. 709 under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of *Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal* Awards (Uniform Guidance) Because the schedule presents only a selected portion of the operations of Independent School District No. 709, it is not intended to and does not present the financial position, changes in net position, or cash flows of Independent School District No. 709.

Note 2 **Significant Accounting Policies**

Expenditures reported on the schedules are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Independent School District No. 709 has not elected to use the 10 percent de minimus indirect costs rate as allowed under Uniform Guidance.

Note 3 **Pass-Through Grant Numbers**

All pass-through listed on the previous page use the same AL numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

Note 4 **Subrecipients**

The District has not passed funding to subrecipients during 2020-21.

WIPFLI

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

To the School Board
Independent School District No. 709
Duluth, Minnesota

We have audited, in accordance with the auditing standards general accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 709 (District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 31, 2021.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiencies in internal control that we consider to be material weaknesses.

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 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2021-001 and 2021-002 to be material weaknesses.

Compliance and Other Matters

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

The District's Response to the Findings

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

Wipfli LLP

Wipfli LLP

December 31, 2021
Duluth, Minnesota

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance

To the School Board
Independent School District No. 709
Duluth, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 709's (District) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility for Compliance

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

Auditor's Responsibility

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

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

Opinion

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

Report on Internal Control Over Compliance

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

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

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

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

Wipfli LLP

Wipfli LLP

December 31, 2021
Duluth, Minnesota

WIPFLI

Independent Auditor's Report on Legal Compliance for the State of Minnesota

To the School Board
Independent School District No. 709
Duluth, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the Unites States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 709 (District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which comprise the District's basic financial statements, and have issued our report thereon dated December 31, 2021.

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

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

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

Wipfli LLP

Wipfli LLP

December 31, 2021
Duluth, Minnesota

Independent School District No. 709

Schedule of Findings and Questioned Costs

For the Year Ended June 30, 2021

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	**Unmodified**			
Internal control over financial reporting:				
Material weakness identified?	X	Yes		No
Significant deficiency(s)?		Yes	X	None reported
Noncompliance material to the financial statements		Yes	X	No

Federal Awards

Internal control over major federal programs:				
Material weakness identified?		Yes	X	No
Significant deficiency(s)?		Yes	X	None reported
Type of auditor's report issued on compliance for major programs:	**Unmodified**			
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance [2 CFR 200.516(a)]?		Yes	X	No

Identification of major federal program

AL Number	**Name of Federal Program or Cluster**
21.019	Coronavirus Relief Fund
84.425	Governor's Emergency Education Relief Fund and Elementary and Secondary School Emergency Relief Fund
10.553, 10.555, 10.559	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B Programs	$750,000			
Auditee qualified as a low-risk auditee?		Yes	X	No

Section II - Financial Statement Findings:

Item 2021-001 - Audit adjustments/Reconciliation of Significant Accounts (Material Weakness)

Criteria - Controls should be in place to ensure accurate financial reporting. In order to make the financial reports generated by the accounting system as meaningful as possible, the District should reconcile the general ledger accounts to supporting documentation on a monthly basis.

Condition - The District is responsible for controls over the period-end financial reporting process, including controls over procedures to process journal entries into the general ledger and record recurring and nonrecurring adjustments to the financial statements and reconciling general ledger accounts to supporting documentation. As a result of audit procedures, we identified significant accounts that were not reconciled at year end, including taxes receivable, general aid receivables, accounts receivable, accounts payable, salaries payable, and accrued expenses; and proposed material adjustments to the District's general ledger accounts to correct these misstatements.

Cause - The District's controls over period-end financial reporting did not prevent or detect material misstatements of the financial statements.

Effect - Without controls over procedures that will detect or prevent misstatements when entering transactions or making adjustments to the financial statements and reconciling significant accounts to supporting documentation, the financial statements may be misstated.

Recommendation - We recommend that management implement controls necessary to achieve accurate financial reporting, including reconciling significant accounts monthly.

District's Response - The retirement of our long-standing Finance Manager in March 2021, brought with it new Finance leadership not familiar with Wipfli. In April 2021, the District reached out to Wipfli to work in coordination and transition to new audit workpapers and processes recommended by them. Unfortunately, that support did not materialize before the scheduled audit and support was required during the audit period. In addition, the District has transitioned to a new Finance software, Skyward, and both the District and Auditors were unfamiliar with some components and reporting tools. This led to some challenges in reconciliation of some items. It is the District's stance that Wipfli committed to more support than they were able to provide which led to some items being delayed. Had Wipfli indicated sooner that they would not be able to provide the support, the District would have prepared several of the items listed above in an expedited manor.

2021-002 - Financial Statement Presentation and Disclosures (Material Weakness)

Criteria - Controls should be in place to prepare financial statements in accordance with generally accepted accounting principles (GAAP).

Condition - The District internal control over financial reporting does not end at the general ledger, but extends to the financial statements and related notes. As part of our professional services for the year ended June 30, 2021, Wipfli assisted in drafting the financial statements and related notes. While the District does have an internal control process to review the financial statements prepared by the auditors, the District does not have sufficient expertise to completely prepare its own financial statements and related notes, and relies on the auditors to provide necessary understanding of current accounting and disclosure principles in the preparation of the financial statements and related notes.

Cause - The District does not expect, nor does it require, its financial staff to have the ability to prepare GAAP financial statements.

Effect - The completeness of the related note disclosures and the accuracy of the overall financial presentation is negatively impacted as outside auditors do not have the same comprehensive understanding of the District and its staff. The potential exists that a misstatement of the financial statements and related notes could occur and not be prevented or detected by the District.

Recommendation - We recommend that management and those charged with governance continue to evaluate whether to accept the degree of risk associated with this condition because of cost or other considerations.

District's Response - The District will continue to rely upon the auditors to prepare the financial statements and related notes. Management will review and approve the annual financial statements and related notes.

Section III - Federal Findings:

None.

Section IV - Minnesota Legal Compliance Findings:

None.

Independent School District No. 709

Schedule of Prior Year Findings and Questioned Costs

For the Year Ended June 30, 2021

Prior Year Findings:

Section II – Financial Statement Findings:

None.

Section III - Federal Findings:

None.

Section IV - Minnesota Legal Compliance Findings:

None.

ENTITY'S LETTERHEAD

CORRECTIVE ACTION PLAN

Date Submitted: December 31, 2021

Financial Statement Findings – Material Weaknesses in Internal Controls

Finding 2021-001 – Audit Adjustments/Reconciliation of Significant Accounts

Condition: The District is responsible for controls over the period-end financial reporting process, including controls over procedures to process journal entries into the general ledger and record recurring and nonrecurring adjustments to the financial statements and reconciling general ledger accounts to supporting documentation. As a result of audit procedures, we identified significant accounts that were not reconciled at year end, including taxes receivable, general aid receivables, accounts receivable, accounts payable, salaries payable, and accrued expenses; and proposed material adjustments to the District's general ledger accounts to correct these misstatements.

Recommendation: We recommend that management implement controls necessary to achieve accurate financial reporting, including reconciling significant accounts monthly.

Corrective Action Plan: District staff have been identified and tasked with items identified related to reconciliation. Leadership transition at the end of last fiscal year created a gap where past experience and data was not able to be retrieved to effectively create year end entries so the district relied on auditors with experience with ISD #709 to support this year. It is the intention of the district to provide reconciled data and receive consultation from our auditors.

Finding 2021-002 – Financial Statement Presentation and Disclosures

Condition: The District internal control over financial reporting does not end at the general ledger, but extends to the financial statements and related notes. As part of our professional services for the year ended June 30, 2021, Wipfli assisted in drafting the financial statements and related notes. While the District does have an internal control process to review the financial statements prepared by the auditors, the District does not have sufficient expertise to completely prepare its own financial statements and related notes, and relies on the auditors to provide necessary understanding of current accounting and disclosure principles in the preparation of the financial statements and related notes.

Recommendation: We recommend that management and those charged with governance continue to evaluate whether to accept the degree of risk associated with this condition because of cost or other considerations.

Corrective Action Plan: The District will continue to rely upon the auditors to prepare the financial statements and related notes. Management will review and approve the annual financial statements and related notes.

Name of Contact Person Responsible for Corrective Action Plan: Catherine Erickson

Anticipated Completion Date: 11/30/2022