

INDEPENDENT SCHOOL DISTRICT NO. 885
ST. MICHAEL – ALBERTVILLE SCHOOLS
ALBERTVILLE, MINNESOTA

Financial Statements
and Supplemental Information

Year Ended
June 30, 2021

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INDEPENDENT SCHOOL DISTRICT NO. 885

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INTRODUCTORY SECTION

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INDEPENDENT SCHOOL DISTRICT NO. 885

School Board and Administration
Year Ended June 30, 2021

SCHOOL BOARD

	<u>Board Position</u>
Drew Scherber	Chairperson
Kari Dwinnell	Vice Chairperson
Carol Steffens	Clerk
Tim Lewis	Treasurer
Hollee Saville	Director
Larry Sorensen	Director

ADMINISTRATION

	<u>Position</u>
Ann-Marie Foucault, Ph.D.	Superintendent
Kris Crocker	Director of Business Services
Douglas Birk	Director of Administrative Services

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FINANCIAL SECTION

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PRINCIPALS

Thomas A. Karnowski, CPA
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INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 885
Albertville, 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. 885 (the 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 of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

(continued)

OPINIONS

In our opinion, the financial statements referred to on the previous page 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 the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

OTHER MATTERS

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information (RSI), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and supplemental information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts 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 basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

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

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

(continued)

Prior Year Comparative Information

We have previously audited the District's 2020 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated November 27, 2020. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

OTHER REPORTING REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 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, grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
November 23, 2021

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INDEPENDENT SCHOOL DISTRICT NO. 885

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

This section of Independent School District No. 885's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2021. Please read it in conjunction with the other components of the District's annual financial statements.

FINANCIAL HIGHLIGHTS

- The District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2021 by \$60,227,134 (deficit net position). The District's total net position decreased by \$744,746 during the year.
- Government-wide revenues totaled \$92,321,267, and were \$744,746 less than expenses of \$93,066,013.
- The District's governmental funds reported combined fund balances of \$20,145,425 at year-end, a decrease of \$608,387 from the prior year.
- The General Fund's total fund balance (under the governmental fund presentation) decreased \$333,163 during the year, compared to a \$4,115,158 decrease projected in the final budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual financial statements consists of the following parts:

- Independent Auditor's Report;
- Management's discussion and analysis;
- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements;
- Required supplementary information; and
- Supplemental information consisting of combining and individual fund statements and schedules.

The following explains the two types of statements included in the basic financial statements:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide financial statements (Statement of Net Position and Statement of Activities) report information about the District as a whole using accounting methods similar to those used by private sector companies. The Statement of Net Position includes *all* of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, except for the fiduciary funds. 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 financial statements report the District's *net position* and how it has changed. Net position—the difference between the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources—is one way to measure the District's financial health or *position*.

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

In the government-wide financial statements, the District's activities are shown in one category titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, food services, and community education, are primarily financed with state aids and property taxes.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*—focusing on its most significant or "major" funds, rather than the District as a whole. Funds (Food Service Special Revenue and Community Service Special Revenue) that do not meet the threshold to be classified as major funds are called "nonmajor" funds. Detailed financial information for nonmajor funds can be found in the supplemental information section.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with Minnesota statutory requirements and accounting principles generally accepted in the United States of America. Some funds are required by state law and by bond covenants. The District can establish other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

The District maintains the following kinds of funds:

Governmental Funds – The District's basic services are included in governmental funds, which generally focus on: 1) how *cash and other financial assets* that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps to determine whether there are more or less 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 financial statements, we provide additional information (reconciliation schedules) immediately following the governmental fund financial statements that explain the relationship (or differences) between these two types of financial statement presentations.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to other organizations. 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 operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 is a summarized view of the District's Statement of Net Position:

	2021	2020
Assets		
Current and other assets	\$ 43,953,241	\$ 44,401,401
Capital assets, net of depreciation	141,332,096	148,114,264
Total assets	\$ 185,285,337	\$ 192,515,665
Deferred outflows of resources		
Bond refunding deferments	\$ 2,305,144	\$ 2,576,337
OPEB plan deferments	219,637	82,393
Pension plan deferments	25,111,112	37,650,723
Total deferred outflows of resources	\$ 27,635,893	\$ 40,309,453
Liabilities		
Current and other liabilities	\$ 10,292,501	\$ 10,762,593
Long-term liabilities, including due within one year	212,335,942	215,064,421
Total liabilities	\$ 222,628,443	\$ 225,827,014
Deferred inflows of resources		
Bond refunding deferments	\$ 446,788	\$ 549,764
OPEB plan deferments	594,667	686,869
Pension plan deferments	34,324,899	50,568,154
Property taxes levied for subsequent year	15,153,567	14,675,705
Total deferred inflows of resources	\$ 50,519,921	\$ 66,480,492
Net position		
Net investment in capital assets	\$ (13,397,188)	\$ (17,545,042)
Restricted	5,708,390	5,029,553
Unrestricted	(52,538,336)	(46,966,899)
Total net position	\$ (60,227,134)	\$ (59,482,388)

The District's financial position is the product of many factors. For example, the determination of the District's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, will produce a significant difference in the calculated amounts. The other major factor in determining net position as compared to fund balances is the liability for long-term compensated absences, pension, and other post-employment benefits, which impacts the unrestricted portion of net position.

The increase in net investment in capital assets is due to the relationship between the rate at which the capital assets are depreciated versus the rate at which the related debt is repaid. The increase in restricted net position was mainly in the restriction for community service. The change in the District's share of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) pension plans contributed to the change in deferred outflows of resources, long-term liabilities, deferred inflows of resources, and unrestricted net position.

Table 2 presents a summarized version of the District’s Statement of Activities:

	2021	2020
Revenues		
Program revenues		
Charges for services	\$ 4,342,012	\$ 6,928,606
Operating grants and contributions	18,952,680	15,492,557
Capital grants and contributions	2,270,072	2,959,259
General revenues		
Property taxes	15,041,023	14,559,367
General grants and aid	51,609,598	49,276,444
Investment earnings	84,824	553,349
Other	21,058	162,579
Total revenues	92,321,267	89,932,161
Expenses		
Administration	2,036,932	2,410,153
District support services	1,955,703	1,442,587
Elementary and secondary regular instruction	38,530,387	37,490,352
Vocational education instruction	1,716,276	1,270,797
Special education instruction	10,310,624	9,911,846
Instructional support services	7,985,448	7,224,322
Pupil support services	4,977,775	4,374,578
Sites and buildings	13,405,387	14,969,218
Fiscal and other fixed cost programs	263,111	263,112
Food service	2,706,276	3,130,857
Community service	4,516,010	5,288,606
Interest and fiscal charges	4,662,084	5,006,779
Total expenses	93,066,013	92,783,207
Change in net position	(744,746)	(2,851,046)
Net position – beginning	(59,482,388)	(56,631,342)
Net position – ending	\$ (60,227,134)	\$ (59,482,388)

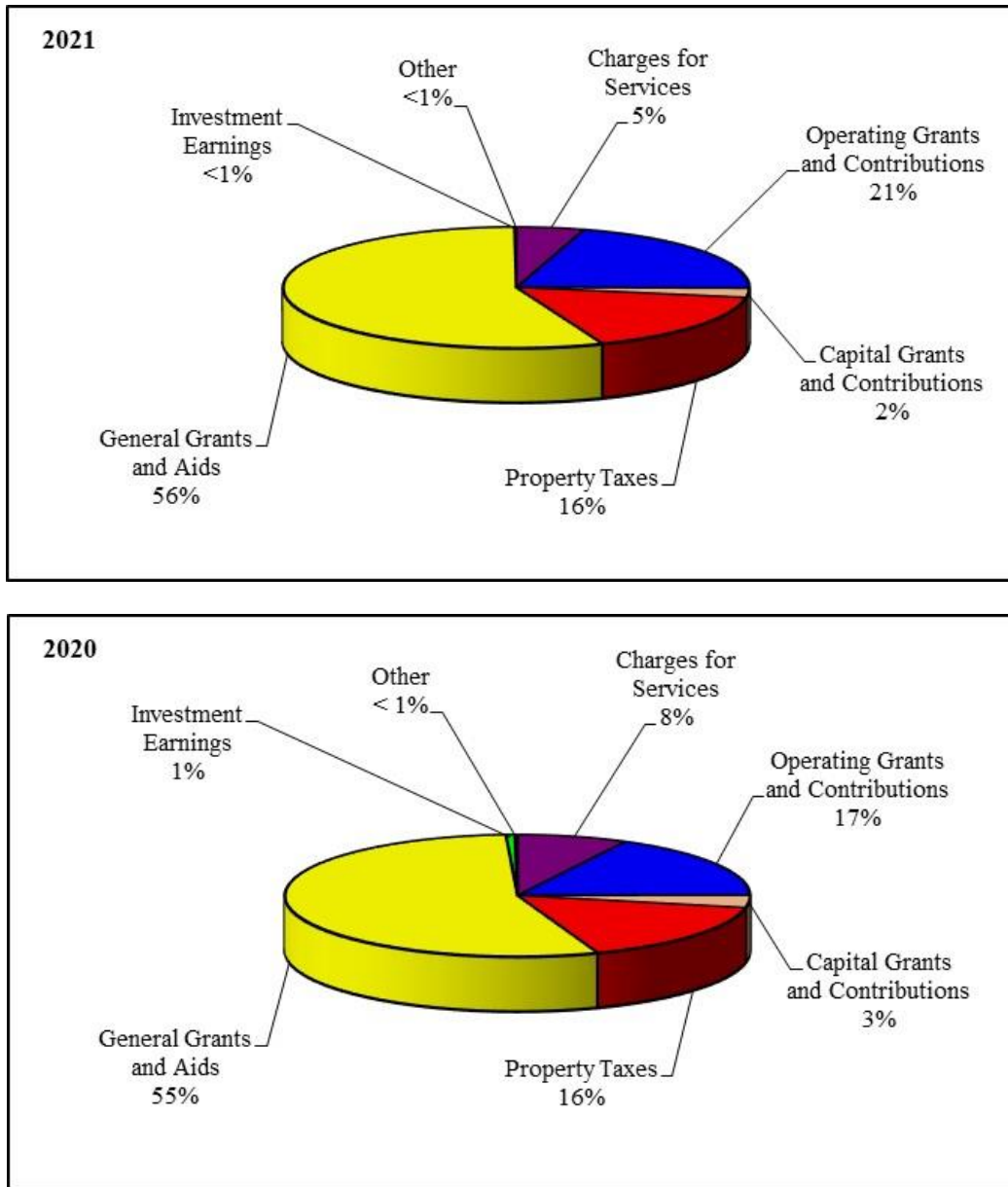
This table is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal.

Governmental activities revenues increased \$2,389,106 (2.7 percent) from the previous year, mainly due to an increase in special education aid entitlement, several new COVID-19-related federal awards, and an increase in the approved property tax levy. Revenue from charges for services decreased \$2,586,594 from last year, due to the impact of COVID-19 restrictions and a change in the District’s food service program to a federally funded program.

Governmental activities expenses were \$282,806 (0.3 percent) higher than last year, as increased instructional costs from new COVID-19-related federal awards and increases in salaries and benefits were offset by decreases in costs from implementing a spending freeze and decreases in capital outlay, food service, and community service expenses.

Figure A shows further analysis of these revenue sources:

Figure A – Sources of Revenues for Fiscal Years 2021 and 2020



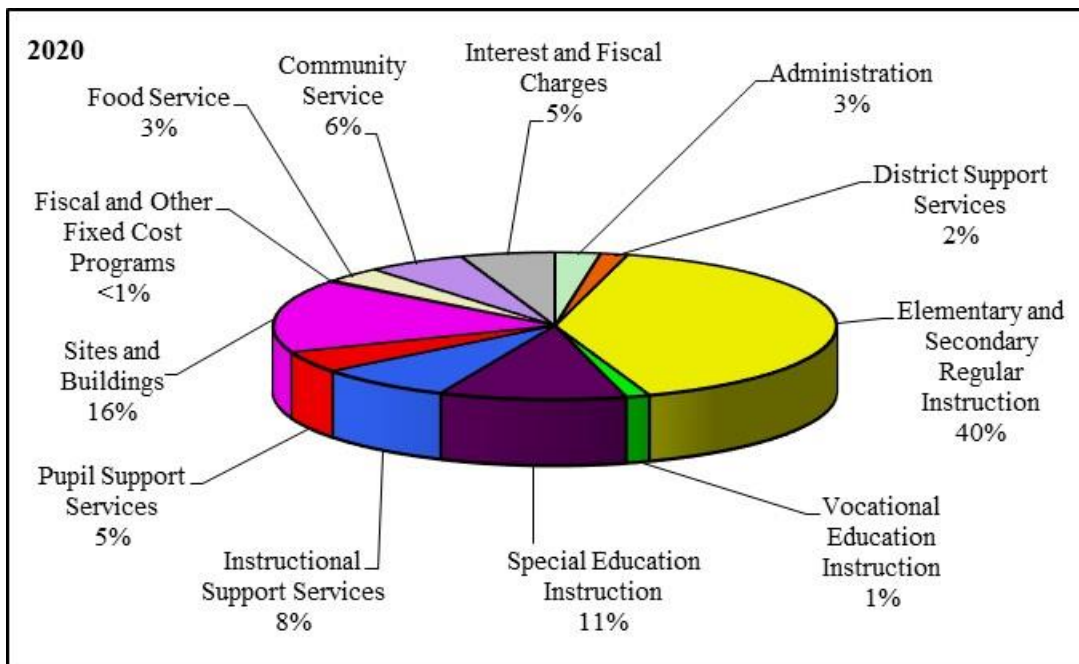
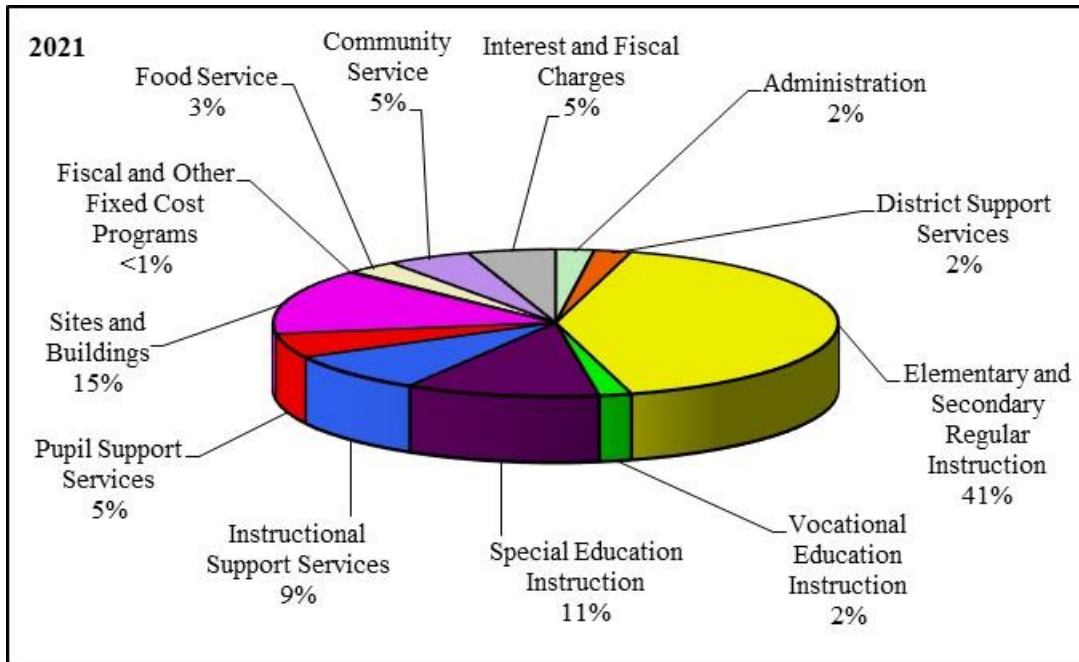
The largest share of the District’s revenue is received from the state, including the general education aid formula and most of the operating grants.

Property taxes are generally the next largest source of funding. The level of revenue property tax sources provide depend not only on district taxpayers by way of operating and building referenda, but also by decisions made by the Legislature in the mix of state aid and local effort in a variety of funding formulas.

General grants and aids increased due to federal funding received in direct response to the COVID-19 pandemic. The decrease in charges for services compared to the prior year, was directly related to the COVID-19 pandemic, which caused the cancellation of activities and/or the District operating under various restrictions due to the COVID-19 pandemic, along with a change in the District’s child nutrition program to where all students received free federally funded meals in fiscal 2021.

Figure B shows further analysis of the expense functions:

Figure B – Expenses for Fiscal Years 2021 and 2020



The District's expenses are predominately related to educating students. Programs (or functions), such as elementary and secondary regular instruction, vocational education instruction, special education instruction, and instructional support services are directly related to classroom instruction, while the rest of the programs support instruction and other necessary costs to operate the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is also reflected in its governmental funds. Table 3 shows the change in total fund balances of each of the District's governmental funds:

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Major funds			
General Fund	\$ 15,383,615	\$ 15,716,778	\$ (333,163)
Debt Service	3,352,958	3,239,216	113,742
Nonmajor funds			
Food Service Special Revenue	821,049	602,046	219,003
Community Service Special Revenue	<u>587,803</u>	<u>1,195,772</u>	<u>(607,969)</u>
 Total governmental funds	 <u><u>\$ 20,145,425</u></u>	 <u><u>\$ 20,753,812</u></u>	 <u><u>\$ (608,387)</u></u>

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance that has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the District's School Board.

At June 30, 2021, the District's governmental funds reported combined fund balances of \$20,145,425. Approximately 49.4 percent of this amount (\$9,954,436) constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of the fund balance is either nonspendable, restricted, or assigned to indicate that it is: 1) not in spendable form (\$146,892), 2) restricted for particular purposes (\$7,924,898), or 3) assigned for particular purposes (\$2,119,199).

Total fund balances decreased \$608,387 from current year operations, mainly due to the planned use of fund balance in the General Fund, and decreased program tuition in the Community Service Special Revenue Fund as a result of the COVID-19 pandemic.

ANALYSIS OF THE GENERAL FUND

Table 4 summarizes the amendments to the General Fund budget:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Change</u>	<u>Percent Change</u>
Revenues	<u>\$ 69,158,908</u>	<u>\$ 68,675,667</u>	<u>\$ (483,241)</u>	<u>(0.7) %</u>
Expenditures	<u>\$ 70,836,697</u>	<u>\$ 72,790,825</u>	<u>\$ 1,954,128</u>	<u>2.8 %</u>

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. During the year, the District amended the budget for known significant changes in circumstances such as: updated enrollment estimates, legislative changes, additional funding received from grants or other local sources, staffing changes, employee contract settlements, insurance premium changes, special education tuition changes, or for new debt issued.

Table 5 summarizes the operating results of the General Fund:

	<u>2021 Actual</u>	<u>Over (Under) Final Budget</u>		<u>Over (Under) Prior Year</u>	
		<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Revenues and other financing sources	\$ 69,701,166	\$ 1,025,499	1.5%	\$ 2,441,693	3.6 %
Expenditures and other financing uses	<u>70,034,329</u>	\$ (2,756,496)	(3.8%)	\$ 1,003,289	1.5 %
Net change in fund balances	<u>\$ (333,163)</u>				

The fund balance of the General Fund decreased \$333,163 from current year operations, compared to a decrease of \$4,115,158 projected in the final budget.

General Fund revenues and other financing sources for 2021 increased \$2,441,693 (3.6 percent) compared to the prior year, and were \$1,025,499 (1.5 percent) over budget. The increase over the prior year was primarily due to funding improvements for special education state aid and new federal awards received related to COVID-19 relief. The variance from budget was primarily in state sources, due to the District budgeting for special education based on 2020 entitlements.

Total General Fund expenditures and other financing uses for 2021 increased \$1,003,289 (1.5 percent) over the prior year, but were \$2,756,496 (3.8 percent) under budget. Expenditure increases were mainly for salaries and benefits, due to contractual wage and benefit increases. The variance from budget was mainly in purchased services, as transportation costs and instructional purchased services declined, due to the District operating under COVID-19 restrictions and a distance learning model for a portion of the year.

COMMENTS ON SIGNIFICANT ACTIVITIES IN OTHER FUNDS

Debt Service Fund

Debt Service Fund revenues exceeded expenditures \$113,742 in the current year, compared to a \$383,467 fund balance decrease anticipated in the budget. The funding of the Debt Service Fund is largely controlled with each individual debt obligation's financing plan. The remaining fund balance of \$3,352,958 at June 30, 2021, is available for meeting future debt service obligations.

Food Service Special Revenue Fund

Food Service Special Revenue Fund revenues exceeded expenditures for the year, increasing fund balance by \$219,003, compared to a planned fund balance decrease of \$764,273. Revenues were over budget by \$519,822, due to program changes as the District operated under the Summer Food Service Program for Children which is federally funded. Expenditures were under budget by \$463,454, due to program changes and reduced meals sales caused by the COVID-19 pandemic.

Community Service Special Revenue Fund

The Community Service Special Revenue Fund ended the year with expenditures exceeding revenues, decreasing equity by \$607,969, compared to a budgeted fund balance decrease of \$1,328,197. The decrease was mainly due to decreases in program fees and tuition as a result of the COVID-19 pandemic.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ended June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>	<u>Change</u>
Land	\$ 13,680,960	\$ 13,680,960	\$ —
Land improvements	1,507,514	1,507,514	—
Building and improvements	211,172,075	211,172,075	—
Furniture and equipment	6,705,815	6,366,963	338,852
Less accumulated depreciation	<u>(91,734,268)</u>	<u>(84,613,248)</u>	<u>(7,121,020)</u>
Total	<u>\$ 141,332,096</u>	<u>\$ 148,114,264</u>	<u>\$ (6,782,168)</u>
Depreciation expense	<u>\$ 7,152,029</u>	<u>\$ 6,712,999</u>	<u>\$ 439,030</u>

By the end of fiscal year 2021, the District had invested in a broad range of capital assets, including school buildings, athletic facilities, and other equipment for various instructional programs (see Table 6).

The District defines capital assets as those with an initial, individual cost of \$5,000 or more.

Additional details about capital assets can be found in Note 3 to the basic financial statements.

Long-Term Liabilities

Table 7 illustrates the components of the District's long-term liabilities with changes from the prior year:

	<u>2021</u>	<u>2020</u>	<u>Change</u>
General obligation bonds payable	\$ 148,085,000	\$ 158,010,000	\$ (9,925,000)
Unamortized premium/discount	8,274,919	9,377,327	(1,102,408)
Capital lease payable	227,721	298,552	(70,831)
Net pension liability	52,209,048	44,210,952	7,998,096
Total OPEB liability	3,274,264	2,889,191	385,073
Compensated absences payable	264,990	278,399	(13,409)
Total	<u>\$ 212,335,942</u>	<u>\$ 215,064,421</u>	<u>\$ (2,728,479)</u>

The decreases in general obligation bonds payable and capital lease payable are due to the scheduled repayment of debt and the amortization of the related premium and discount in the current year.

The difference in the net pension liability reflects the change in the District's proportionate share of the state-wide pension obligations for the PERA and the TRA.

The state limits the amount of general obligation debt the District can issue to 15.0 percent of the market value of all taxable property within the District's corporate limits (see Table 8).

District's market value	\$ 2,507,618,925
Limit rate	<u>15.0%</u>
Legal debt limit	<u><u>\$ 376,142,839</u></u>

Additional details of the District's long-term debt activity can be found in Note 4 to the basic financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of the voter-approved operating referendum, the District is dependent on the state of Minnesota for a majority of its revenue authority.

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. The Legislature has added \$161, or 2.45 percent, per pupil to the basic general education funding formula for fiscal year 2022, and an additional \$135, or 2.00 percent, per pupil to the formula for fiscal year 2023.

The amount of funding a district receives is also dependent on the number of students it serves, meaning attracting and retaining students is critical to the District's financial well-being. The COVID-19 pandemic caused numerous financial and operational challenges for school districts in fiscal 2021, including impacting the number of students districts served, and is expected to continue to have a significant impact in fiscal 2022 and possibly beyond.

The District will strive to maintain its longstanding commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are 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 these statements or need additional financial information, contact the Business Services Department at (763) 497-3180. The address is: Independent School District No. 885, 11343 50th Street Northeast, Albertville, Minnesota 55301.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 885

Statement of Net Position
as of June 30, 2021
(With Partial Comparative Information as of June 30, 2020)

	Governmental Activities	
	2021	2020
Assets		
Cash and temporary investments	\$ 28,097,726	\$ 30,327,812
Receivables		
Current taxes	7,376,661	7,138,771
Delinquent taxes	88,078	59,188
Accounts and interest	132,184	99,116
Due from other governmental units	7,606,003	6,010,272
Inventory	45,628	131,176
Prepaid items	101,264	104,732
Equity interest in joint ventures	505,697	530,334
Capital assets		
Not depreciated	13,680,960	13,680,960
Depreciated, net of accumulated depreciation	127,651,136	134,433,304
Total capital assets, net of accumulated depreciation	<u>141,332,096</u>	<u>148,114,264</u>
Total assets	185,285,337	192,515,665
Deferred outflows of resources		
Bond refunding deferments	2,305,144	2,576,337
OPEB plan deferments	219,637	82,393
Pension plan deferments	25,111,112	37,650,723
Total deferred outflows of resources	<u>27,635,893</u>	<u>40,309,453</u>
Total assets and deferred outflows of resources	<u>\$ 212,921,230</u>	<u>\$ 232,825,118</u>
Liabilities		
Salaries payable	\$ 5,031,135	\$ 4,936,328
Accounts and contracts payable	2,561,982	3,050,235
Accrued interest payable	2,232,027	2,380,231
Due to other governmental units	19,022	156,672
Unearned revenue	448,335	239,127
Long-term liabilities		
Due within one year	11,074,701	10,274,230
Due in more than one year	201,261,241	204,790,191
Total long-term liabilities	<u>212,335,942</u>	<u>215,064,421</u>
Total liabilities	222,628,443	225,827,014
Deferred inflows of resources		
Bond refunding deferments	446,788	549,764
OPEB plan deferments	594,667	686,869
Pension plan deferments	34,324,899	50,568,154
Property taxes levied for subsequent year	15,153,567	14,675,705
Total deferred inflows of resources	<u>50,519,921</u>	<u>66,480,492</u>
Net position		
Net investment in capital assets	(13,397,188)	(17,545,042)
Restricted for		
Capital asset acquisition	1,411,107	677,792
Food service	812,451	593,466
Community service	511,610	1,118,229
Debt service	1,175,613	895,834
Other purposes	1,797,609	1,744,232
Unrestricted	(52,538,336)	(46,966,899)
Total net position	<u>(60,227,134)</u>	<u>(59,482,388)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 212,921,230</u>	<u>\$ 232,825,118</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Statement of Activities
 Year Ended June 30, 2021
 (With Partial Comparative Information for the Year Ended June 30, 2020)

Functions/Programs	2021				2020	2020
	Expenses	Program Revenues		Capital Grants and Contributions	Governmental Activities	Governmental Activities
		Charges for Services	Operating Grants and Contributions			
Governmental activities						
Administration	\$ 2,036,932	\$ -	\$ -	\$ -	\$ (2,036,932)	\$ (2,310,755)
District support services	1,955,703	-	53,854	158,486	(1,743,363)	(1,258,452)
Elementary and secondary regular instruction	38,530,387	1,041,171	1,568,772	549,008	(35,371,436)	(34,006,229)
Vocational education instruction	1,716,276	-	175,128	38,464	(1,502,684)	(1,093,367)
Special education instruction	10,310,624	-	6,259,959	-	(4,050,665)	(5,011,493)
Instructional support services	7,985,448	2,899	909,240	550,384	(6,522,925)	(5,720,648)
Pupil support services	4,977,775	93,429	153,090	-	(4,731,256)	(4,125,875)
Sites and buildings	13,405,387	276,674	-	973,730	(12,154,983)	(12,970,402)
Fiscal and other fixed cost programs	263,111	-	-	-	(263,111)	(263,112)
Food service	2,706,276	89,535	2,834,152	-	217,411	(242,176)
Community service	4,516,010	2,838,304	557,896	-	(1,119,810)	(1,311,740)
Interest and fiscal charges	4,662,084	-	6,440,589	-	1,778,505	911,464
Total governmental activities	\$ 93,066,013	\$ 4,342,012	\$ 18,952,680	\$ 2,270,072	(67,501,249)	(67,402,785)
General revenues						
Taxes						
Property taxes for general purposes					5,478,011	5,321,806
Property taxes for community service					372,316	347,689
Property taxes for debt service					9,190,696	8,889,872
General grants and aids					51,609,598	49,276,444
Other general revenues					21,058	162,579
Investment earnings					84,824	553,349
Total general revenues					<u>66,756,503</u>	<u>64,551,739</u>
Change in net position					(744,746)	(2,851,046)
Net position – beginning					<u>(59,482,388)</u>	<u>(56,631,342)</u>
Net position – ending					<u>\$(60,227,134)</u>	<u>\$(59,482,388)</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Balance Sheet
 Governmental Funds
 as of June 30, 2021
 (With Partial Comparative Information as of June 30, 2020)

	General Fund	Debt Service Fund	Nonmajor Funds
Assets			
Cash and temporary investments	\$ 18,352,121	\$ 7,715,095	\$ 2,030,510
Receivables			
Current taxes	2,680,953	4,550,066	145,642
Delinquent taxes	31,285	54,682	2,111
Accounts and interest	132,184	-	-
Due from other governmental units	6,711,910	651,125	242,968
Inventory	-	-	45,628
Prepaid items	101,264	-	-
	<u>28,009,717</u>	<u>12,970,968</u>	<u>2,466,859</u>
Total assets	<u>\$ 28,009,717</u>	<u>\$ 12,970,968</u>	<u>\$ 2,466,859</u>
Liabilities			
Salaries payable	\$ 4,861,109	\$ -	\$ 170,026
Accounts and contracts payable	2,410,418	-	151,564
Due to other governmental units	19,022	-	-
Unearned revenue	20,640	-	427,695
Total liabilities	<u>7,311,189</u>	<u>-</u>	<u>749,285</u>
Deferred inflows of resources			
Property taxes levied for subsequent year	5,283,628	9,563,328	306,611
Unavailable revenue – delinquent taxes	31,285	54,682	2,111
Total deferred inflows of resources	<u>5,314,913</u>	<u>9,618,010</u>	<u>308,722</u>
Fund balances			
Nonspendable	101,264	-	45,628
Restricted	3,208,716	3,352,958	1,363,224
Assigned	2,119,199	-	-
Unassigned	9,954,436	-	-
Total fund balances	<u>15,383,615</u>	<u>3,352,958</u>	<u>1,408,852</u>
	<u>\$ 28,009,717</u>	<u>\$ 12,970,968</u>	<u>\$ 2,466,859</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 28,009,717</u>	<u>\$ 12,970,968</u>	<u>\$ 2,466,859</u>

Total Governmental Funds	
2021	2020
\$ 28,097,726	\$ 30,327,812
7,376,661	7,138,771
88,078	59,188
132,184	99,116
7,606,003	6,010,272
45,628	131,176
101,264	104,732
<u>\$ 43,447,544</u>	<u>\$ 43,871,067</u>
\$ 5,031,135	\$ 4,936,328
2,561,982	3,050,235
19,022	156,672
448,335	239,127
<u>8,060,474</u>	<u>8,382,362</u>
15,153,567	14,675,705
88,078	59,188
<u>15,241,645</u>	<u>14,734,893</u>
146,892	235,908
7,924,898	7,327,882
2,119,199	2,169,811
9,954,436	11,020,211
<u>20,145,425</u>	<u>20,753,812</u>
<u>\$ 43,447,544</u>	<u>\$ 43,871,067</u>

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INDEPENDENT SCHOOL DISTRICT NO. 885

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of June 30, 2021
(With Partial Comparative Information as of June 30, 2020)

	<u>2021</u>	<u>2020</u>
Total fund balances – governmental funds	\$ 20,145,425	\$ 20,753,812
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Governmental funds do not report an asset for equity interest in joint ventures.	505,697	530,334
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	233,066,364	232,727,512
Accumulated depreciation	(91,734,268)	(84,613,248)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
General obligation bonds payable	(148,085,000)	(158,010,000)
Unamortized premium/discount	(8,274,919)	(9,377,327)
Capital lease payable	(227,721)	(298,552)
Net pension liability	(52,209,048)	(44,210,952)
Total OPEB liability	(3,274,264)	(2,889,191)
Compensated absences payable	(264,990)	(278,399)
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(2,232,027)	(2,380,231)
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows of resources – bond refunding deferments	2,305,144	2,576,337
Deferred outflows of resources – OPEB plan deferments	219,637	82,393
Deferred outflows of resources – pension plan deferments	25,111,112	37,650,723
Deferred inflows of resources – bond refunding deferments	(446,788)	(549,764)
Deferred inflows of resources – OPEB plan deferments	(594,667)	(686,869)
Deferred inflows of resources – pension plan deferments	(34,324,899)	(50,568,154)
Deferred inflows of resources – unavailable revenue – delinquent taxes	88,078	59,188
Total net position – governmental activities	<u>\$ (60,227,134)</u>	<u>\$ (59,482,388)</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Governmental Funds
 Year Ended June 30, 2021
 (With Partial Comparative Information for the Year Ended June 30, 2020)

	General Fund	Debt Service Fund	Nonmajor Funds
Revenue			
Local sources			
Property taxes	\$ 5,467,647	\$ 9,172,863	\$ 371,625
Investment earnings	55,912	22,297	6,615
Other	1,715,869	-	2,934,060
State sources	59,392,357	6,577,610	550,124
Federal sources	3,069,381	-	2,850,682
Total revenue	<u>69,701,166</u>	<u>15,772,770</u>	<u>6,713,106</u>
Expenditures			
Current			
Administration	1,872,678	-	-
District support services	2,076,393	-	-
Elementary and secondary regular instruction	35,296,058	-	-
Vocational education instruction	1,670,952	-	-
Special education instruction	9,709,255	-	-
Instructional support services	7,688,185	-	-
Pupil support services	4,708,197	-	-
Sites and buildings	6,668,218	-	-
Fiscal and other fixed cost programs	263,111	-	-
Food service	-	-	2,691,841
Community service	-	-	4,394,703
Capital outlay	-	-	15,528
Debt service			
Principal	70,831	9,925,000	-
Interest and fiscal charges	10,451	5,734,028	-
Total expenditures	<u>70,034,329</u>	<u>15,659,028</u>	<u>7,102,072</u>
Excess (deficiency) of revenue over expenditures	(333,163)	113,742	(388,966)
Other financing sources (uses)			
Sale of capital assets	-	-	-
Transfers in	-	-	-
Transfers (out)	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(333,163)	113,742	(388,966)
Fund balances			
Beginning of year	<u>15,716,778</u>	<u>3,239,216</u>	<u>1,797,818</u>
End of year	<u>\$ 15,383,615</u>	<u>\$ 3,352,958</u>	<u>\$ 1,408,852</u>

<u>Total Governmental Funds</u>	
<u>2021</u>	<u>2020</u>
\$ 15,012,135	\$ 14,549,904
84,824	553,349
4,649,929	7,980,842
66,520,091	65,223,114
<u>5,920,063</u>	<u>1,596,780</u>
92,187,042	89,903,989
1,872,678	2,244,458
2,076,393	1,382,214
35,296,058	34,074,100
1,670,952	1,229,890
9,709,255	9,217,632
7,688,185	6,736,333
4,708,197	4,846,366
6,668,218	8,450,823
263,111	263,112
2,691,841	3,037,588
4,394,703	5,076,960
15,528	954,875
9,995,831	9,228,436
<u>5,744,479</u>	<u>6,098,422</u>
<u>92,795,429</u>	<u>92,841,209</u>
(608,387)	(2,937,220)
—	438
—	721,314
—	<u>(721,314)</u>
<u>—</u>	<u>438</u>
(608,387)	(2,936,782)
<u>20,753,812</u>	<u>23,690,594</u>
<u>\$ 20,145,425</u>	<u>\$ 20,753,812</u>

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INDEPENDENT SCHOOL DISTRICT NO. 885

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2021

(With Partial Comparative Information for the Year Ended June 30, 2020)

	<u>2021</u>	<u>2020</u>
Total net change in fund balances – governmental funds	\$ (608,387)	\$ (2,936,782)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds do not report income or loss in a joint venture.	(24,637)	(1,805)
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	376,124	1,652,300
Depreciation expense	(7,152,029)	(6,712,999)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.	(6,263)	(82,950)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds payable	9,925,000	9,160,000
Capital lease payable	70,831	68,436
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	148,204	157,452
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	1,102,408	1,102,408
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Net pension liability	(7,998,096)	(2,397,158)
Total OPEB liability	(385,073)	353,307
Compensated absences payable	13,409	28,764
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows of resources – bond refunding deferments	(271,193)	(271,193)
Deferred outflows of resources – OPEB plan deferments	137,244	(15,502)
Deferred outflows of resources – pension plan deferments	(12,539,611)	(14,886,404)
Deferred inflows of resources – bond refunding deferments	102,976	102,976
Deferred inflows of resources – OPEB plan deferments	92,202	(574,641)
Deferred inflows of resources – pension plan deferments	16,243,255	12,393,282
Deferred inflows of resources – unavailable revenue – delinquent taxes	28,890	9,463
Change in net position – governmental activities	<u>\$ (744,746)</u>	<u>\$ (2,851,046)</u>

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INDEPENDENT SCHOOL DISTRICT NO. 885

Statement of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 General Fund
 Year Ended June 30, 2021

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
Revenue				
Local sources				
Property taxes	\$ 5,307,330	\$ 5,375,939	\$ 5,467,647	\$ 91,708
Investment earnings	150,750	200,750	55,912	(144,838)
Other	2,736,994	2,382,509	1,715,869	(666,640)
State sources	60,429,573	57,890,966	59,392,357	1,501,391
Federal sources	534,261	2,825,503	3,069,381	243,878
Total revenue	<u>69,158,908</u>	<u>68,675,667</u>	<u>69,701,166</u>	<u>1,025,499</u>
Expenditures				
Current				
Administration	2,110,443	2,152,642	1,872,678	(279,964)
District support services	1,846,578	2,187,008	2,076,393	(110,615)
Elementary and secondary regular instruction	36,396,671	36,251,084	35,296,058	(955,026)
Vocational education instruction	1,093,388	1,589,953	1,670,952	80,999
Special education instruction	10,223,540	9,837,269	9,709,255	(128,014)
Instructional support services	6,734,837	8,142,207	7,688,185	(454,022)
Pupil support services	5,065,304	5,294,789	4,708,197	(586,592)
Sites and buildings	7,097,836	6,989,473	6,668,218	(321,255)
Fiscal and other fixed cost programs	268,100	265,100	263,111	(1,989)
Debt service				
Principal	–	68,500	70,831	2,331
Interest and fiscal charges	–	12,800	10,451	(2,349)
Total expenditures	<u>70,836,697</u>	<u>72,790,825</u>	<u>70,034,329</u>	<u>(2,756,496)</u>
Excess (deficiency) of revenue over expenditures	<u>\$ (1,677,789)</u>	<u>\$ (4,115,158)</u>	(333,163)	<u>\$ 3,781,995</u>
Fund balances				
Beginning of year			<u>15,716,778</u>	
End of year			<u>\$ 15,383,615</u>	

INDEPENDENT SCHOOL DISTRICT NO. 885

Statement of Fiduciary Net Position
as of June 30, 2021

	<u>Custodial Fund</u>
Assets	
Cash and temporary investments	\$ <u>17,394</u>
Net position	
Restricted for Family Youth Community Connections	<u>\$ 17,394</u>

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2021

	<u>Custodial Fund</u>
Additions	
Contributions	
Miscellaneous	\$ 237,066
Investment earnings	<u>91</u>
Total additions	237,157
Deductions	
Miscellaneous	<u>256,868</u>
Change in net position	(19,711)
Net position	
Beginning of year, as previously reported	<u>37,105</u>
End of year	<u>\$ 17,394</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Notes to Basic Financial Statements as of June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Independent School District No. 885 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

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

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

The District currently participates in two joint ventures, which are a legal district or other organization that results from a contracted agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility.

- 1. Wright Technical Center** – The District entered in to a joint powers agreement in February 1998 with Wright Technical Center (WTC) No. 966, a cooperative center for vocational education, between and among eight other independent school districts to finance the acquisition and betterment of the addition to the existing WTC facilities. The addition was financed through capital lease agreements. Each participating district annually authorizes a lease levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts are also apportioned operating costs and continuing costs for the addition based on the current cost. Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North, Buffalo, Minnesota 55313-1936.
- 2. St. Michael-Albertville Ice Arena** – In 1996–1997, the City of Albertville entered into a joint powers agreement with the City of St. Michael and the District. The agreement was for the construction and maintenance of a qualified ice arena. During 2016, the City of Albertville was notified as being selected as the Mighty Ducks Grant recipient to help fund the cost of the ice arena. The arena was constructed with the grant award and contributions and donations from the City of Albertville, the City of St. Michael, and the District. Separate financial statements can be obtained by contacting the City of Albertville.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. Generally, the effect of material interfund activity has been removed from the government-wide financial statements. Transactions representing interfund services provided and used are not eliminated in the consolidation process to the government-wide financial statements.

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 internally directed revenues are reported instead as general revenues.

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

Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- 2. Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

Fiduciary funds are presented in the fiduciary fund financial statements by type. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

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

Description of Funds

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

Major Governmental Funds

General Fund – The General Fund is the government’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

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

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is used to record financial activities of the District’s child nutrition program.

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

Fiduciary Funds

Custodial Fund – The Custodial Fund is used as a flow through mechanism in which the District receives funds and distributes these funds to an organization, Family Youth Community Connections, with no financial benefit to the District.

E. Budgetary Information

The School Board adopts an annual budget for all governmental funds prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Budgeted appropriations lapse at year-end. Expenditures in the Debt Service Fund exceeded budgeted appropriations by \$125 during the current year. Revenues in excess of budget financed this variance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Cash and Temporary Investments

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

Investments are generally stated at fair value, except for certain investments in external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less may also be reported at amortized cost. Investment income is accrued at the Balance Sheet date.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs. Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the District's recurring fair value measurements as of year-end.

G. Receivables

When necessary, the District utilizes an allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are delinquent property taxes receivable.

At year-end, the District reported the following receivables due from other governmental units:

Due from MDE	\$	7,226,131
Due from other Minnesota school districts		366,027
Due from other governmental units		<u>13,845</u>
Total	\$	<u><u>7,606,003</u></u>

H. Inventories

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

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are recorded as expenditures/expenses at the time of consumption.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes

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

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes \$316,713 of the property tax levy collectible in 2021 as revenue to the District in fiscal year 2020–2021. The remaining portion of the taxes collectible in 2021 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

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

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 (unavailable revenue) in the fund financial statements because it is not known to be available to finance the operations of the District in the current year.

K. Capital Assets

Capital assets that are purchased or constructed by the District are recorded at historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation. The District defines capital assets as those with an initial, individual cost of \$5,000 or more. 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. The District does not possess material amounts of infrastructure capital assets, such as sidewalks or parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

Capital assets are recorded in the government-wide financial statements, but are not reported in the governmental fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and building and land improvements, and 5 to 15 years for furniture and equipment. Land and construction in progress are not depreciated.

L. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts on debt issuances are reported as other financing sources or uses, respectively.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences

Under the terms of collectively bargained contracts, eligible employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for unused, accrued vacation and related benefits to the limit specified in their labor contract or School Board policy upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued when earned in the government-wide financial statements. Compensated absences are accrued in the governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end, due to employee termination or similar circumstances.

N. State-Wide Pension Plans

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

The TRA has a special funding situation created by direct aid contributions made by the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into the TRA in 2006. A second direct aid source is from the state of Minnesota for the merger of the Duluth Teachers Retirement Fund Association in 2015.

O. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, statements of financial position or balance sheets will sometimes report separate sections for deferred outflows or inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) or an inflow of financial resources (revenue) until then.

The District reports deferred outflows and inflows of resources related to bond refunding deferrals in the government-wide Statement of Net Position. A bond refunding deferral results from the difference in the carrying value of refunded debt and its reacquisition price. These amounts are deferred and amortized over the shorter of the life of the refunded or refunding debt.

The District also reports deferred outflows and inflows of resources related to pensions and other post-employment benefits (OPEB) in the government-wide Statement of Net Position. These deferred outflows and inflows result from differences between expected and actual economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings on pension and OPEB Plan investments, changes in proportion, and contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension and OPEB standards.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes levied for subsequent years, which represents property taxes received or reported as a receivable before the period for which the taxes are levied, are reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied, and in the governmental fund financial statements during the year for which they are levied, if available.

Unavailable revenue from property taxes arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available.

P. Use of Estimates

The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts and disclosures in the financial statements during the reporting period. Actual results could differ from those estimates.

Q. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were significant reductions in the District's insurance coverage in the current year. Basic property insurance coverage decreased approximately \$53 million, due to the District's insurer reevaluating the District's insurance needs.

R. Net Position

In the government-wide and internal service fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes, but do not meet the criteria to be classified as restricted or committed. In the governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.
- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

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

When committed, assigned, or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

T. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total, but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

Deposits	\$ 6,153,734
Investments	<u>21,961,386</u>
Total deposits and investments	<u>\$ 28,115,120</u>

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

Statement of Net Position	
Cash and temporary investments	\$ 28,097,726
Statement of Fiduciary Net Position	
Custodial Fund – cash and temporary investments	<u>17,394</u>
Total deposits and investments	<u>\$ 28,115,120</u>

B. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, including checking accounts, savings accounts, and nonnegotiable certificates of deposit.

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

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

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

At year-end, the carrying amount of the District’s deposits was \$6,153,734, while the balance on the bank records was \$6,587,186. At June 30, 2021, all deposits were fully covered by federal deposit insurance, surety bonds, or by collateral held by the District’s agent in the District’s name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Investments

The District has the following investments at year-end:

Deposits/Investments	Credit Risk		Fair Value Measurements Using	Interest Risk – Maturity Duration in Years			Total
	Rating	Agency		Less Than 1	1 to 5	6 to 10	
Negotiable certificates of deposit	Not Rated		Level 2	\$ 1,389,620	\$ 474,129	\$ –	\$ 1,863,749
State and local bonds (G.O. bonds)	AAA	S&P	Level 2	\$ 85,800	\$ –	\$ –	85,800
State and local bonds (G.O. bonds)	AA	S&P	Level 2	\$ 5,303,543	\$ 945,390	\$ –	6,248,933
State and local bonds (G.O. bonds)	A	S&P	Level 2	\$ 211,874	\$ –	\$ –	211,874
State and local bonds (G.O. bonds)	AAA	Moody's	Level 2	\$ 394,887	\$ –	\$ –	394,887
State and local bonds (G.O. bonds)	AA	Moody's	Level 2	\$ 1,346,663	\$ –	\$ –	1,346,663
State and local bonds (G.O. bonds)	A	Moody's	Level 2	\$ 1,578,119	\$ 106,855	\$ –	1,684,974
State and local bonds (G.O. bonds)	Not Rated		Level 2	\$ 100,833	\$ –	\$ –	100,833
Commercial paper	A-1	S&P	Level 2	\$ 6,546,487	\$ –	\$ –	6,546,487
U.S. agency securities	AA	S&P	Level 2	\$ –	\$ 8,014	\$ 496,370	504,384
Investment pools/mutual funds	AAA	S&P	Level 1	N/A	N/A	N/A	2,972,802
Total investments							<u>\$ 21,961,386</u>

N/A – Not Applicable

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – This is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District's investments to 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 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements 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; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. The District's investment policies do not further restrict investing in specific financial instruments.

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District's investment policies do not address concentration risk.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Investments in any one issuer representing 5 percent or more of the District’s portfolio are as follows:

Commercial paper	
Collateralized commercial paper	11.61%
Natixis, NY commercial paper	18.20%
State and local bonds (G.O. bonds)	
Butler, PA	5.54%

Interest Rate Risk – The risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District’s investment policies do not limit the maturities of investments; however, when purchasing investments, the District considers such things as interest rates and cash flow needs.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not depreciated				
Land	\$ 13,680,960	\$ –	\$ –	\$ 13,680,960
Capital assets, depreciated				
Land improvements	1,507,514	–	–	1,507,514
Building and land improvements	211,172,075	–	–	211,172,075
Furniture and equipment	6,366,963	376,124	(37,272)	6,705,815
Total capital assets, depreciated	<u>219,046,552</u>	<u>376,124</u>	<u>(37,272)</u>	<u>219,385,404</u>
Less accumulated depreciation for				
Land improvements	(969,684)	(73,994)	–	(1,043,678)
Building and land improvements	(81,073,130)	(6,444,721)	–	(87,517,851)
Furniture and equipment	(2,570,434)	(633,314)	31,009	(3,172,739)
Total accumulated depreciation	<u>(84,613,248)</u>	<u>(7,152,029)</u>	<u>31,009</u>	<u>(91,734,268)</u>
Net capital assets, depreciated	<u>134,433,304</u>	<u>(6,775,905)</u>	<u>(6,263)</u>	<u>127,651,136</u>
Total capital assets, net	<u>\$ 148,114,264</u>	<u>\$ (6,775,905)</u>	<u>\$ (6,263)</u>	<u>\$ 141,332,096</u>

Depreciation expense was charged to the following governmental functions:

District support services	\$ 12,263
Elementary and secondary regular instruction	80,443
Special education instruction	3,936
Community service	6,040
Instructional support services	111,601
Pupil support services	174,369
Sites and buildings	<u>6,763,377</u>
Total depreciation expense	<u>\$ 7,152,029</u>

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

The District currently has the following general obligation bonds payable outstanding:

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
General obligation bonds payable					
2011A Refunding	11/09/2011	4.250%	\$ 10,295,000	02/01/2032	\$ 10,295,000
2014A School Building Refunding	09/23/2014	2.00–4.00%	\$ 59,275,000	02/01/2030	44,770,000
2015A School Building Refunding	05/07/2015	3.00–4.00%	\$ 17,750,000	02/01/2025	8,135,000
2015B School Building Refunding	11/01/2015	2.00–3.00%	\$ 36,110,000	02/01/2027	22,165,000
2016A School Building Refunding	10/27/2016	3.00–5.00%	\$ 31,335,000	02/01/2030	27,015,000
2017A School Building	04/13/2017	3.20–4.00%	\$ 35,705,000	02/01/2032	35,705,000
Total					<u>\$ 148,085,000</u>

These bonds were issued to finance acquisition, construction, and/or refurbishing of capital facilities, or to finance the retirement (refunding) of prior bond issues. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

B. Capital Lease Payable

On June 18, 2018, the District entered into a lease purchase agreement with Kinetic Leasing for the acquisition of scoreboards. The original capital lease obligation and corresponding equipment capitalized totaled \$617,437. The associated accumulated depreciation for these assets is \$195,522 at year-end, for a net value of \$421,915.

The capital lease agreement includes annual principal and interest payments of \$81,282 for each of the six years of the agreement. In the event that the lessor provides to the escrow agent written notice of the occurrence of an event of default or an event of nonappropriation under the lease, the escrow agent shall thereupon promptly remit to the lessor or any assignee of the lessor the remaining balance of the equipment acquisition fund plus investment income thereon.

C. Other Long-Term Liabilities

The District offers a number of benefits to its employees, including pensions, severance benefits, compensated absences, and OPEB. The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are financed primarily from the General Fund.

District employees participate in two state-wide, cost-sharing, multiple-employer defined benefit pension plans administered by the PERA and the TRA. The following is a summary of the net pension liabilities, deferred outflows and inflows of resources, and pension expense reported for these plans for the current year:

Pension Plans	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERA	\$ 9,077,122	\$ 1,524,521	\$ 360,091	\$ 731,682
TRA	43,131,926	23,586,591	33,964,808	7,606,184
Total	<u>\$ 52,209,048</u>	<u>\$ 25,111,112</u>	<u>\$ 34,324,899</u>	<u>\$ 8,337,866</u>

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

D. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for general obligation bonds and capital leases are as follows:

Year Ending June 30,	General Obligation Bonds		Capital Lease	
	Principal	Interest	Principal	Interest
2022	\$ 10,645,000	\$ 5,377,778	\$ 73,311	\$ 7,971
2023	11,440,000	4,962,928	75,877	5,405
2024	12,310,000	4,530,353	78,533	2,749
2025	12,650,000	4,040,103	–	–
2026	13,385,000	3,575,798	–	–
2027–2031	74,495,000	9,976,413	–	–
2032	13,160,000	474,723	–	–
	<u>\$ 148,085,000</u>	<u>\$ 32,938,096</u>	<u>\$ 227,721</u>	<u>\$ 16,125</u>

E. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
General obligation bonds payable	\$ 158,010,000	\$ –	\$ 9,925,000	\$ 148,085,000	\$ 10,645,000
Unamortized premium/discount	9,377,327	–	1,102,408	8,274,919	–
Net bonds payable	<u>167,387,327</u>	<u>–</u>	<u>11,027,408</u>	<u>156,359,919</u>	<u>10,645,000</u>
Capital lease payable	298,552	–	70,831	227,721	73,311
Net pension liability	44,210,952	11,735,423	3,737,327	52,209,048	–
Total OPEB liability	2,889,191	464,937	79,864	3,274,264	91,400
Compensated absences payable	278,399	408,689	422,098	264,990	264,990
	<u>\$ 215,064,421</u>	<u>\$ 12,609,049</u>	<u>\$ 15,337,528</u>	<u>\$ 212,335,942</u>	<u>\$ 11,074,701</u>

NOTE 5 – FUND BALANCES

The following is a breakdown of equity components of governmental funds, which are defined earlier in the report. When applicable, certain restrictions, which have an accumulated deficit balance at June 30, are included in unassigned fund balance in the District’s financial statements in accordance with accounting principles generally accepted in the United States of America. A description of these deficit balance restrictions is included herein since the District has specific authority to future resources for such deficits.

NOTE 5 – FUND BALANCES (CONTINUED)**A. Classifications**

At June 30, 2021, a summary of the District’s governmental fund balance classifications are as follows:

	General Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable				
Inventory	\$ –	\$ –	\$ 45,628	\$ 45,628
Prepaid items	101,264	–	–	101,264
Total nonspendable	<u>101,264</u>	<u>–</u>	<u>45,628</u>	<u>146,892</u>
Restricted				
Scholarships	23,798	–	–	23,798
Staff development	1,395,174	–	–	1,395,174
Operating capital	683,786	–	–	683,786
Safe schools	107,177	–	–	107,177
Long-term facilities maintenance	727,321	–	–	727,321
Medical Assistance	271,460	–	–	271,460
Debt service	–	3,352,958	–	3,352,958
Food service	–	–	775,421	775,421
Community education programs	–	–	306,023	306,023
Early childhood family education programs	–	–	174,232	174,232
School readiness	–	–	47,218	47,218
Community service	–	–	60,330	60,330
Total restricted	<u>3,208,716</u>	<u>3,352,958</u>	<u>1,363,224</u>	<u>7,924,898</u>
Assigned				
Subsequent year’s budget	1,410,681	–	–	1,410,681
Severance	90,180	–	–	90,180
Teacher retiree insurance	112,103	–	–	112,103
Q-compensation	159,237	–	–	159,237
Insurance claims	50,000	–	–	50,000
Building activity carryover	296,998	–	–	296,998
Total assigned	<u>2,119,199</u>	<u>–</u>	<u>–</u>	<u>2,119,199</u>
Unassigned				
Unassigned	<u>9,954,436</u>	<u>–</u>	<u>–</u>	<u>9,954,436</u>
Total	<u><u>\$ 15,383,615</u></u>	<u><u>\$ 3,352,958</u></u>	<u><u>\$ 1,408,852</u></u>	<u><u>\$ 20,145,425</u></u>

B. Minimum Unassigned Fund Balance Policy

The School Board has formally adopted a fund balance policy regarding the unassigned fund balance for the General Fund. The policy states that the unassigned fund balance should be, at a minimum, 12.0 percent of the total General Fund expenditures. At June 30, 2021, unassigned fund balance in the General Fund represented 14.2 percent of annual expenditures.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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

2. Teachers Retirement Association (TRA)

The 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. The TRA is a separate statutory entity, administered by a Board of Trustees. The Board of Trustees consists of four active members, one retired member, and three statutory officials.

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

B. Benefits Provided

The PERA and the TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statutes and can only be modified by the State Legislature.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. 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.

1. GERF Benefits

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 the 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 Plan 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 Plan members is 1.7 percent 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 age 66.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Benefit increases are provided to benefit recipients each January. The post-retirement increase will be equal to 50.0 percent of the cost of living adjustment (COLA) announced by the Social Security Administration, with a minimum increase of at least 1.0 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase, will receive the full increase. For recipients receiving the annuity or benefit for at least one month, but less than a full year as of the June 30 before the effective date of the increase, will receive a reduced prorated increase. For members retiring on January 1, 2024 or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989). Members retiring under Rule of 90 are exempt from the delay to normal retirement.

2. TRA Benefits

The 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 Statutes 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 the 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

Step-Rate Formula	Percentage per Year
Basic Plan	
First 10 years of service	2.2 %
All years after	2.7 %
Coordinated Plan	
First 10 years if service years are up to July 1, 2006	1.2 %
First 10 years if service years are July 1, 2006 or after	1.4 %
All other years of service if service years are up to July 1, 2006	1.7 %
All other years of service if service years are up to July 1, 2006 or after	1.9 %

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) Three percent per year early retirement reduction factor for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule of 90 (age plus allowable service equals 90 or more).

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Tier II Benefits

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

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

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

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

C. Contributions

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2021 and the District was required to contribute 7.5 percent for Coordinated Plan members. The District’s contributions to the GERF for the year ended June 30, 2021, were \$793,826. The District’s contributions were equal to the required contributions as set by state statutes.

2. TRA Contributions

Minnesota Statutes, Chapter 354 sets the rates for employer and employee contributions. Rates for each fiscal year were:

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

The District’s contributions to the TRA for the plan’s fiscal year ended June 30, 2021, were \$2,907,235. The District’s contributions were equal to the required contributions for each year as set by state statutes.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

The following is a reconciliation of employer contributions in the TRA’s Comprehensive Annual Financial Report Statement of Changes in Fiduciary Net Position to the employer contributions used in the Schedule of Employer and Nonemployer Pension Allocations:

	<i>in thousands</i>
Employer contributions reported in the TRA’s Comprehensive Annual Financial Report Statement of Changes in Fiduciary Net Position	\$ 425,223
Add employer contributions not related to future contribution efforts	(56)
Deduct the TRA’s contributions not included in allocation	<u>(508)</u>
Total employer contributions	424,659
Total nonemployer contributions	<u>35,587</u>
Total contributions reported in the Schedule of Employer and Nonemployer Pension Allocations	<u>\$ 460,246</u>

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

D. Pension Costs

1. GERF Pension Costs

At June 30, 2021, the District reported a liability of \$9,077,122 for its proportionate share of the General Employees Fund’s net pension liability. The District’s net pension liability reflected a reduction due to the state of Minnesota’s contribution of \$16 million. The state of Minnesota is considered a nonemployer 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 \$279,962. 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 proportionate share of the net pension liability was based on the District’s contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019 through June 30, 2020, relative to the total employer contributions received from all of PERA’s participating employers. The District’s proportionate share was 0.1514 percent at the end of the measurement period and 0.1447 percent for the beginning of the period.

District’s proportionate share of the net pension liability	\$ 9,077,122
State’s proportionate share of the net pension liability associated with the District	\$ 279,962

For the year ended June 30, 2021, the District recognized pension expense of \$707,317 for its proportionate share of the GERF’s pension expense. In addition, the District recognized \$24,365 as grant revenue for its proportionate share of the state of Minnesota’s pension expense for the annual \$16 million contribution.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

At June 30, 2021, the District reported its proportionate share of the GERF’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 79,019	\$ 34,344
Changes in actuarial assumptions	–	325,747
Net collective difference between projected and actual investment earnings	216,543	–
Changes in proportion	435,133	–
District’s contributions to the GERF subsequent to the measurement date	<u>793,826</u>	<u>–</u>
Total	<u>\$ 1,524,521</u>	<u>\$ 360,091</u>

The \$793,826 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 ending June 30, 2022. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2022	\$ (258,924)
2023	\$ 145,635
2024	\$ 264,588
2025	\$ 219,305

2. TRA Pension Costs

At June 30, 2021, the District reported a liability of \$43,131,926 for its proportionate share of the 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 the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District’s proportionate share was 0.5838 percent at the end of the measurement period and 0.5681 percent for the beginning of the period.

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

District’s proportionate share of the net pension liability	\$ 43,131,926
State’s proportionate share of the net pension liability associated with the District	\$ 3,614,442

For the year ended June 30, 2021, the District recognized pension expense of \$7,275,077. It also recognized \$331,107 as an increase to pension expense for the support provided by direct aid.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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	\$ 864,970	\$ 608,503
Changes in actuarial assumptions	13,333,070	33,356,305
Net difference between projected and actual investment earnings on pension plan investments	928,970	–
Changes in proportion	5,552,346	–
District’s contributions to the TRA subsequent to the measurement date	2,907,235	–
Total	\$ 23,586,591	\$ 33,964,808

A total of \$2,907,235 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2022. Other deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2022	\$ 2,053,842
2023	\$ (10,016,529)
2024	\$ (7,090,794)
2025	\$ 1,421,757
2026	\$ 346,272

E. Actuarial Assumptions

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

Assumptions	GERF	TRA
Inflation	2.25%	2.50%
Wage growth rate		2.85% before July 1, 2028, and 3.25% thereafter
Projected salary increase	3.00%	
Active member payroll growth		2.85% to 8.85% before July 1, 2028, and 3.25% to 9.25% thereafter
Investment rate of return	7.50%	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on Pub-2010 General Employee Mortality Table for the GERF Plan and the RP-2014 tables for the TRA for males and females, as appropriate, with slight adjustments to fit the PERA’s experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25 percent per year for the GERF and 1.00 percent for January 2020 through January 2023, then increasing by 0.10 percent each year, up to 1.50 percent annually for the TRA.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Actuarial assumptions used in the June 30, 2020 valuations were based on the results of actuarial experience studies. The most recent four-year experience study in the GERP plan was completed in 2020. Economic assumptions were updated in 2019, based on a review of inflation and investment return assumptions. The most recent experience study in the TRA plan was completed in 2015, with economic assumptions updated in 2017.

The following changes in actuarial assumptions and plan provisions occurred in 2020:

1. GERP

CHANGES IN ACTUARIAL ASSUMPTIONS

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- 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 percent 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 two through five, 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 MP-2018 to 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 100.00 percent joint and survivor option changed from 35.00 percent to 45.00 percent. The assumed number of married female new retirees electing the 100.00 percent joint and survivor option changed from 15.00 percent to 30.00 percent. The corresponding number of married new retirees electing the life annuity option was adjusted accordingly.

CHANGES IN PLAN PROVISIONS

- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020 through December 31, 2023, and zero percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2. TRA

CHANGES IN ACTUARIAL ASSUMPTIONS

- Employer contribution rate increased from 7.92 percent to 8.13 percent in July 2020.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	35.50 %	5.10 %
Private markets	25.00	5.90 %
Fixed income	20.00	0.75 %
International equity	17.50	5.30 %
Cash equivalents	2.00	– %
Total	100.00 %	

F. Discount Rate

1. GERF

The discount rate used to measure the total pension liability in 2020 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF 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.

2. TRA

The discount rate used to measure the total pension liability was 7.50 percent. There was no change since the prior measurement. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 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 those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
District’s proportionate share of the GERF net pension liability	\$ 14,547,478	\$ 9,077,122	\$ 4,564,518
TRA discount rate	6.50%	7.50%	8.50%
District’s proportionate share of the TRA net pension liability	\$ 66,034,523	\$ 43,131,926	\$ 24,261,344

H. Pension Plan Fiduciary Net Position

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

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

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through the OPEB Plan, a single-employer defined benefit plan administered by the District. Management of the plan is vested with the School Board of the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a separate financial report. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

B. Benefits Provided

All retirees of the District upon retirement have the option under state law to continue their medical insurance coverage through the District. For members of certain employee groups, the District pays for all or part of the eligible retiree’s premiums for medical and/or dental insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Benefits paid by the District differ by bargaining unit and date of hire, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these district-paid premium benefits must pay the full district premium rate for their coverage.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees until the retiree reaches Medicare eligibility, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an “implicit rate subsidy.” This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District’s younger and statistically healthier active employees.

C. Contributions

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined periodically by the District. The District’s contributions in the current year totaled \$91,400 as required on a pay-as-you-go basis to finance current year benefits as described in the previous section.

D. Membership

Membership in the plan consisted of the following as of the most recent actuarial valuation:

Retirees and beneficiaries receiving benefits	11
Active plan members electing coverage	510
Active plan members waiving coverage	<u>231</u>
Total members	<u><u>752</u></u>

E. Total OPEB Liability of the District

The District’s total OPEB liability of \$3,274,264 was measured as of June 30, 2020, and was determined by an actuarial valuation as of June 30, 2019.

F. Actuarial Method and Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2020, using the entry-age method, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	2.45%
20-year municipal bond yield	2.45%
Inflation rate	2.50%
Healthcare trend rate	6.40%, grading to 4.00%

Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-year municipal bond yield.

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale for teachers, and RP-2014 White Collar Mortality Tables with MP-2018 Generational Improvement Scale for nonteachers.

The actuarial assumptions used in the latest valuation were based on those used to value pension liabilities for Minnesota school district employees. The state pension plans base their assumptions on periodic experience studies.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

Economic assumptions are based on input from a variety of published sources of historical and projected future financial data. Each assumption was reviewed for reasonableness with the source information, as well as for consistency with the other economic assumptions.

Assumption changes since the prior measurement date include the following:

- The discount rate changed from 3.13 percent to 2.45 percent.
- The index rate for 20-year, tax-exempt municipal bonds used in the discount rate determination changed from 3.13 percent to 2.45 percent.

G. Changes in the Net OPEB Liability

	<u>Total OPEB Liability</u>
Beginning balance	\$ 2,889,191
Changes for the year	
Service cost	226,393
Interest	96,268
Assumption changes	142,276
Benefit payments	<u>(79,864)</u>
Total net changes	<u>385,073</u>
Ending balance	<u>\$ 3,274,264</u>

H. Total OPEB Liability Sensitivity to Discount and Healthcare Cost Trend Rate Changes

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 or 1 percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
OPEB discount rate	1.45%	2.45%	3.45%
Total OPEB liability	\$ 3,486,029	\$ 3,274,264	\$ 3,065,801

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

	<u>1% Decrease in Healthcare Trend Rate</u>	<u>Healthcare Trend Rate</u>	<u>1% Increase in Healthcare Trend Rate</u>
Healthcare trend rate	5.40%, grading to 3.00%	6.40%, grading to 4.00%	7.40%, grading to 5.00%
Total OPEB liability	\$ 2,948,602	\$ 3,274,264	\$ 3,664,262

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

I. OPEB Expense and Related Deferred Outflows of Resources and Deferred Inflows of Resources

For the current year ended, the District recognized OPEB expense of \$247,027. As of year-end, 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
Differences between expected and actual economic experience	\$ 2,203	\$ –
Changes in actuarial assumptions	126,034	594,667
District’s contributions subsequent to the measurement date	91,400	–
Total	<u>\$ 219,637</u>	<u>\$ 594,667</u>

A total of \$91,400 reported as deferred outflows of resources, related to OPEB resulting from district contributions subsequent to the measurement date, will be recognized as a reduction of the total OPEB liability in the year ending June 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized as follows:

Year Ending June 30,	OPEB Expense Amount
2022	\$ (75,634)
2023	\$ (75,634)
2024	\$ (75,634)
2025	\$ (75,634)
2026	\$ (74,027)
Thereafter	\$ (89,867)

NOTE 8 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Revenues

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

B. Legal Claims

The District has the usual and customary types of miscellaneous legal claims pending at year-end, mostly of a minor nature and usually covered by insurance carried for that purpose. Although the outcomes of these claims are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

NOTE 9 – SUBSEQUENT EVENTS

A. Bond Sale

In November 2021, the District authorized the sale of \$10,325,000 of General Obligation Refunding Bonds, Series 2021A, which will bear an interest rate of 2.0 percent and have a final maturity of February 2032. The bonds will be used to refund the 2023 through 2032 maturities of the 2011A Refunding Bonds.

B. Withdrawal From the Sherburne and Northern Wright Special Education Cooperative

In July 2021, the District withdrew from the Sherburne and Northern Wright Special Education Cooperative.

C. COVID-19

The COVID-19 pandemic caused numerous financial and operational challenges for school districts in fiscal 2021, and is expected to continue to have a significant impact for fiscal 2022 and possibly beyond. Any potential impact it may have on the District's future operations and financial condition cannot be determined at this time and has not been reflected in these financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 885

Public Employees Retirement Association Pension Benefits Plan
 Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
 Year Ended June 30, 2021

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.1414%	\$ 6,642,264	\$ -	\$ 6,642,264	\$ 7,425,490	89.45%	78.70%
06/30/2016	06/30/2015	0.1321%	\$ 6,846,108	\$ -	\$ 6,846,108	\$ 7,637,560	89.64%	78.20%
06/30/2017	06/30/2016	0.1310%	\$ 10,636,550	\$ 138,906	\$ 10,775,456	\$ 8,120,427	130.99%	68.90%
06/30/2018	06/30/2017	0.1375%	\$ 8,777,909	\$ 110,368	\$ 8,888,277	\$ 8,857,493	99.10%	75.90%
06/30/2019	06/30/2018	0.1411%	\$ 7,827,649	\$ 256,711	\$ 8,084,360	\$ 9,483,693	82.54%	79.50%
06/30/2020	06/30/2019	0.1447%	\$ 8,000,139	\$ 248,656	\$ 8,248,795	\$ 10,171,093	78.66%	80.20%
06/30/2021	06/30/2020	0.1514%	\$ 9,077,122	\$ 279,962	\$ 9,357,084	\$ 10,795,877	84.08%	79.10%

Public Employees Retirement Association Pension Benefits Plan
 Schedule of District Contributions
 Year Ended June 30, 2021

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	\$ 572,817	\$ 572,817	\$ -	\$ 7,637,560	7.50%
06/30/2016	\$ 609,032	\$ 609,032	\$ -	\$ 8,120,427	7.50%
06/30/2017	\$ 664,312	\$ 664,312	\$ -	\$ 8,857,493	7.50%
06/30/2018	\$ 711,277	\$ 711,277	\$ -	\$ 9,483,693	7.50%
06/30/2019	\$ 762,832	\$ 762,832	\$ -	\$ 10,171,093	7.50%
06/30/2020	\$ 809,736	\$ 809,736	\$ -	\$ 10,795,877	7.50%
06/30/2021	\$ 793,826	\$ 793,826	\$ -	\$ 10,593,287	7.49%

Note: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 885

Teachers Retirement Association Pension Benefits Plan
 Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
 Year Ended June 30, 2021

District Fiscal Year-End	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.5026%	\$ 23,159,446	\$ 1,629,366	\$ 24,788,812	\$ 22,941,050	100.95%	81.50%
06/30/2016	06/30/2015	0.4860%	\$ 30,063,907	\$ 3,687,540	\$ 33,751,447	\$ 24,666,013	121.88%	76.80%
06/30/2017	06/30/2016	0.5028%	\$ 119,929,797	\$ 12,038,519	\$ 131,968,316	\$ 26,154,600	458.54%	44.88%
06/30/2018	06/30/2017	0.5229%	\$ 104,380,325	\$ 10,089,283	\$ 114,469,608	\$ 28,150,627	370.79%	51.57%
06/30/2019	06/30/2018	0.5411%	\$ 33,986,145	\$ 3,192,897	\$ 37,179,042	\$ 29,897,920	113.67%	78.07%
06/30/2020	06/30/2019	0.5681%	\$ 36,210,813	\$ 3,204,677	\$ 39,415,490	\$ 32,686,900	110.78%	78.21%
06/30/2021	06/30/2020	0.5838%	\$ 43,131,926	\$ 3,614,442	\$ 46,746,368	\$ 33,925,653	127.14%	75.48%

Teachers Retirement Association Pension Benefits Plan
 Schedule of District Contributions
 Year Ended June 30, 2021

District Fiscal Year-End	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	\$ 1,849,951	\$ 1,849,951	\$ -	\$ 24,666,013	7.50%
06/30/2016	\$ 1,961,595	\$ 1,961,595	\$ -	\$ 26,154,600	7.50%
06/30/2017	\$ 2,111,297	\$ 2,111,297	\$ -	\$ 28,150,627	7.50%
06/30/2018	\$ 2,242,344	\$ 2,242,344	\$ -	\$ 29,897,920	7.50%
06/30/2019	\$ 2,520,160	\$ 2,520,160	\$ -	\$ 32,686,900	7.71%
06/30/2020	\$ 2,686,725	\$ 2,686,725	\$ -	\$ 33,925,653	7.92%
06/30/2021	\$ 2,907,235	\$ 2,907,235	\$ -	\$ 35,778,129	8.13%

Note: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 885

Other Post-Employment Benefits Plan
 Schedule of Changes in the District's Total
 OPEB Liability and Related Ratios
 Year Ended June 30, 2021

	Fiscal Year Ended June 30,			
	2018	2019	2020	2021
Measurement date	06/30/2017	06/30/2018	06/30/2019	06/30/2020
Total OPEB liability				
Service cost	\$ 254,534	\$ 246,437	\$ 259,402	\$ 226,393
Interest	89,139	112,995	125,427	96,268
Assumption changes	(130,063)	(12,873)	(666,843)	142,276
Differences between expected and actual experience	–	–	2,855	–
Benefit payments	(105,095)	(63,297)	(74,148)	(79,864)
Net change in total OPEB liability	108,515	283,262	(353,307)	385,073
Total OPEB liability – beginning of year	2,850,721	2,959,236	3,242,498	2,889,191
Total OPEB liability – end of year	\$ 2,959,236	\$ 3,242,498	\$ 2,889,191	\$ 3,274,264
Covered-employee payroll	\$ 35,685,444	\$ 40,435,421	\$ 41,042,752	\$ 41,683,887
Total OPEB liability as a percentage of covered-employee payroll	8.29%	8.02%	7.04%	7.85%

Note 1: The District has not established a trust fund to finance GASB Statement No. 75-related benefits.

Note 2: The District implemented GASB Statement No. 75 for the year ended June 30, 2018. The schedules within the RSI section require a 10-year presentation. Additional years will be presented as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 885

Notes to Required Supplementary Information
June 30, 2021

PERA – GENERAL EMPLOYEES RETIREMENT FUND

2020 CHANGES IN ACTUARIAL ASSUMPTIONS

- The price inflation assumption was decreased from 2.50 percent to 2.25 percent.
- The payroll growth assumption was decreased from 3.25 percent to 3.00 percent.
- 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 percent 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 two through five, 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 MP-2018 to 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 100.00 percent joint and survivor option changed from 35.00 percent to 45.00 percent. The assumed number of married female new retirees electing the 100.00 percent joint and survivor option changed from 15.00 percent to 30.00 percent. The corresponding number of married new retirees electing the life annuity option was adjusted accordingly.

2020 CHANGES IN PLAN PROVISIONS

- Augmentation for current privatized members was reduced to 2.00 percent for the period July 1, 2020 through December 31, 2023, and zero percent thereafter. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 CHANGES IN PLAN PROVISIONS

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

2019 CHANGES IN ACTUARIAL ASSUMPTIONS

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

INDEPENDENT SCHOOL DISTRICT NO. 885

Notes to Required Supplementary Information (continued)
June 30, 2021

PERA – GENERAL EMPLOYEES RETIREMENT FUND (CONTINUED)

2018 CHANGES IN PLAN PROVISIONS

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to zero percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year, with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio, to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

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

2017 CHANGES IN PLAN PROVISIONS

- The state's contribution for the Minneapolis Employees Retirement Fund equals \$16.0 million in 2017 and 2018, and \$6.0 million thereafter.
- The Employer Supplemental Contribution for the Minneapolis Employees Retirement Fund changed from \$21.0 million to \$31.0 million in calendar years 2019 to 2031. The state's contribution changed from \$16.0 million to \$6.0 million in calendar years 2019 to 2031.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and nonvested deferred members. The revised CSA loads are now zero percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for nonvested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years, to 1.00 percent per year through 2044, and 2.50 percent per year thereafter.

INDEPENDENT SCHOOL DISTRICT NO. 885

Notes to Required Supplementary Information (continued)
June 30, 2021

PERA – GENERAL EMPLOYEES RETIREMENT FUND (CONTINUED)

2016 CHANGES IN ACTUARIAL ASSUMPTIONS

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

2015 CHANGES IN PLAN PROVISIONS

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Retirement Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892.0 million. Upon consolidation, state and employer contributions were revised; the state's contribution of \$6.0 million, which meets the special funding situation definition, was due September 2015.

2015 CHANGES IN ACTUARIAL ASSUMPTIONS

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

INDEPENDENT SCHOOL DISTRICT NO. 885

Notes to Required Supplementary Information (continued)
June 30, 2021

TEACHERS RETIREMENT ASSOCIATION (TRA)

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The cost of living adjustment (COLA) was reduced from 2.00 percent each January 1 to 1.00 percent, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.10 percent each year until reaching the ultimate rate of 1.50 percent on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit, are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.50 percent if the funded ratio was at least 90.00 percent 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 4.00 percent to 3.00 percent, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.50 percent to 7.50 percent, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years, (7.71 percent in 2018, 7.92 percent in 2019, 8.13 percent in 2020, 8.34 percent in 2021, 8.55 percent in 2022, and 8.75 percent in 2023). In addition, the employee contribution rate will increase from 7.50 percent to 7.75 percent on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.
- The single discount rate changed from 5.12 percent to 7.50 percent.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

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

INDEPENDENT SCHOOL DISTRICT NO. 885

Notes to Required Supplementary Information (continued)
June 30, 2021

TEACHERS RETIREMENT ASSOCIATION (TRA) (CONTINUED)

2016 CHANGES IN ACTUARIAL ASSUMPTIONS

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

2015 CHANGES IN PLAN PROVISIONS

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

2015 CHANGES IN ACTUARIAL ASSUMPTIONS

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

INDEPENDENT SCHOOL DISTRICT NO. 885

Notes to Required Supplementary Information (continued)
June 30, 2021

OTHER POST-EMPLOYMENT BENEFITS PLAN

2020 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate was changed from 3.13 percent to 2.45 percent.
- The index rate for 20-year, tax-exempt municipal bonds used in the discount rate determination changed from 3.13 percent to 2.45 percent.

2019 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate changed from 3.62 percent to 3.13 percent.
- The index rate for 20-year, tax-exempt municipal bonds used in the discount rate determination changed from 3.62 percent to 3.13 percent.

2018 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate changed from 2.92 percent to 3.62 percent.
- The index rate for 20-year, tax-exempt municipal bonds used in the discount rate determination changed from 2.92 percent to 3.62 percent.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS

- The discount rate was changed to 2.92 percent.
- The index rate for 20-year, tax-exempt municipal bonds used in the discount rate determination was changed to 2.92 percent.

SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 885

Nonmajor Governmental Funds
 Combining Balance Sheet
 as of June 30, 2021

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Food Service</u>	<u>Community Service</u>	
Assets			
Cash and temporary investments	\$ 887,325	\$ 1,143,185	\$ 2,030,510
Receivables			
Current taxes	–	145,642	145,642
Delinquent taxes	–	2,111	2,111
Due from other governmental units	170,408	72,560	242,968
Inventory	45,628	–	45,628
	<u>45,628</u>	<u>–</u>	<u>45,628</u>
Total assets	<u>\$ 1,103,361</u>	<u>\$ 1,363,498</u>	<u>\$ 2,466,859</u>
Liabilities			
Salaries payable	\$ 6,923	\$ 163,103	\$ 170,026
Accounts and contracts payable	80,474	71,090	151,564
Unearned revenue	194,915	232,780	427,695
Total liabilities	<u>282,312</u>	<u>466,973</u>	<u>749,285</u>
Deferred inflows of resources			
Property taxes levied for subsequent year	–	306,611	306,611
Unavailable revenue – delinquent taxes	–	2,111	2,111
Total deferred inflows of resources	<u>–</u>	<u>308,722</u>	<u>308,722</u>
Fund balances			
Nonspendable	45,628	–	45,628
Restricted	775,421	587,803	1,363,224
Total fund balances	<u>821,049</u>	<u>587,803</u>	<u>1,408,852</u>
	<u>\$ 1,103,361</u>	<u>\$ 1,363,498</u>	<u>\$ 2,466,859</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,103,361</u>	<u>\$ 1,363,498</u>	<u>\$ 2,466,859</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Nonmajor Governmental Funds
 Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
 Year Ended June 30, 2021

	Special Revenue Funds		Total
	Food Service	Community Service	
Revenue			
Local sources			
Property taxes	\$ -	\$ 371,625	\$ 371,625
Investment earnings	1,832	4,783	6,615
Other	92,091	2,841,969	2,934,060
State sources	475	549,649	550,124
Federal sources	2,831,121	19,561	2,850,682
Total revenue	<u>2,925,519</u>	<u>3,787,587</u>	<u>6,713,106</u>
Expenditures			
Current			
Food service	2,691,841	-	2,691,841
Community service	-	4,394,703	4,394,703
Capital outlay	14,675	853	15,528
Total expenditures	<u>2,706,516</u>	<u>4,395,556</u>	<u>7,102,072</u>
Net change in fund balances	219,003	(607,969)	(388,966)
Fund balances			
Beginning of year	<u>602,046</u>	<u>1,195,772</u>	<u>1,797,818</u>
End of year	<u>\$ 821,049</u>	<u>\$ 587,803</u>	<u>\$ 1,408,852</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

General Fund
Comparative Balance Sheet
as of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and temporary investments	\$ 18,352,121	\$ 20,617,140
Receivables		
Current taxes	2,680,953	2,573,275
Delinquent taxes	31,285	20,920
Accounts and interest	132,184	99,116
Due from other governmental units	6,711,910	5,287,918
Prepaid items	<u>101,264</u>	<u>104,732</u>
Total assets	<u>\$ 28,009,717</u>	<u>\$ 28,703,101</u>
Liabilities		
Salaries payable	\$ 4,861,109	\$ 4,758,128
Accounts and contracts payable	2,410,418	2,968,587
Due to other governmental units	19,022	137,975
Unearned revenue	<u>20,640</u>	<u>—</u>
Total liabilities	<u>7,311,189</u>	<u>7,864,690</u>
Deferred inflows of resources		
Property taxes levied for subsequent year	5,283,628	5,100,713
Unavailable revenue – delinquent taxes	<u>31,285</u>	<u>20,920</u>
Total deferred inflows of resources	<u>5,314,913</u>	<u>5,121,633</u>
Fund balances		
Nonspendable for prepaid items	101,264	104,732
Restricted for scholarships	23,798	25,528
Restricted for staff development	1,395,174	1,312,325
Restricted for operating capital	683,786	520,982
Restricted for safe schools	107,177	727
Restricted for long-term facilities maintenance	727,321	156,810
Restricted for Medical Assistance	271,460	405,652
Assigned for subsequent year's budget	1,410,681	1,669,789
Assigned for severance	90,180	—
Assigned for teacher retiree insurance	112,103	42,250
Assigned for Q-compensation	159,237	149,299
Assigned for insurance claims	50,000	50,000
Assigned for building activity carryover	296,998	258,473
Unassigned	<u>9,954,436</u>	<u>11,020,211</u>
Total fund balances	<u>15,383,615</u>	<u>15,716,778</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 28,009,717</u>	<u>\$ 28,703,101</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended June 30, 2021
 (With Comparative Actual Amounts for the Year Ended June 30, 2020)

	2021		Over (Under) Budget	2020
	Budget	Actual		Actual
Revenue				
Local sources				
Property taxes	\$ 5,375,939	\$ 5,467,647	\$ 91,708	\$ 5,317,956
Investment earnings	200,750	55,912	(144,838)	357,769
Other	2,382,509	1,715,869	(666,640)	2,592,133
State sources	57,890,966	59,392,357	1,501,391	58,516,657
Federal sources	2,825,503	3,069,381	243,878	462,995
Total revenue	<u>68,675,667</u>	<u>69,701,166</u>	<u>1,025,499</u>	<u>67,247,510</u>
Expenditures				
Current				
Administration				
Salaries	1,300,904	1,231,848	(69,056)	1,357,864
Employee benefits	549,820	421,451	(128,369)	533,048
Purchased services	168,144	114,454	(53,690)	99,639
Supplies and materials	84,375	49,388	(34,987)	75,273
Capital expenditures	4,000	4,950	950	135,889
Other expenditures	45,399	50,587	5,188	42,745
Total administration	<u>2,152,642</u>	<u>1,872,678</u>	<u>(279,964)</u>	<u>2,244,458</u>
District support services				
Salaries	972,989	1,004,597	31,608	792,161
Employee benefits	315,628	300,311	(15,317)	262,959
Purchased services	442,414	481,720	39,306	246,259
Supplies and materials	141,200	103,454	(37,746)	60,002
Capital expenditures	227,177	154,177	(73,000)	–
Other expenditures	87,600	32,134	(55,466)	20,833
Total district support services	<u>2,187,008</u>	<u>2,076,393</u>	<u>(110,615)</u>	<u>1,382,214</u>
Elementary and secondary regular instruction				
Salaries	25,407,793	25,589,573	181,780	24,419,782
Employee benefits	8,024,514	7,781,449	(243,065)	7,368,627
Purchased services	1,087,740	550,188	(537,552)	838,919
Supplies and materials	1,313,814	943,806	(370,008)	1,145,530
Capital expenditures	247,378	250,268	2,890	130,657
Other expenditures	169,845	180,774	10,929	170,585
Total elementary and secondary regular instruction	<u>36,251,084</u>	<u>35,296,058</u>	<u>(955,026)</u>	<u>34,074,100</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended June 30, 2021
 (With Comparative Actual Amounts for the Year Ended June 30, 2020)

	2021		Over (Under) Budget	2020
	Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	896,356	875,128	(21,228)	627,510
Employee benefits	265,590	286,053	20,463	190,577
Purchased services	426,007	474,980	48,973	379,050
Supplies and materials	—	32,562	32,562	30,772
Other expenditures	2,000	2,229	229	1,981
Total vocational education instruction	1,589,953	1,670,952	80,999	1,229,890
Special education instruction				
Salaries	7,050,171	7,040,798	(9,373)	6,658,666
Employee benefits	2,358,000	2,157,464	(200,536)	2,095,913
Purchased services	173,807	310,222	136,415	315,823
Supplies and materials	91,916	88,858	(3,058)	57,158
Capital expenditures	127,375	72,829	(54,546)	52,413
Other expenditures	36,000	39,084	3,084	37,659
Total special education instruction	9,837,269	9,709,255	(128,014)	9,217,632
Instructional support services				
Salaries	3,980,437	3,742,919	(237,518)	3,815,284
Employee benefits	1,339,978	1,224,128	(115,850)	1,222,950
Purchased services	624,162	420,246	(203,916)	659,830
Supplies and materials	1,847,488	1,821,000	(26,488)	384,089
Capital expenditures	319,776	444,453	124,677	621,179
Other expenditures	30,366	35,439	5,073	33,001
Total instructional support services	8,142,207	7,688,185	(454,022)	6,736,333
Pupil support services				
Salaries	1,441,880	1,551,875	109,995	1,447,311
Employee benefits	483,385	504,450	21,065	473,928
Purchased services	3,213,549	2,523,683	(689,866)	2,815,100
Supplies and materials	84,475	107,770	23,295	102,108
Capital expenditures	63,700	12,173	(51,527)	—
Other expenditures	7,800	8,246	446	7,919
Total pupil support services	5,294,789	4,708,197	(586,592)	4,846,366

INDEPENDENT SCHOOL DISTRICT NO. 885

General Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual (continued)
 Year Ended June 30, 2021
 (With Comparative Actual Amounts for the Year Ended June 30, 2020)

	2021		Over (Under) Budget	2020
	Budget	Actual		Actual
Expenditures (continued)				
Current (continued)				
Sites and buildings				
Salaries	1,796,126	1,926,967	130,841	1,943,555
Employee benefits	825,416	751,565	(73,851)	803,990
Purchased services	3,168,516	3,082,133	(86,383)	3,443,415
Supplies and materials	694,972	619,302	(75,670)	876,380
Capital expenditures	488,229	270,499	(217,730)	1,366,008
Other expenditures	16,214	17,752	1,538	17,475
Total sites and buildings	<u>6,989,473</u>	<u>6,668,218</u>	<u>(321,255)</u>	<u>8,450,823</u>
Fiscal and other fixed cost programs				
Purchased services	260,100	261,381	1,281	258,612
Other expenditures	5,000	1,730	(3,270)	4,500
Total fiscal and other fixed cost programs	<u>265,100</u>	<u>263,111</u>	<u>(1,989)</u>	<u>263,112</u>
Debt service				
Principal	68,500	70,831	2,331	68,436
Interest and fiscal charges	12,800	10,451	(2,349)	12,846
Total debt service	<u>81,300</u>	<u>81,282</u>	<u>(18)</u>	<u>81,282</u>
Total expenditures	<u>72,790,825</u>	<u>70,034,329</u>	<u>(2,756,496)</u>	<u>68,526,210</u>
Excess (deficiency) of revenue over expenditures	(4,115,158)	(333,163)	3,781,995	(1,278,700)
Other financing sources (uses)				
Sale of capital assets	-	-	-	438
Transfers in	-	-	-	11,525
Transfers (out)	-	-	-	(504,830)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>(492,867)</u>
Net change in fund balances	<u>\$ (4,115,158)</u>	<u>(333,163)</u>	<u>\$ 3,781,995</u>	<u>(1,771,567)</u>
Fund balances				
Beginning of year		<u>15,716,778</u>		<u>17,488,345</u>
End of year		<u>\$ 15,383,615</u>		<u>\$ 15,716,778</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Food Service Special Revenue Fund
 Comparative Balance Sheet
 as of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and temporary investments	\$ 887,325	\$ 613,761
Receivables		
Due from other governmental units	170,408	50,075
Inventory	<u>45,628</u>	<u>131,176</u>
Total assets	<u>\$ 1,103,361</u>	<u>\$ 795,012</u>
Liabilities		
Salaries payable	\$ 6,923	\$ 159
Accounts and contracts payable	80,474	30,201
Due to other governmental units	-	638
Unearned revenue	<u>194,915</u>	<u>161,968</u>
Total liabilities	282,312	192,966
Fund balances		
Nonspendable for inventory	45,628	131,176
Restricted for food service	<u>775,421</u>	<u>470,870</u>
Total fund balances	<u>821,049</u>	<u>602,046</u>
Total liabilities and fund balances	<u>\$ 1,103,361</u>	<u>\$ 795,012</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Food Service Special Revenue Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual

Year Ended June 30, 2021

(With Comparative Actual Amounts for the Year Ended June 30, 2020)

	2021		Over (Under) Budget	2020
	Budget	Actual		Actual
Revenue				
Local sources				
Investment earnings	\$ 5,000	\$ 1,832	\$ (3,168)	\$ 13,968
Other – primarily meal sales	72,450	92,091	19,641	1,616,450
State sources	900	475	(425)	138,448
Federal sources	2,327,347	2,831,121	503,774	1,133,785
Total revenue	<u>2,405,697</u>	<u>2,925,519</u>	<u>519,822</u>	<u>2,902,651</u>
Expenditures				
Current				
Salaries	1,173,061	1,042,803	(130,258)	1,163,748
Employee benefits	422,356	375,319	(47,037)	392,055
Purchased services	196,860	115,336	(81,524)	188,746
Supplies and materials	1,350,693	1,156,660	(194,033)	1,291,457
Other expenditures	2,000	1,723	(277)	1,582
Capital outlay	25,000	14,675	(10,325)	46,822
Total expenditures	<u>3,169,970</u>	<u>2,706,516</u>	<u>(463,454)</u>	<u>3,084,410</u>
Excess (deficiency) of revenue over expenditures	(764,273)	219,003	983,276	(181,759)
Other financing sources				
Transfers in	<u>–</u>	<u>–</u>	<u>–</u>	<u>204,959</u>
Net change in fund balances	<u>\$ (764,273)</u>	<u>219,003</u>	<u>\$ 983,276</u>	<u>23,200</u>
Fund balances				
Beginning of year		<u>602,046</u>		<u>578,846</u>
End of year		<u>\$ 821,049</u>		<u>\$ 602,046</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Community Service Special Revenue Fund
 Comparative Balance Sheet
 as of June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Cash and temporary investments	\$ 1,143,185	\$ 1,646,360
Receivables		
Current taxes	145,642	177,413
Delinquent taxes	2,111	1,419
Due from other governmental units	<u>72,560</u>	<u>68,922</u>
Total assets	<u>\$ 1,363,498</u>	<u>\$ 1,894,114</u>
Liabilities		
Salaries payable	\$ 163,103	\$ 178,041
Accounts and contracts payable	71,090	50,967
Due to other governmental units	–	18,059
Unearned revenue	<u>232,780</u>	<u>77,159</u>
Total liabilities	466,973	324,226
Deferred inflows of resources		
Property taxes levied for subsequent year	306,611	372,697
Unavailable revenue – delinquent taxes	<u>2,111</u>	<u>1,419</u>
Total deferred inflows of resources	308,722	374,116
Fund balances		
Restricted for community education programs	306,023	930,100
Restricted for early childhood family education programs	174,232	166,873
Restricted for school readiness	47,218	47,884
Restricted for community service	<u>60,330</u>	<u>50,915</u>
Total fund balances	<u>587,803</u>	<u>1,195,772</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,363,498</u>	<u>\$ 1,894,114</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Community Service Special Revenue Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended June 30, 2021
 (With Comparative Actual Amounts for the Year Ended June 30, 2020)

	2021		Over (Under) Budget	2020	
	Budget	Actual		Budget	Actual
Revenue					
Local sources					
Property taxes	\$ 373,365	\$ 371,625	\$ (1,740)	\$ 347,475	
Investment earnings	10,000	4,783	(5,217)	50,889	
Other – primarily tuition and fees	2,643,662	2,841,969	198,307	3,472,620	
State sources	542,238	549,649	7,411	523,888	
Federal sources	27,328	19,561	(7,767)	–	
Total revenue	<u>3,596,593</u>	<u>3,787,587</u>	<u>190,994</u>	<u>4,394,872</u>	
Expenditures					
Current					
Salaries	3,372,625	3,038,921	(333,704)	3,374,549	
Employee benefits	1,021,303	883,267	(138,036)	965,514	
Purchased services	323,895	281,620	(42,275)	489,911	
Supplies and materials	199,767	184,284	(15,483)	243,990	
Other expenditures	2,200	6,611	4,411	2,996	
Capital outlay	5,000	853	(4,147)	6,541	
Total expenditures	<u>4,924,790</u>	<u>4,395,556</u>	<u>(529,234)</u>	<u>5,083,501</u>	
Excess (deficiency) of revenue over expenditures	(1,328,197)	(607,969)	720,228	(688,629)	
Other financing sources (uses)					
Transfers (out)	–	–	–	(216,484)	
Net change in fund balances	<u>\$ (1,328,197)</u>	<u>(607,969)</u>	<u>\$ 720,228</u>	<u>(905,113)</u>	
Fund balances					
Beginning of year		<u>1,195,772</u>		<u>2,100,885</u>	
End of year		<u>\$ 587,803</u>		<u>\$ 1,195,772</u>	

INDEPENDENT SCHOOL DISTRICT NO. 885

Debt Service Fund
 Comparative Balance Sheet
 as of June 30, 2021
 (With Comparative Totals as of June 30, 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Cash and temporary investments	\$ 7,715,095	\$ 7,450,071
Receivables		
Current taxes	4,550,066	4,388,083
Delinquent taxes	54,682	36,849
Due from other governmental units	<u>651,125</u>	<u>603,357</u>
Total assets	<u>\$ 12,970,968</u>	<u>\$ 12,478,360</u>
Deferred inflows of resources		
Property taxes levied for subsequent year	\$ 9,563,328	\$ 9,202,295
Unavailable revenue – delinquent taxes	<u>54,682</u>	<u>36,849</u>
Total deferred inflows of resources	9,618,010	9,239,144
Fund balances		
Restricted for debt service	<u>3,352,958</u>	<u>3,239,216</u>
Total deferred inflows of resources and fund balances	<u>\$ 12,970,968</u>	<u>\$ 12,478,360</u>

INDEPENDENT SCHOOL DISTRICT NO. 885

Debt Service Fund
 Schedule of Revenue, Expenditures, and Changes in Fund Balances
 Budget and Actual
 Year Ended June 30, 2021
 (With Comparative Actual Amounts for the Year Ended June 30, 2020)

	2021		Over (Under) Budget	2020
	Budget	Actual		Actual
Revenue				
Local sources				
Property taxes	\$ 9,171,249	\$ 9,172,863	\$ 1,614	\$ 8,884,473
Investment earnings	15,000	22,297	7,297	119,806
State sources	6,089,187	6,577,610	488,423	6,044,121
Total revenue	<u>15,275,436</u>	<u>15,772,770</u>	<u>497,334</u>	<u>15,048,400</u>
Expenditures				
Debt service				
Principal	9,925,000	9,925,000	–	9,160,000
Interest	5,731,178	5,731,178	–	6,082,728
Fiscal charges and other	2,725	2,850	125	2,848
Total expenditures	<u>15,658,903</u>	<u>15,659,028</u>	<u>125</u>	<u>15,245,576</u>
Net change in fund balances	<u>\$ (383,467)</u>	113,742	<u>\$ 497,209</u>	(197,176)
Fund balances				
Beginning of year		<u>3,239,216</u>		<u>3,436,392</u>
End of year		<u>\$ 3,352,958</u>		<u>\$ 3,239,216</u>

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SINGLE AUDIT AND OTHER REQUIRED REPORTS

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INDEPENDENT SCHOOL DISTRICT NO. 885

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program Title	Federal ALN	Federal Expenditures
U.S. Department of Agriculture		
Passed through Minnesota Department of Education		
Child nutrition cluster		
COVID-19 – Summer Food Service Program for Children	10.559	\$ 2,499,979
Summer Food Service Program for Children	10.559	<u>232,184</u>
Total child nutrition cluster		\$ 2,732,163
COVID-19 – Pandemic EBT Administrative Costs	10.649	2,490
U.S. Department of the Treasury		
Passed through Minnesota Department of Education		
COVID-19 – Coronavirus Relief Fund	21.019	1,535,125
Passed through Wright County		
COVID-19 – Coronavirus Relief Fund	21.019	<u>811,724</u>
Total ALN 21.019		2,346,849
U.S. Department of Education		
Passed through Minnesota Department of Education		
Title I Grants to Local Educational Agencies	84.010	97,852
English Language Acquisition State Grants	84.365	14,520
Supporting Effective Instruction State Grants	84.367	66,415
Student Support and Academic Enrichment Program	84.424	3,946
Education Stabilization Fund		
COVID-19 – Governor’s Emergency Education Relief (GEER) Fund	84.425C	44,348
COVID-19 – Elementary and Secondary School Emergency Relief (ESSER) Fund	84.425D	<u>272,527</u>
Total ALN 84.425		316,875
Passed through Sherburne and Northern Wright Special Education Cooperative		
Special education cluster		
Special Education – Grant to States	84.027	<u>338,953</u>
Total federal awards		<u><u>\$ 5,920,063</u></u>

Note 1: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the OMB’s *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the District’s basic financial statements.

Note 2: All pass-through entities listed above use the same Assistance Listing Numbers (ALN) as the federal grantors to identify these grants, and have not assigned any additional identifying numbers.

Note 3: The District did not elect to use the 10 percent de minimis indirect cost rate.

Note 4: The District had \$223,727 of noncash assistance included in the Summer Food Service Program for Children, ALN 10.559.

Note 5: The District transferred \$10,000 into Title I, ALN 84.010 from other Title programs.

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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 and Management of
Independent School District No. 885
Albertville, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 885 (the 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 November 23, 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.

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

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

(continued)

COMPLIANCE AND OTHER MATTERS

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

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
November 23, 2021



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

To the School Board and Management of
Independent School District No. 885
Albertville, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Independent School District No. 885's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2021. The District's major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements 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 of the District's compliance.

(continued)

OPINION ON EACH MAJOR FEDERAL PROGRAM

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to on the previous page 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 in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified one deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as finding 2021-001, that we consider to be a significant deficiency.

DISTRICT'S RESPONSE TO FINDING

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

PURPOSE OF THIS REPORT

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.

Malloy, Montague, Karnowski, Radosevich & Co., P. A.

Minneapolis, Minnesota
November 23, 2021



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INDEPENDENT AUDITOR'S REPORT

ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of
Independent School District No. 885
Albertville, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 885 (the 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 November 23, 2021.

MINNESOTA LEGAL COMPLIANCE

In connection with our audit, we noted that the District failed to comply with provisions of the claims and disbursements, and contracting and bidding standards sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minnesota Statutes § 6.65, insofar as they relate to accounting matters, as described in the Schedule of Findings and Questioned Costs as findings 2021-002 and 2021-003. Also, 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 deposits and investments, conflicts of interest, public indebtedness, miscellaneous provisions, and uniform financial accounting and reporting standards sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

DISTRICT'S RESPONSES TO FINDINGS

The District's responses to the legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The District's responses were not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on them.

(continued)

PURPOSE OF THIS REPORT

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 report is not suitable for any other purpose.

Malloy, Montague, Karnowski, Radosevich & Co., P. A.

Minneapolis, Minnesota

November 23, 2021

INDEPENDENT SCHOOL DISTRICT NO. 885

Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

A. SUMMARY OF AUDIT RESULTS

This summary is formatted to provide federal granting agencies and pass-through agencies answers to specific questions regarding the audit of federal awards.

Financial Statements

What type of auditor’s report is issued? X Unmodified
 Qualified
 Adverse
 Disclaimer

Internal control over financial reporting:

Material weakness(es) identified? Yes X No
 Significant deficiencies identified? Yes X None reported
 Noncompliance material to the financial statements noted? Yes X No

Federal Awards

Internal controls over major federal award programs:

Material weakness(es) identified? Yes X No
 Significant deficiencies identified? X Yes None reported

Type of auditor’s report issued on compliance for major programs?

U.S. Department of Agriculture – child nutrition cluster Unmodified
 U.S. Department of the Treasury – Coronavirus Relief Fund Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X Yes No

Programs tested as major programs:

Program or Cluster	Federal ALN
U.S. Department of Agriculture – child nutrition cluster consisting of:	
– COVID-19 – Summer Food Service Program for Children	10.559
– Summer Food Service Program for Children	10.559
U.S. Department of the Treasury – COVID-19 – Coronavirus Relief Fund	21.019

Threshold for distinguishing between type A and B programs. \$ 750,000

Does the auditee qualify as a low-risk auditee? Yes X No

INDEPENDENT SCHOOL DISTRICT NO. 885

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2021

B. FINANCIAL STATEMENT FINDINGS

None.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – U.S. DEPARTMENT OF AGRICULTURE, PASSED THROUGH MINNESOTA DEPARTMENT OF EDUCATION, CHILD NUTRITION CLUSTER – ALN 10.559

2021-001 Internal Control Over Compliance With Federal Suspension and Debarment Requirements

Criteria – 2 CFR § 180 requires Independent School District No. 885 (the District) to establish and maintain effective internal control over compliance with requirements applicable to federal program expenditures, including suspension and debarment requirements applicable to child nutrition cluster federal programs.

Condition – During our audit, we noted that the District did not have sufficient controls in place within its child nutrition cluster federal program to assure that it was not contracting for goods or services with parties that are suspended or debarred, or whose principals are suspended or debarred, from participating in contracts involving the expenditures of federal program funds, as required by the Uniform Guidance. For three of four vendors tested, the District did not have documentation of performing vendor checks for suspension and debarment.

Questioned Costs – None. Our testing did not indicate any instances of noncompliance with these requirements.

Context – For three of four vendors tested, the District did not have adequate documentation that the vendors were not suspended or debarred from participating in contracts that involve federal grant funding. No noncompliance was noted in the testing of these three vendors. This was not a statistically valid sample.

Repeat Finding – This is a current year and prior year finding.

Cause – This was an oversight by district personnel.

Effect – Noncompliance with the procurement, suspension, and debarment requirements could result in the District expending federal funds inappropriately or utilizing vendors that are not eligible to be parties to such transactions, which could be viewed as a violation of the award agreement. However, no instances of noncompliance were noted upon testing these vendors.

Recommendation – We recommend that the District review its internal control procedures relating to suspension and debarment for all federal programs. Internal controls should be in place to ensure that any vendor with which the District contracts for goods or services exceeding \$25,000 is not listed as suspended or debarred on the federal Excluded Parties List System (EPLS) website (www.sam.gov).

INDEPENDENT SCHOOL DISTRICT NO. 885

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2021

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS (CONTINUED)

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE – U.S. DEPARTMENT OF AGRICULTURE, PASSED THROUGH MINNESOTA DEPARTMENT OF EDUCATION, CHILD NUTRITION CLUSTER – ALN 10.559 (CONTINUED)

2021-001 Internal Control Over Compliance With Federal Suspension and Debarment Requirements (continued)

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District intends to review its procedures relating to suspension and debarment for its federal programs, and will ensure that all parties with which it contracts for goods or services are eligible to participate in contracts involving the expenditures of federal program funding. The District has separately issued a Corrective Action Plan related to this finding.

D. MINNESOTA LEGAL COMPLIANCE FINDINGS

2021-002 Payment of Invoices

Criteria – Minnesota Statutes § 471.425, Subd. 2.

Condition – Minnesota Statutes require districts to pay each vendor obligation according to terms of each contract or within 35 days after receipt of the goods or services or the invoice for the goods and services. If such obligations are not paid within the appropriate time period, the District must pay interest on the unpaid obligations at the rate of 1.5 percent per month or part of a month. For 1 of 25 disbursements selected for testing, the District did not pay the obligation within the required time period, and did not pay interest on the unpaid obligation.

Questioned Costs – Not applicable.

Context – One of twenty-five disbursements was not in compliance.

Repeat Finding – This is a current year finding.

Cause – This was an oversight by district personnel.

Effect – The District was not in compliance with state requirements for the timely payment of claims.

Recommendation – We recommend that the District review procedures in place to ensure all invoices are paid within statutory requirements.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District will review its procedures relating to claims and disbursements to ensure compliance in the future. The District has separately issued a Corrective Action Plan related to this finding.

INDEPENDENT SCHOOL DISTRICT NO. 885

Schedule of Findings and Questioned Costs (continued)
Year Ended June 30, 2021

D. MINNESOTA LEGAL COMPLIANCE FINDINGS (CONTINUED)

2021-003 Directly Negotiated Contracts

Criteria – Minnesota Statutes § 123B.52, Subd. 1 & 3.

Condition – Minnesota Statutes require that for contracts awarded by direct negotiations, quotations be requested by published notice at least 30 days prior to awarding the contract. The District entered into a directly negotiated transportation contract for which the notice requesting quotations was not published at least 30 days prior to awarding the contract.

Questioned Costs – Not applicable.

Context – The District awarded a directly negotiated transportation contract without requesting quotations by published notice 30 days prior to awarding the contract.

Repeat Finding – This is a current year finding.

Cause – This was an oversight by district personnel.

Effect – The District was not in compliance with state contracting and bidding requirements for directly negotiated contracts.

Recommendation – We recommend that the District review procedures in place to ensure all contracts are entered into under statutory requirements.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District will review its procedures relating to contracts and bidding to ensure compliance in the future. The District has separately issued a Corrective Action Plan related to this finding.

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INDEPENDENT SCHOOL DISTRICT NO. 885

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2021

	Audit	UFARS	Audit – UFARS
General Fund			
Total revenue	\$ 69,701,166	\$ 69,701,165	\$ 1
Total expenditures	\$ 70,034,329	\$ 70,034,330	\$ (1)
Nonspendable			
460 Nonspendable fund balance	\$ 101,264	\$ 101,264	\$ –
Restricted			
401 Student activities	\$ –	\$ –	\$ –
402 Scholarships	\$ 23,798	\$ 23,798	\$ –
403 Staff development	\$ 1,395,174	\$ 1,395,174	\$ –
407 Capital projects levy	\$ –	\$ –	\$ –
408 Cooperative revenue	\$ –	\$ –	\$ –
413 Projects funded by COP	\$ –	\$ –	\$ –
414 Operating debt	\$ –	\$ –	\$ –
416 Levy reduction	\$ –	\$ –	\$ –
417 Taconite building maintenance	\$ –	\$ –	\$ –
424 Operating capital	\$ 683,786	\$ 683,786	\$ –
426 \$25 taconite	\$ –	\$ –	\$ –
427 Disabled accessibility	\$ –	\$ –	\$ –
428 Learning and development	\$ –	\$ –	\$ –
434 Area learning center	\$ –	\$ –	\$ –
435 Contracted alternative programs	\$ –	\$ –	\$ –
436 State approved alternative program	\$ –	\$ –	\$ –
438 Gifted and talented	\$ –	\$ –	\$ –
440 Teacher development and evaluation	\$ –	\$ –	\$ –
441 Basic skills programs	\$ –	\$ –	\$ –
448 Achievement and integration	\$ –	\$ –	\$ –
449 Safe schools levy	\$ 107,177	\$ 107,177	\$ –
451 QZAB payments	\$ –	\$ –	\$ –
452 OPEB liability not in trust	\$ –	\$ –	\$ –
453 Unfunded severance and retirement levy	\$ –	\$ –	\$ –
459 Basic skills extended time	\$ –	\$ –	\$ –
467 Long-term facilities maintenance	\$ 727,321	\$ 727,321	\$ –
472 Medical Assistance	\$ 271,460	\$ 271,460	\$ –
473 PPP loans	\$ –	\$ –	\$ –
474 EIDL loans	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ –	\$ –	\$ –
475 Title VII – Impact Aid	\$ –	\$ –	\$ –
476 PILT	\$ –	\$ –	\$ –
Committed			
418 Committed for separation	\$ –	\$ –	\$ –
461 Committed fund balance	\$ –	\$ –	\$ –
Assigned			
462 Assigned fund balance	\$ 2,119,199	\$ 2,119,199	\$ –
Unassigned			
422 Unassigned fund balance	\$ 9,954,436	\$ 9,954,436	\$ –
Food Service			
Total revenue	\$ 2,925,519	\$ 2,925,519	\$ –
Total expenditures	\$ 2,706,516	\$ 2,706,516	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ 45,628	\$ 45,628	\$ –
Restricted			
452 OPEB liability not in trust	\$ –	\$ –	\$ –
474 EIDL loans	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ 775,421	\$ 775,421	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –
Community Service			
Total revenue	\$ 3,787,587	\$ 3,787,585	\$ 2
Total expenditures	\$ 4,395,556	\$ 4,395,556	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted			
426 \$25 taconite	\$ –	\$ –	\$ –
431 Community education	\$ 306,023	\$ 306,023	\$ –
432 ECFE	\$ 174,232	\$ 174,232	\$ –
440 Teacher development and evaluation	\$ –	\$ –	\$ –
444 School readiness	\$ 47,218	\$ 47,218	\$ –
447 Adult basic education	\$ –	\$ –	\$ –
452 OPEB liability not in trust	\$ –	\$ –	\$ –
473 PPP loans	\$ –	\$ –	\$ –
474 EIDL loans	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ 60,330	\$ 60,330	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –

INDEPENDENT SCHOOL DISTRICT NO. 885

Uniform Financial Accounting and Reporting Standards
 Compliance Table (continued)
 June 30, 2021

	Audit	UFARS	Audit – UFARS
Building Construction			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted			
407 Capital projects levy	\$ –	\$ –	\$ –
413 Projects funded by COP	\$ –	\$ –	\$ –
467 Long-term facilities maintenance	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ –	\$ –	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –
Debt Service			
Total revenue	\$ 15,772,770	\$ 15,772,770	\$ –
Total expenditures	\$ 15,659,028	\$ 15,659,028	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted			
425 Bond refundings	\$ –	\$ –	\$ –
433 Maximum effort loan	\$ –	\$ –	\$ –
451 QZAB payments	\$ –	\$ –	\$ –
467 Long-term facilities maintenance	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ 3,352,958	\$ 3,352,958	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –
Trust			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
401 Student activities	\$ –	\$ –	\$ –
402 Scholarships	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
Custodial Fund			
Total revenue	\$ 237,157	\$ 237,157	\$ –
Total expenditures	\$ 256,868	\$ 256,868	\$ –
401 Student activities	\$ –	\$ –	\$ –
402 Scholarships	\$ –	\$ –	\$ –
448 Achievement and integration	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ 17,394	\$ 17,394	\$ –
Internal Service			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
OPEB Revocable Trust Fund			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
OPEB Irrevocable Trust Fund			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
422 Net position	\$ –	\$ –	\$ –
OPEB Debt Service Fund			
Total revenue	\$ –	\$ –	\$ –
Total expenditures	\$ –	\$ –	\$ –
Nonspendable			
460 Nonspendable fund balance	\$ –	\$ –	\$ –
Restricted			
425 Bond refundings	\$ –	\$ –	\$ –
464 Restricted fund balance	\$ –	\$ –	\$ –
Unassigned			
463 Unassigned fund balance	\$ –	\$ –	\$ –

Note: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

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