

**INDEPENDENT SCHOOL
DISTRICT 701
HIBBING, MINNESOTA**

Financial Report

For the Fiscal Year Ended June 30, 2021

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Independent Auditor's Report

To the Members of the
School Board
Independent School District 701
Hibbing, MN

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 701, Hibbing, Minnesota, 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 of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District 701, Hibbing, Minnesota, as of June 30, 2021, and the respective changes in financial position and where applicable, cash flows thereof, and the respective budgetary comparison of the general fund for the year then ended in conformity 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 on pages 3 through 15, schedule of changes in the District's net OPEB liability and related ratios (page 52) and schedules of employer's share of net pension liability and employer contributions (pages 53-57) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining nonmajor, individual fund statements, and the Uniform Financial Accounting and Reporting Standards Fiscal Compliance Report are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2021 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of testing, and not to provide an opinion on the 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.

Sterle & Co, Ltd
December 17, 2021

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
Required Supplementary Information (RSI)
June 30, 2021**

The discussion and analysis of Independent School District 701's financial performance provides an overall review of the District's financial activities for the fiscal year ended June 30, 2021. The intent of this discussion and analysis is to look at the District's financial performance as a whole. Readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the District's financial performance. The Management Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Boards (GASB) in their Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments.

FINANCIAL HIGHLIGHTS

District-Wide Highlights

Net position, or the difference between the District's assets/deferred outflows and liabilities/deferred inflows, is one way to measure the District's overall financial health. For the District-wide presentation, total assets and deferred outflows of resources are reported at \$79,519,592. Total liabilities and deferred inflows of resources are \$95,702,937. This leaves the total district wide net position with an overall deficit of \$16,183,345. However, \$15,775,848 is held in capital asset investments (net of debt) and another \$15,977,866 is held in state mandated restrictions. Therefore, the unrestricted portion of the net position for the district as a whole is actually a deficit of \$47,937,059 – a change of \$7.2 million from the previous year unrestricted deficit of \$55,227,590. However, this change is primarily a result of recognition items with net TRA/PERA pension liabilities only and not a result of local District operational activities. Without this TRA/PERA recognition impact, the District would have experienced a net *decrease* of nearly \$1 million to its unrestricted net position for the current fiscal year.

According to the TRA/PERA's audited plan reports, the district's proportionate share of pension obligations resulted in a net pension liability increase from \$16,767,932 to \$19,637,574. However, despite this increase in the liability itself, due to amortizations from prior year adjustments, changes in deferred inflows/outflows, as well as additional contributions from the State of Minnesota, the District actually is reporting a positive impact to the net position of nearly \$7.9 million due to these recognition requirements under GASB 68. Each of those entities conducts an actuarial study to determine their unfunded liabilities. This liability (along with deferred inflows/outflows) is then recognized by each District at their proportionate share within the government-wide financial statements. As such, the District recognized this reduction to several functional expenditure categories involving employee benefits as required under the accounting standards.

In addition to TRA/PERA impacts, the District experienced a decrease in the OPEB liability from \$39,142,691 to \$38,571,263 for the fiscal year ending June 30, 2021. Despite this decrease in the liability itself, deferred inflows and outflows for the OPEB liability were also adjusted for changes in assumptions and plan provisions based on the actuarial report. These changes resulted in an actual *additional* OPEB expense in the District wide statements of \$359,544. This is due to a number of factors which include plan participation, plan changes and assumption modifications along with amortizations of these amounts in the current and future years.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2021**

The District has committed funds of \$3.56 million (9.2% of the liability) to help fund this growing liability. The district increased this commitment by \$5,150 from the prior year due to a board passed resolution effective June 30, 2019 that re-commits any earnings on funds set aside by the District specifically for OPEB benefits.

Additional obligations for the District include severance and separation commitments of \$1,699,120 and compensated absence commitments of \$290,324 to eligible employees. These obligations to current and prior staff along with the \$18,581,817 in debt obligations also have significant financial impact on the District's deficit net position.

As reported on the Statement of Activities, the District experienced a total increase in net position of \$6,978,831 is primarily due to the District's recognition of its decrease in the proportionate share of the net pension expense of TRA and PERA as noted previously. The District has \$574,103 in charges for services and \$9,061,046 in operating and capital grants received by local, state and federal sources. The District received over \$4.5 million in federal funds in the current fiscal year of which nearly \$3.1 million was in funds due to the Coronavirus pandemic. That leaves \$19,929,708 to be covered through property taxes, general aids and grants as well as funds held in the previously accumulated net position.

All of these commitments for current and future District activities result in the \$47,937,059 unrestricted deficit facing the District as of June 30, 2021.

Individual Fund Highlights

Overall fund balances per the Statement of Revenues, Expenditures and Changes in Fund Balance for the governmental funds increased by \$7,123,637. Total governmental fund balances were \$26,691,199 with \$15,977,866 restricted by state sources, \$3,561,618 committed by the board, \$22,099 assigned, and \$32,702 nonspendable, leaving \$7,096,914 unassigned and available for operations. The unassigned portion of the General Fund realized a *net decrease* in fund balance during the 2020-21 fiscal year of over \$1.2 million. Various factors to consider for the change in the overall fund balances of the governmental funds are:

The general fund reported \$33,546,983 in total revenues with \$35,026,382 in total expenditures. Expenditures included \$1,569,525 in capital projects. Previously restricted capital funds were utilized for a portion of these capital projects. As a result of the COVID-19 pandemic and declining enrollment, the district wished to retain jobs and continue operations in hopes of an enrollment rebound. The district utilized funds from pandemic relief legislation to upgrade one-to-one technology devices for students and staff to assist with distance or remote learning.

The building construction fund reported revenues of \$95,060 for local contributions towards the capital facilities construction projects of \$2,204,351. The District issued certificates of participation which reflected net proceeds of \$9,692,442. The majority of the remaining fund balance is restricted for building construction (\$7,634,401). The District did incur \$51,250 in additional costs for the Cheever Field project which will be covered with debt issuances in the subsequent fiscal year and is reflected as a temporary deficit in unassigned as of June 30, 2021.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2021**

The debt service fund reported total expenditures for principal and interest/fiscal charges of \$397,653. Local property tax levies and other state and local sources generated \$976,801 in revenues for that fund resulting in an overall increase of \$579,148. However, the fund balance of \$6,813,406 is entirely restricted under Minnesota statutes and is not available for general operations.

Other nonmajor governmental funds (which include the food service and the community service funds) experienced a net increase of \$73,358. The food service fund experienced an increase of \$78,491 in fund balance and the community service fund experienced a \$5,133 decrease.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. There is the Management Discussion and Analysis (this section) and a series of financial statements and notes to those statements. These statements are organized so that the reader can understand the District as an entire operating entity. The statements then proceed to provide an increasingly detailed look at specific financial activities.

The first two statements are district-wide financial statements-the Statement of Net Position and the Statement of Activities. These provide both long-term and short-term information about the District's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the District's operations in more detail than the district-wide statements. The governmental funds statements tell how general District services are financed in the short term as well as what remains for future spending. Proprietary fund statements offer short-and long-term financial information about the activities that the District operates like a business. For this District this is our Internal Service Fund. Fiduciary fund statements provide information about financial relationships where the District acts in a custodial capacity for others. As of June 30, 2021, the District did not hold any fiduciary funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

OVERVIEW OF FINANCIAL STATEMENTS

District-Wide Statements

The district-wide statements, which are reported on pages 16 and 17, report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net position and how they have changed. Net position, or the difference between the District's assets/deferred outflows and liabilities/deferred inflows, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indication of whether its financial health is improving or deteriorating, respectively.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2021**

To assess the overall health of the District, you need to consider additional non-financial factors, such as changes in the District's property tax base and the enrollment trends of its students.

The district-wide financial statements of the District are categorized as follows:

- *Governmental activities* – All of the District's basic services are included here, such as instruction, administration and community services. Property taxes, state and federal subsidies and grants finance most of these activities. The District's Internal Service Fund is deemed to be a governmental activity since its main function is to serve the other District's governmental funds.

- *Business type activities* - The District has no business type activities as of this date.

Fund Financial Statements

The District's fund financial statements, which begin on page 18, provide detailed information about the most significant funds-not the District as a whole. Some funds are required by state law and by bond requirements.

Governmental funds - Most of the District's activities are reported in governmental funds, which focus on the determination of financial position and change in financial position, not on income determination. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's operations and the services it provides. Governmental fund information helps the reader determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is reconciled in the financial statements.

Proprietary funds - These funds are used to account for the District activities that are similar to business operations in the private section; or where the reporting is on determining net income, financial position, and changes in financial position. A significant portion of funding is provided through user charges. When the District charges customers for services it provides - whether to outside customers or to other units in the District - these services are generally reported in proprietary funds. The Internal Service Fund is the District's proprietary fund, and is reported as a governmental activity in the government-wide statements since its primary purpose is to provide benefits to other District governmental funds. However, the fund statements provide more detail and additional information, such as cash flows.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2021**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's total net position was \$(16,183,345) and a (\$23,162,176) deficit at June 30, 2021 and 2020, respectively.

Table A-1
Fiscal Years ended June 30, 2021 and 2020
Net Position

	<u>June 30,2021</u>	<u>June 30,2020</u>
		<u>Governmental Activities</u>
Current assets	\$ 35,875,346	\$ 27,352,837
Capital assets	<u>34,415,520</u>	<u>33,979,289</u>
Total assets	<u>\$ 70,290,866</u>	<u>\$ 61,332,126</u>
Deferred outflows of resources	<u>\$ 9,228,726</u>	<u>\$ 8,008,214</u>
Current Liabilities	\$ 4,308,049	\$ 3,514,610
Long-term liabilities	<u>77,828,924</u>	<u>66,510,181</u>
Total Liabilities	<u>\$ 82,136,973</u>	<u>\$70,024,791</u>
Deferred inflows of resources	<u>\$ 13,565,964</u>	<u>\$ 22,477,725</u>
Net Position		
Net investment in capital assets	\$ 15,775,848	\$ 24,550,135
Restricted	15,977,866	7,515,279
Unrestricted	<u>(47,937,059)</u>	<u>(55,227,590)</u>
Total Net Position	<u>\$(16,183,345)</u>	<u>\$(23,162,176)</u>

Most of the District's net position is invested in capital assets (buildings, land, and equipment). \$15,977,866 is restricted under state mandates as prescribed by the Minnesota Department of Education. That leaves \$47,937,059 deficit as unrestricted – with a net decrease of \$7,290,531 from the prior year deficit of \$55,227,590.

The District's overall net position increased by \$6,978,831 from the previous year. The results of this year's operations as a whole are reported in the Statement of Activities on page 17. Specific charges, grants, revenues and subsidies that directly relate to specific expense categories are represented to determine the final amount of the District's activities that are supported by other general revenues. The two largest general revenues are the general education formula provided by the State of Minnesota and the local taxes assessed to community taxpayers.

See further discussions regarding these changes in the district-wide governmental activities under the financial highlights.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2021**

Table A-2 takes the information from that Statement, rearranges it slightly, so you can see our total revenues for the year.

Table A-2
Fiscal Years ended June 30, 2021 and 2020
Changes in Net Position

	For the Year Ended June 30, 2021	<u>Governmental Activities</u> For the Year Ended June 30, 2020
Revenues		
Program revenues		
Charges for services	\$ 574,103	\$ 733,022
Operating grants and contributions	8,385,806	5,762,215
Capital grants and contributions	675,240	830,394
General revenues		
Property taxes	2,373,647	2,500,257
Grants, subsidies and contributions, unrestricted	24,064,347	24,643,744
Other	<u>103,166</u>	<u>255,373</u>
Total revenues	<u>\$ 36,176,309</u>	<u>\$34,725,005</u>
Expenses		
District and school administration	\$ 1,086,718	\$ 1,570,062
District support services	996,110	1,373,464
Instruction – regular	9,452,542	16,507,330
Instruction – vocational	91,786	187,648
Instruction – exceptional	5,461,310	6,271,660
Community education and services	532,967	539,522
Instructional support services	2,226,302	1,896,535
Pupil support services	2,329,576	2,061,737
Site, buildings and equipment	4,633,076	4,982,486
Fiscal and other fixed cost programs	254,544	210,098
Food service	948,472	1,082,180
Interest and fiscal charges	181,454	155,828
Depreciation – unallocated	<u>1,370,000</u>	<u>1,356,249</u>
Total expenses	<u>\$29,564,857</u>	<u>\$38,194,799</u>
Special item – Gain on equipment sales	<u>367,379</u>	<u>\$ -</u>
Increase (Decrease) in net position	\$ 6,978,831	\$ (3,469,794)
Net Position – Beginning of the year	(23,162,176)	(19,785,788)
Change in accounting principle	<u>-</u>	<u>93,406</u>
Net Position – Beginning of the year (restated)	<u>\$ (23,162,176)</u>	<u>\$ (19,692,382)</u>
Net Position – End of the year	<u>\$ (16,183,345)</u>	<u>\$ (23,162,176)</u>

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2021**

As detailed in the financial highlights section, for the fiscal year ending June 30, 2021, the District recognized a significant reduction in pension expense under GASB 68 for its participation with TRA/PERA. This change at the statewide level resulted in proportionate reductions in reported costs to various functions and programs of the District at government wide financial statement level, particularly in the functional areas of district and school administration, and the regular and special education instructional areas since that is where the majority of payroll and benefits are reported. This was in large part due to the State of Minnesota contributing over \$16 million into the plan and changes in actuarial and plan changes for that valuation year. This is also one of the primary reasons for the change in total costs by program area reported in table A-3 below.

Table A-3 shows the total cost and net cost of each of the District’s functions-District and school administration; district support services; instruction – regular, vocational, special education; community education and service; instructional support; pupil support; site, buildings and equipment; fiscal and other fixed costs programs and food service. Net cost is the total cost less revenue generated by each activity.

Table A-3
Fiscal Years ended June 30, 2021 and 2020
Governmental Activities

<u>Functions/Programs</u>	<u>Total Cost of Services</u>		<u>Net Cost of Services</u>	
	<u>June 30, 2021</u>	<u>June 30,2020</u>	<u>June 30, 2021</u>	<u>June 30,2020</u>
District and school administration	\$ 1,086,718	\$ 1,570,062	\$ 1,086,718	\$ 1,570,062
District support services	996,110	1,373,464	996,110	1,373,464
Instruction – regular	9,452,542	16,507,330	6,860,532	15,968,618
Instruction – vocational	91,786	187,648	55,104	158,272
Instruction – special education	5,461,310	6,271,660	900,028	2,112,907
Community education and services	532,967	539,522	5,939	(49,902)
Instructional support services	2,226,302	1,896,535	2,019,335	1,783,507
Pupil support services	2,329,576	2,061,737	2,329,576	2,061,737
Site, buildings and equipment	4,633,076	4,982,486	3,945,207	4,089,742
Fiscal and other fixed cost programs	254,544	210,098	254,544	210,098
Food service	948,472	1,082,180	(74,839)	78,586
Interest and fiscal charges	181,454	155,828	181,454	155,828
Depreciation – unallocated	<u>1,370,000</u>	<u>1,356,249</u>	<u>1,370,000</u>	<u>1,356,249</u>
Total governmental activities	\$29,564,857	\$ 38,194,799	\$ 19,929,708	\$ 30,869,168

As discussed previously, the most significant impact resulting in the change in reported costs between the two fiscal years (at the government wide reporting level) is a result of the recognition changes the District must report for it’s proportionate share of the changes in net pension liability for TRA/PERA both of which are multi-employer defined benefit plans. Another significant factor is that the District received over \$4.5 million in federal funds including nearly \$3.1 million to help maintain staffing and benefits and to provide technology upgrades to the District.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2021**

THE DISTRICT’S FUNDS

At June 30, 2021, the District governmental funds reported a combined fund balance of \$26,691,199, which is an increase of \$7,123,637 from the June 30, 2020 balances. Overall revenues for the District were \$36,170,747, while total expenditures were \$39,106,931. The District also sold technology equipment for \$367,379 and issued bonds to assist with the capital construction costs with net proceeds recognized of \$9,692,442. Those additional financing sources resulted in the net increase of \$7,123,637 from the \$2,936,184 deficit prior to those additional funding sources.

The general fund is the primary fund used by the District. The Building Construction and Debt Service funds are reported as major funds in the accompanying statements. As a result, the following are presented for analysis regarding these funds separately. Additional discussion on the remaining aggregate nonmajor funds is also noted.

General Fund - Revenues:

The General Fund includes operations of the District in providing educational services to students from Early Childhood through Grade 12, including pupil transportation activities and capital outlay projects.

The following schedule presents a summary of General Fund Revenues:

	Year Ended <u>June 30, 2021</u>	Year Ended <u>June 30, 2020</u>	Amount of Increase (Decrease)
Local Sources			
Property Taxes	\$ 2,050,172	\$ 2,216,509	\$ (166,337)
Interest Earnings	103,166	217,398	(114,232)
Other	4,260,302	4,580,960	(320,658)
State Sources	23,450,715	23,423,047	27,668
Federal Sources	3,664,848	1,381,623	2,283,225
Sales and Conversions	<u>17,780</u>	<u>61,005</u>	<u>(43,225)</u>
Total General Fund Revenue	\$ 33,546,983	\$31,880,542	\$1,666,441

Overall total general fund revenue increased by \$1,666,441 or about 5.2% from the previous year. Many of the reasons were highlighted under the financial highlights section earlier but resulted primarily from additional funds received to help offset costs due to the Coronavirus pandemic. The District is reflecting an increase of \$3,149,724 in federal funds because of these new funding sources. As noted in the section on general fund expenditures, the District utilized these funds for cleaning supplies, protective personal equipment (PPE), to maintain staff salaries and benefits and to upgrade and improve technology services within the District including as hotspots and iPad upgrades.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2021**

Enrollment Trends:

The following chart shows the number of students served in the District over the last several years, which can contribute to changes in the general fund revenues:

<u>YEAR</u>	<u>STUDENTS SERVED</u>		<u>PERCENT CHANGE</u>
	<u>STUDENTS SERVED</u>	<u>ANNUAL CHANGE</u>	
2001-02	2,782.74	(123.91)	(4.3%)
2002-03	2,695.82	(86.92)	(3.1%)
2003-04	2,617.78	(78.04)	(2.9%)
2004-05	2,543.57	(74.21)	(2.8%)
2005-06	2,475.79	(67.78)	(2.7%)
2006-07	2,441.18	(34.61)	(1.4%)
2007-08	2,391.17	(50.01)	(2.0%)
2008-09	2,325.34	(65.83)	(2.8%)
2009-10	2,337.08	11.74	0.5%
2010-11	2,388.46	51.38	2.2%
2011-12	2,346.37	(42.09)	(1.8%)
2012-13	2,382.64	36.27	1.5%
2013-14	2,376.62	(6.02)	(0.3%)
2014-15	2,403.20	26.58	1.1%
2015-16	2,418.84	15.64	.6%
2016-17	2,410.61	(16.55)	(1.4%)
2017-18	2,411.12	8.83	.4%
2018-19	2,381.46	(29.66)	(1.2%)
2019-20	2,267.33	(114.13)	(4.8%)
2020-21	2,189.82	(77.51)	(3.4%)

The downward trend in enrollment in recent years after several years of stability will have an impact on the district's future. Further decline is anticipated in the 2021-22 year. Management will take steps to adjust operations to align with smaller class sizes.

General Fund - Expenditures:

The following schedule presents a summary of General Fund Expenditures:

	Year Ended <u>June 30, 2021</u>	Year Ended <u>June 30, 2020</u>	Amount of Increase (Decrease)
Salaries	\$18,055,514	\$ 17,096,396	\$ 959,118
Employee Benefits	8,535,571	7,942,472	593,099
Purchased Services	3,978,332	4,398,632	(420,300)
Supplies and Materials	2,512,888	1,644,962	867,926
Capital Expenditures	1,569,525	1,152,342	417,183
Other Expenditures	<u>374,552</u>	<u>292,691</u>	<u>81,861</u>
Total General Fund Expenditures	\$35,026,382	\$32,527,495	\$ 2,498,887

Total General Fund expenditures increased by \$2,498,887 or about 7.7% from the previous year primarily due to the costs associated with increases in salaries/benefits and supplies due to the Coronavirus (see previous comments under general fund revenues) and capital improvements in the current fiscal year.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2021**

General Fund Balance Information: In 2020-21, the general fund revenues were less than expenditures by \$1,479,399 impacting the general fund balance. The District has restricted funds set aside as required under UFARS of \$1,023,350 along with a committed set aside for the future funding of retiree medical costs (\$3,561,618), the District has assigned balance for student activities of \$22,099. That leaves the District with an unassigned balance of \$7,148,164. This is a decrease of \$1,251,356 from the prior year unassigned balance of \$8,399,520.

The following chart shows Unassigned General Fund Balance information after to the GASB #54 Standards adoption:

<u>UNASSIGNED GENERAL FUND BALANCE</u>			
<u>YEAR</u>	<u>FUND BALANCE</u>	<u>ANNUAL CHANGE</u>	<u>PERCENT CHANGE</u>
2009-10	\$1,841,808	\$ -----	-----
2010-11	\$1,833,863	\$ (7,945)	(0.4%)
2011-12	\$2,516,217	\$682,364	37.2%
2012-13	\$2,622,021	\$105,804	4.2%
2013-14	\$3,445,646	\$823,625	31.4%
2014-15	\$5,034,912	\$1,589,266	46.1%
2015-16	\$6,311,924	\$1,277,012	25.3%
2016-17	\$7,925,442	\$1,613,518	25.6%
2017-18	\$9,583,250	\$1,657,808	20.9%
2018-19	\$8,617,967	\$ (965,283)	(10.1%)
2019-20	\$8,399,520	\$ (218,447)	(2.5%)
2020-21	\$7,148,164	\$(1,251,356)	(14.9%)

The chart above is the single best measure of overall financial health. The unassigned general fund balance of \$7,148,164 on June 30, 2021 represents 20.4% of annual expenditures, or approximately 74 days of operations. The Business Office closely monitors the District fund balances. Due to enrollment declines as referenced above, the unassigned fund balance would be expected to continue to decline without reductions in operating costs.

General Fund Budget

During the fiscal year, the School Board authorizes revisions to the original budget to accommodate differences from the original budget to the actual expenditures and revenues of the District. All adjustments are again confirmed at the time the annual audit is accepted, which is after the end of the fiscal year. A schedule showing the District’s original and final budget amounts compared with amounts actually paid and received is provided on page 22.

The final budgeted revenues were \$34,044,975 or a \$601,496 increase over the original adopted budget of \$33,443,479. The final budgeted expenditures were \$34,887,991 or a \$1,399,852 increase over the original adopted budget of \$33,488,139. Actual expenditures exceeded revenues by \$636,383 as explained under financial highlights on page 3.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2021**

Building Construction Major Fund

The District established a building construction fund in the current fiscal year to account for the construction and upgrades to its facilities. The fund reflects net proceeds from the issuance of certificates of participation of \$9,692,442. Total capital outlay during the current fiscal year was \$2,010,557. The net impact of the activity for the year resulted in an increase of \$7,583,151 of which \$51,250 is anticipated to be recouped in the subsequent year with additional debt proceeds. \$7,6344,401 is required to be reserved and used specifically for the construction projects earmarked under the certificate of participation debt issuance agreement.

Debt Service Major Fund

The debt service fund had an increase of \$579,148 for the year. Revenues reported in the fund totaled \$976,801 for the year. The debt service fund has a remaining fund balance of \$6,387,331 at the end of June 30, 2021, which primarily represents the balance of the escrow account as required to pay for the Qualified School Construction Bonds issued for the High School Indoor Air Quality project.

Other Governmental Funds Information - Other Nonmajor Governmental Funds

The District’s remaining funds (food service and community service) are combined in the aggregate and reported as nonmajor funds in the accompanying financial statements also found on pages 18 and 20. More details on these funds are in the supplemental schedules found on pages 63 and 64. Overall those funds experienced an increase of \$73,358 due total revenues of \$1,551,903 exceeding expenditures of \$1,478,545 primarily from the District’s food service program.

CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

At June 30, 2021, the District had \$34,415,520 invested in a broad range of capital assets, including land, buildings and furniture and equipment, net of accumulated depreciation of \$35,976,637. This amount represents a net increase (including additions, deletions and depreciation) of \$1,997,348 from last year.

Table A-4
Governmental Activities
Capital assets-net of depreciation

	2021	2020
Land and Improvements	\$ 1,554,338	\$ 1,654,844
Buildings	29,697,622	30,742,768
Equipment	1,065,850	1,316,893
Construction in progress	2,097,710	264,784

Major capital additions for the year in the amount of \$2,505,151 were for various capital improvements to the District buildings including the new early childhood educational center along with other facility upgrades for Cheever Field. Some of these projects are still in progress at year end.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT’S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2021**

DEBT ADMINISTRATION

As of June 30, 2021, the District had total outstanding bond principal of \$18,250,000. \$245,000 was made in principal payments in the current fiscal year and payment of the capital lease of \$265,725.

Table A-5
Outstanding Debt

	2021	2020
General Obligation Taxable Alternative Facilities		
- Bonds, Series 2010A	\$7,500,000	\$7,500,000
General Obligation Tax Abatement		
- Bonds, Series 2014A	\$ 410,000	\$ 505,000
General Obligation Bonds, Series 2017A	\$ 985,000	\$1,135,000
Capital Lease Payable	\$ -	\$ 265,725
Certificate of Participation, Series 2021A	\$9,355,000	-

Other obligations include accrued vacation pay and sick leave for specific employees of the District which included \$38,571,263 in an estimated OPEB liability, \$19,637,574 in estimated net pension liability, \$1,488,018 in a severance liability and \$215,252 for compensated absences. More detailed information about our long-term liabilities is included in notes 5,6, and 7 to the financial statements.

FACTORS BEARING ON THE DISTRICT’S FUTURE

With the exception of a voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. The Minnesota state legislature has provided consistent increases to the funding formula in recent years. These increases provide for stability in regards to revenue. An unknown factor for the District’s future is whether the legislature will continue to provide funding increases.

The District saw another significant decline in enrollment during 2020-21, and expects further decline in 2021-22. The COVID-19 pandemic, beginning in March 2020, may continue to contribute to the significant enrollment loss. The loss is attributed to online education options, homeschool, and the general demographic trends of the community. The district will need to take action to address the lost revenue. Management continues to develop a plan to address the loss in enrollment.

In the year 2020-21, the district experienced a large increase in health insurance costs. The Minnesota Healthcare Consortium recently awarded a partnership with Medica, ending a years-long relationship with Blue Cross/Blue Shield. This may lead to an opportunity for decreased health insurance premiums, but there continues to be uncertainty. The district must continue to strive to reduce overall health care costs through increased premium contributions for both retired and active employees, or by moving all employees to a more affordable plan with a deductible. Health care costs can rapidly increase, and because of the structure of the District’s labor agreements, any increase in health care premiums in the future will have a significant effect on the District’s financial position.

**INDEPENDENT SCHOOL DISTRICT #701
HIBBING, MN**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) – (continued)
June 30, 2021**

An actuarial valuation report for fiscal year ending June 30, 2021 estimates the total OPEB accrued liability to be approximately \$38.5 million, a decrease from the prior year of about \$500,000. This unfunded long-term liability has the potential to put financial pressure on the District. It should be noted that the school board passed a resolution in June 2019 to invest future earnings from committed funds to severance, separation, and OPEB. This liability is not current and the district has the authority to levy for this cost as needed, providing relief to the district. As noted under the current year financial highlights, the impact on the net position of the District is evident for the recognition of benefits to be paid out in future years for current obligations to District personnel.

The District generates some revenue based on taconite production in the District and taconite production employs a significant number of people in the area, which can have an effect on enrollment stability. The District should remain aware of the current state and health of taconite producers and use this information to plan for the future.

Finally, the school district will need to keep track of the General Fund operating referendums that are currently in place. In August, 2013, the district adopted a resolution to approve a five-year school board adopted referendum in the amount of \$300 per pupil, and also to accept the Location Equity Revenue (now known as Local Optional Revenue) for approximately \$424 per pupil. As required by the Minnesota Department of Education and as required by the laws in place at this time, the District's Board of Education adopted another resolution to extend the \$300 per pupil referendum for an additional five-year period in August 2018. Prior referendums that were passed before fiscal year 2014 will no longer need to be renewed, as the new legislation for Local Optional Revenue will automatically increase as the old referendums expire. This Board of Education should continue to renew this resolution as the District depends on this additional funding.

CONTACTING THE DISTRICT FINANCIAL MANAGEMENT

Our financial report is designated to provide our citizens, taxpayers, parents, students, investors and creditors with a general overview of the District's finances and to show the Board's accountability for the money it receives. If you have questions about this report or wish to request additional financial information, please contact Alex Kaczor, Business Manager at Hibbing School District, 800 East 21st Street, Hibbing, MN 55746, or call (218) 208-0849.

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF NET POSITION

June 30, 2021

	Governmental Activities
Assets	
Current Assets	
Cash and cash equivalents	\$ 21,923,216
Investments	6,438,537
Receivables	
Taxes - current	1,802,425
Taxes - delinquent	103,162
Accounts	65,717
Interest	382
Other governments	5,529,742
Less - allowance for uncollectible taxes	(21,000)
Inventory	32,702
Prepays	463
Total Current Assets	<u>35,875,346</u>
Capital Assets	
Land	326,700
Land improvements	2,981,948
Buildings	59,918,278
Equipment	5,067,521
Work in progress	2,097,710
	<u>70,392,157</u>
Less - accumulated depreciation	(35,976,637)
Total Capital Assets	<u>34,415,520</u>
Total Assets	<u>70,290,866</u>
Deferred Outflows of Resources	
Related to OPEB	6,508,052
Related to net pension liability	2,720,674
Total Deferred Outflows of Resources	<u>9,228,726</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 79,519,592</u>
Liabilities	
Current Liabilities	
Accounts payable	\$ 1,151,824
Salaries payable	1,852,387
Accrued expenses	294,809
Accrued interest	57,855
Current portion of long-term obligations	665,000
Current portion of compensated absences payable	75,072
Current portion of separation and severance payable	211,102
Total Current Liabilities	<u>4,308,049</u>
Noncurrent Liabilities	
Long-term debt obligations	17,916,817
Compensated absences payable	215,252
Separation and severance payable	1,488,018
Net pension liability	19,637,574
Other post employment benefit payable (OPEB)	38,571,263
Total Noncurrent Liabilities	<u>77,828,924</u>
Total Liabilities	<u>82,136,973</u>
Deferred Inflows of Resources	
Property taxes levied for subsequent years expenditures	2,756,316
Related to OPEB	4,074,830
Related to net pension liability	6,734,818
Total Deferred Inflows of Resources	<u>13,565,964</u>
Net Position	
Net investment in capital assets	15,775,848
Restricted for state mandated requirements	15,977,866
Unrestricted	(47,937,059)
Total Net Position	<u>(16,183,345)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 79,519,592</u>

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2021

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
District and school administration	\$ 1,086,718	\$ -	\$ -	\$ -	\$ (1,086,718)
District support services	996,110	-	-	-	(996,110)
Instruction					
Regular	9,452,542	5,223	2,586,787	-	(6,860,532)
Vocational	91,786	-	36,682	-	(55,104)
Special education	5,461,310	-	4,561,282	-	(900,028)
Community education and services	532,967	199,734	327,294	-	(5,939)
Instructional support services	2,226,302	206,967	-	-	(2,019,335)
Pupil support services	2,329,576	-	-	-	(2,329,576)
Site, buildings and equipment	4,633,076	12,629	-	675,240	(3,945,207)
Fiscal and other fixed cost programs	254,544	-	-	-	(254,544)
Food service	948,472	149,550	873,761	-	74,839
Interest and fiscal charges on long term debt	181,454	-	-	-	(181,454)
Depreciation - unallocated*	1,370,000	-	-	-	(1,370,000)
	<u>\$ 29,564,857</u>	<u>\$ 574,103</u>	<u>\$ 8,385,806</u>	<u>\$ 675,240</u>	<u>(19,929,708)</u>
		General Revenues			
		Taxes			
					2,042,794
					330,853
					20,003,906
					4,060,441
					103,166
					367,379
					<u>26,908,539</u>
					6,978,831
					<u>(23,162,176)</u>
					<u>\$ (16,183,345)</u>

*This amount does not include the depreciation that is included in the direct expenses of the various functions. See Note 4.

INDEPENDENT SCHOOL DISTRICT 701

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2021

	General Fund	Building Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 8,193,033	\$ 8,270,535	\$ 1,622,081	\$ 866,453	\$ 18,952,102
Investments	1,548,592	-	4,889,945	-	6,438,537
Receivables					
Taxes - current	1,555,568	-	246,857	-	1,802,425
Taxes - delinquent	103,162	-	-	-	103,162
Accounts	65,717	-	-	-	65,717
Interest	382	-	-	-	382
Other governments	5,300,395	-	54,523	174,824	5,529,742
Inventory	-	-	-	32,702	32,702
Total Assets	16,766,849	8,270,535	6,813,406	1,073,979	32,924,769
Deferred Outflows of Resources					
	-	-	-	-	-
Total Assets and Deferred Outflows of Resources	\$ 16,766,849	\$ 8,270,535	\$ 6,813,406	\$ 1,073,979	\$ 32,924,769
Liabilities, Deferred Inflows of Resources, and Fund Balances					
Liabilities					
Accounts payable	\$ 389,188	\$ 687,384	\$ 1,025	\$ 74,227	\$ 1,151,824
Salaries payable	1,829,200	-	-	23,187	1,852,387
Accrued expenses	284,194	-	-	10,615	294,809
Compensated absences payable	74,608	-	-	464	75,072
Total Liabilities	2,577,190	687,384	1,025	108,493	3,374,092
Deferred Inflows of Resources					
Property taxes levied for subsequent years expenditures	2,331,266	-	425,050	-	2,756,316
Delinquent property taxes	103,162	-	-	-	103,162
Total Deferred Inflows of Resources	2,434,428	-	425,050	-	2,859,478
Fund Balance					
Fund balance - nonspendable	-	-	-	32,702	32,702
Fund balance - restricted (General)	1,023,350	-	-	-	1,023,350
Fund balance - restricted (Special Revenue)	-	-	-	932,784	932,784
Fund balance - restricted (Building Construction)	-	7,634,401	-	-	7,634,401
Fund balance - restricted (Debt Service)	-	-	6,387,331	-	6,387,331
Fund balance - committed	3,561,618	-	-	-	3,561,618
Fund balance - assigned	22,099	-	-	-	22,099
Fund balance - unassigned	7,148,164	(51,250)	-	-	7,096,914
Total Fund Balance	11,755,231	7,583,151	6,387,331	965,486	26,691,199
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 16,766,849	\$ 8,270,535	\$ 6,813,406	\$ 1,073,979	\$ 32,924,769

INDEPENDENT SCHOOL DISTRICT 701

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION - GOVERNMENTAL FUNDS

June 30, 2021

Total Fund Balances - Governmental Funds	\$ 26,691,199
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	
Cost of capital assets	70,392,157
Less - accumulated depreciation	(35,976,637)
Net delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the governmental funds. (\$103,162 less allowance of \$21,000)	
	82,162
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in the governmental funds balance sheet but is recorded in the governmental activities.	
	(57,855)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of:	
Bonds and capital leases	(18,581,817)
Compensated absences payable	(215,252)
Separation and severance payable	(1,699,120)
OPEB liability	(38,571,263)
Net pension liability	(19,637,574)
The recognition of net pension liability is effected by timing and treatment of certain items that are not recognized in the governmental funds:	
Deferred outflows of resources as related to OPEB liability	6,508,052
Deferred outflows of resources as related to net pension liability	2,720,674
Deferred inflows of resources as related to OPEB liability	(4,074,830)
Deferred inflows of resources as related to net pension liability	(6,734,818)
An internal service fund is used by the District to charge the costs of the health and dental insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	
	2,971,577
Total Net Position - Governmental Activities	<u>\$ (16,183,345)</u>

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2021

	General Fund	Building Construction Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Revenues					
Local property tax levies	\$ 2,050,172	\$ -	\$ 330,853	\$ -	\$ 2,381,025
Other local and county	4,363,468	95,060	100,714	201,298	4,760,540
State sources	23,450,715	-	545,234	337,173	24,333,122
Federal sources	3,664,848	-	-	863,882	4,528,730
Sales and other conversions of assets	17,780	-	-	149,550	167,330
Total Revenues	33,546,983	95,060	976,801	1,551,903	36,170,747
Expenditures					
Current					
District and school administration	1,527,591	-	-	-	1,527,591
District support services	1,321,076	-	-	-	1,321,076
Instruction					
Regular	14,315,208	-	-	-	14,315,208
Vocational	146,870	-	-	-	146,870
Special education	7,172,765	-	-	-	7,172,765
Community education and services	-	-	-	532,967	532,967
Instructional support services	2,376,616	-	-	-	2,376,616
Pupil support services	2,430,498	-	-	-	2,430,498
Site, buildings and equipment	3,911,689	193,794	-	-	4,105,483
Fiscal and other fixed cost programs	254,544	-	-	-	254,544
Food service	-	-	-	945,578	945,578
Capital Outlay	1,569,525	2,010,557	-	-	3,580,082
Debt Service					
Principal	-	-	245,000	-	245,000
Interest and fiscal charges	-	-	152,653	-	152,653
Total Expenditures	35,026,382	2,204,351	397,653	1,478,545	39,106,931
Excess of Revenues Over (Under) Expenditures	(1,479,399)	(2,109,291)	579,148	73,358	(2,936,184)
Other Financing Sources					
Proceeds from sale of equipment	367,379	-	-	-	367,379
Proceeds from issuance of debt	-	9,692,442	-	-	9,692,442
	367,379	9,692,442	-	-	10,059,821
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	\$ (1,112,020)	\$ 7,583,151	\$ 579,148	\$ 73,358	\$ 7,123,637
Fund Balance - Beginning of the year	12,867,251	-	5,808,183	892,128	19,567,562
Fund Balance - End of the year	\$ 11,755,231	\$ 7,583,151	\$ 6,387,331	\$ 965,486	\$ 26,691,199

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT 701

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2021

Total Net Change in Fund Balance - Governmental Funds	\$ 7,123,637
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However in the statement of activities, the cost of these assets are allocated over the estimated useful lives as depreciation expense.	
Capital outlays	2,505,151
Depreciation expense	(2,068,921)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds until due and payable such as interest.	(34,426)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	(7,378)
In the statement of activities, certain operating expenses - compensated absences and special termination benefits - are measured by the amounts earned during the year. In the government funds, however, expenditures for these items are measured by the amount of financial resources used (essentially amounts actually paid.)	
Compensated absences, special termination benefits including OPEB	1,102,101
Long term debt payments	(245,000)
In the statement of activities, net pension liability (NPL) is measured considering the change in deferred inflows and outflows under GASB 68. In the governmental funds, pension contribution is measured based on employer contributions. This is the difference between the recognition methods.	7,932,790
In the statement of activities, proceeds from the issuance of long term debt are included as a long term liability; however, in the governmental funds the proceeds are accounted for as other financing sources in the operating statement.	(9,355,000)
In the statement of activities, premiums on long term debt issuances are amortized over the life of the bond. In the governmental funds, the amounts are presented net of the proceeds.	(331,817)
An internal service fund is used by the District to charge the costs of the health and dental insurance program to individual funds. The net decrease of the internal service fund is reported with governmental activities.	357,694
Change in Net Position - Governmental Activities	<u>\$ 6,978,831</u>

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND

For the Fiscal Year Ended June 30, 2021

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues				
Local property tax levies	\$ 2,292,881	\$ 2,295,539	\$ 2,050,172	\$ (245,367)
Other local and county	4,982,640	5,041,332	4,363,468	(677,864)
State sources	25,107,617	24,242,911	23,450,715	(792,196)
Federal sources	1,060,341	2,460,193	3,664,848	1,204,655
Sales and other conversions of assets	-	5,000	17,780	12,780
Total Revenues	33,443,479	34,044,975	33,546,983	(497,992)
Expenditures				
Current				
District and school administration	1,404,272	1,580,108	1,527,591	(52,517)
District support services	1,211,770	1,211,770	1,321,076	109,306
Instruction				
Regular	15,432,145	15,432,145	14,315,208	(1,116,937)
Vocational	157,985	157,985	146,870	(11,115)
Special education	5,700,581	5,700,581	7,172,765	1,472,184
Instructional support services	1,717,107	2,731,062	2,376,616	(354,446)
Pupil support services	1,896,476	1,896,476	2,430,498	534,022
Site, buildings and equipment	4,041,350	4,251,411	3,911,689	(339,722)
Fiscal and other fixed cost programs	229,606	229,606	254,544	24,938
Capital Outlay	1,696,847	1,696,847	1,569,525	(127,322)
Total Expenditures	33,488,139	34,887,991	35,026,382	138,391
Excess of Expenditures Over Revenues	(44,660)	(843,016)	(1,479,399)	(636,383)
Other Financing Sources				
Proceeds from sale of equipment	-	367,379	367,379	-
Excess of Expenditures Over Revenue and Other Financing Sources	\$ (44,660)	\$ (475,637)	(1,112,020)	\$ (636,383)
Fund Balance - Beginning of the year			12,867,251	
Fund Balance - End of the year			\$ 11,755,231	

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF NET POSITION - PROPRIETARY FUND

June 30, 2021

	Internal Service
<hr/>	
<i>Assets</i>	
Cash	\$ 2,971,114
Prepays	463
	<hr/>
Total Assets	2,971,577
<i>Deferred Outflows of Resources</i>	-
	<hr/>
Total Assets and Deferred Outflows of Resources	\$ 2,971,577
	<hr/> <hr/>
<i>Liabilities</i>	
Unearned revenues	\$ -
<i>Deferred Inflows of Resources</i>	-
<i>Net Position</i>	
Unrestricted	2,971,577
	<hr/>
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 2,971,577
	<hr/> <hr/>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUND

For the Fiscal Year Ended June 30, 2021

	Internal Service
Operating Revenue	
Charges from governmental funds	\$ 5,802,345
Operating Expenses	
Health and dental benefits	5,457,591
Operating income	344,754
Nonoperating revenues	
Investment earnings	12,940
Change in net position	357,694
Net Position - Beginning of the year	2,613,883
Net Position - End of the year	\$ 2,971,577

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF CASH FLOWS - PROPRIETARY FUND

For the Fiscal Year Ended June 30, 2021

	Internal Service
Cash flows from operating activities	
Received from assessments made to other funds	\$ 5,802,345
Health and dental payments	(5,452,610)
Net cash provided in operating activities	349,735
Cash flows from investing activities	
Proceeds from maturities of investments	1,584,579
Purchases of investments	(14,173)
Investment earnings	15,500
Net provided by investing activities	1,585,906
Net increase in cash	1,935,641
Cash - Beginning of the year	1,035,473
Cash - End of the year	\$ 2,971,114
Reconciliation of operating income to net cash provided by operating activities	
Operating income	\$ 344,754
Adjustments to reconcile operating income to net cash provided by operating activities	
Decrease in prepaids	4,981
Net cash provided by operating activities	\$ 349,735

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of Independent School District 701, Hibbing, Minnesota have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

Independent School District 701, Hibbing, Minnesota, was established pursuant to applicable Minnesota laws and statutes to provide public education facilities to every child of school age residing within the District.

The governing body consists of a six member board elected by eligible voters of the District. Three members are elected every two years. The powers and duties of the Board are provided in Minnesota Statutes.

The District's financial statements include the accounts of all the District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Government Accounting Standards Board Statement No. 61, *The Financial Reporting Entity*, amends GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* by clarifying requirements for the reporting of component units. Consideration for inclusion as a component unit include whether the organization is legally separate, the District holds the corporate powers of the organization, the District appoints a voting majority of the board, the District is able to impose its will, whether the organization has the potential to impose a financial burden/benefit on the District and the level of fiscal dependency. GASB 61 expanded the definitions found within Statement 14 as well as clarified many of the criteria used to determine the financial benefit and burden relationships. Based upon the application of these criteria, there were no component units requiring inclusion with the reporting entity.

With the adoption of GASB Statement No. 84, *Fiduciary Activities*, extracurricular funds under board control are now reported within the general fund. They are no longer presented as a separate reporting unit.

Basic Financial Statement Presentation

The District-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statements of Fiduciary Net Position and Changes in Net Position at the fund financial statement level. As of June 30, 2021, the District did not hold any fiduciary funds.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Separate fund financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining governmental funds is reported in a single column in the fund financial statements.

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal user of the internal services are the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the district-wide financial statements. The cost of these services is reported in the appropriate functional activity.

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

The fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (other than the district) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the district-wide statements. As of June 30, 2021, the District did not hold any fiduciary funds.

Measurement Focus and Basis of Accounting

District-Wide Financial Statements

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund and fiduciary fund financial statements. Revenues are recorded when

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts recognized in advance in accordance with a statutory tax shift. Grants and similar items are recognized when all eligible requirements imposed by the provider have been met. Program revenues include charges paid by the recipient of the services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

Governmental 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:

Revenue recognition

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

Recording of Expenditures

Expenditures are generally recorded when a liability is incurred and is anticipated to be paid within a reasonable amount of time after year end (generally assumed to be within 60 days). The exception to this general rule is that interest and principal expenditures in the Debt Service Fund are recognized on their due dates.

Description of Funds

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

Major Governmental Funds

General Fund

The General Fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

Building Construction Fund

The Building Construction fund is used to account for the accumulation of resources for, and the payment of, activities relating to facility construction projects within the District.

Debt Service Fund

The Debt Service fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

Nonmajor Governmental Funds

Food Service Special Revenue Fund

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

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Community Service Special Revenue Fund

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

Proprietary Fund

Internal Service fund

The Internal Service Fund accounts for financing of goods or services provided by one department to other departments of the district on a cost-reimbursement basis. The District's internal service fund includes financing for health and dental benefits.

Budgeting

An annual appropriated budget is adopted for all of the District's funds and is adopted on a basis consistent with the financial statements. The budget is adopted prior to July 1 for the next school year. All annual appropriations lapse at year end. Revisions of the budget were made throughout the year and approved by the board. Interim budget amendments increased the General Fund revenue budget by \$601,496 and increased the expenditure budget by \$1,399,852.

Cash and Cash Equivalents

The District pools the cash balances of all funds primarily into three common demand deposit accounts, with the exception of the its internal service fund for which separate checking accounts are maintained. For financial statement purposes cash and cash equivalents consist of checking, savings, money market accounts and funds held in the Minnesota Liquid Asset Fund (LAF).

Investments

State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements. Investments are stated at fair value. The District uses a fair value hierarchy established by generally accepted accounting principles. The hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are inputs - other than quoted prices included within level 1 - that are observable either directly or indirectly. Level 3 inputs are unobservable inputs. The fair value was obtained through information provided by third party sources. The District considers certificates of deposit as investments due to anticipated long term maturities.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounts Receivable

No allowance for uncollected accounts receivable is considered necessary.

Inventories

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

Prepaid Items

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

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair value at the date of donation. The District maintains a threshold of \$5,000 or more for capitalizing assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital outlay reported at the fund statement level reflects all expenditures that are capital in nature including those that fall below the \$5,000 capitalization threshold.

Capital assets are recorded in the district-wide statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose 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 buildings, and 5 to 15 years for equipment.

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow (expense/expenditure) until then. The District has items that qualify for reporting in this category relating to the recognition of the net pension liability under GASB 68 and OPEB liabilities under GASB 75.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has reported items in relation to the recording and reporting of property taxes levied for subsequent years expenditures and property tax reporting as well as deferred items in relation to the net pension liability recognized under GASB 68 and OPEB liabilities under GASB 75 in the accompanying financial statements.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences

District employees are eligible to receive paid vacation and sick leave benefits. The amount of such benefits that an employee is entitled to depends on the bargaining unit to which he or she is a member and also on his or her years of service.

The District records a liability for vested vacation and sick leave benefits used within sixty days after year end as a liability in the fund financial statements. The total amount earned as of June 30 is recorded in the district-wide statements.

Severance Pay

The District has implemented the provisions of GASB Statement No. 75 which recognizes other postemployment benefit (OPEB) costs and anticipated benefits to be paid over remaining lives once an employee retires from service. See additional disclosures in Note 7.

In addition to providing the health and dental benefits, employees may be eligible to receive direct severance payments. The District records a liability in the respective funds for those eligible retirees who have retired and are entitled to benefits and will be paid out within the first 60 days of June 30, 2021 in the fund financial statements. The total amount of all employees eligible to retire (whether they've given notice or not to retire) as of June 30, 2021 is recorded in the district-wide financial statements.

Long-Term Debt Obligations

In the district-wide financial statements, bonds payable and other long-term debt obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of applicable bond premium or discounts. Bond issuance costs under GASB Statement 65 are expensed as debt service costs as incurred.

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

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 coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage during the past fiscal year.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Position

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

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 inventories and prepaids.

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. These constraints are established by formal resolution of the District's board. These amount cannot be used for any other purposes unless the Board modifies or rescinds the motion.

Assigned - consists of internally imposed constraints. These constraints reflect the specific purpose for which it is the District's intended use. These constraints are established by the Board and/or management. The Board has authorized the superintendent and/or the business manager to establish assignments of fund balance.

Unassigned - is the residual classification for the general fund and 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, and 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.

Minimum Unassigned Fund Balance Policy

The District has formally adopted a policy regarding the minimum unassigned fund balance for the General Fund. The most significant revenue source of the general fund is state funded educational aid and property taxes. As such the district set a policy to strive to maintain a minimum unassigned general fund balance of 8 percent of the annual budget.

Property Taxes

The School Board annually adopts a tax levy and certifies it to the County for collection. The County is responsible for collecting all property taxes for the District. These taxes attach an enforceable lien on taxable property within the District on January 1 and are payable by the property tax owners by May 15 and October 15 of each year. The taxes are collected by the County and tax settlements are made to the District.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxes payable on qualifying property are partially reduced by homestead, agricultural, and taconite aid credits. The credits are paid to the District by the State in lieu of taxes levied against the property.

Current property taxes receivable are recorded for taxes levied in 2020 and payable in 2021. A portion of the current property taxes are recognized as revenue in the fiscal year ended June 30, 2021 in accordance with state statutes and the remaining balance is deferred for subsequent years operations. Revenue from these delinquent property taxes that are not collected within 60 days of year-end are deferred in the fund financial statements because it is not known to be available to finance the operations of the District in the current year. For the District-wide statements, an allowance has been recorded to account for the estimated amount of uncollectible taxes.

Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. This direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 6.

Use of Estimates

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

NOTE 2 CASH AND INVESTMENTS

Minnesota Statutes require that all deposits which are not U.S. government securities be protected by insurance, surety bond, or collateral. The market value of the collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes legal investments, as well as certain first mortgage notes, and certain other state and local government obligations. State statutes require that securities pledged as collateral be held in safekeeping by the District or in a financial institution other than that furnishing the collateral.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be recovered. The District does not have a formal deposit policy for custodial credit risk other than to follow the Statutes required under the State of Minnesota. At June 30, 2021, the carrying amount of the District's deposits was \$21,923,216. As of June 30, 2021, all of the District's deposits were adequately covered with deposit insurance or collateral held in the District's name.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 2 CASH AND INVESTMENTS (Continued)

Cash and Cash Equivalents

The District holds the following cash and cash equivalent accounts as of June 30.

Deposits in banks - checking and savings	\$ 801,267
Money market cash funds	11,561,632
MN Liquid Asset Fund	9,560,317
	<u>\$ 21,923,216</u>

The liquid asset fund values were obtained from statements provided by the Minnesota School District Liquid Asset fund administrator. The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the SEC that follows the same regulatory rules of the SEC under rule 2a7 and is managed by the Board and Minnesota Statutes. They are valued at amortized cost, which approximates fair value. The investment in the MN Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40.

Investments

The schedule below is a categorization of the District's investments (with maturities by years) as of June 30.

	1-5 years	6-10 years	Total
Certificates of deposit (at cost - not rated)	\$ 1,994,624	\$ -	\$ 1,994,624
Municipal bonds (fair value using level 2)	3,227,472	1,212,441	4,439,913
	<u>\$ 5,222,096</u>	<u>\$ 1,212,441</u>	<u>\$ 6,434,537</u>

The following schedule reports the fair value and rating assigned by Moody's/S&P obtained from the District's investment advisors:

Certificates of deposits	FDIC insured - not rated	\$ 1,994,624
Municipal bonds	AA/S&P	65,174
Municipal bonds	Aa3/Moody's	108,227
Municipal bonds	Aa2/Moody's	804,859
Municipal bonds	Aa1/Moody's	52,854
Municipal bonds	Aaa/Moody's	179,268
Municipal bonds	AA/S&P	965,889
Municipal bonds	AA+/S&P	344,651
Municipal bonds	AA-/S&P	981,602
Municipal bonds	AAA/S&P	937,389
		<u>\$ 6,434,537</u>

Investments measured at level 1 of the fair value hierarchy are valued using prices quotes in active markets for those securities. Level 2 are valued using other observable inputs and level 3 are those that do not have significant fair value inputs available. All the District's investments required to be reported at fair value are measured using level 2 measurement basis.

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits might not be recovered. The District does not have a formal deposit policy for custodial credit risk outside of statutory requirements.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 2 CASH AND INVESTMENTS (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District does not have a formal investment risk policy.

Credit risk is defined as the risk that an issuer or other counterparts to an investment in debt securities will not fulfill its obligation. State statutes limit investments to obligations of the U.S. Treasury commercial paper, corporate bonds and repurchase agreements. The District has no investment policy that would further limit its investment choices.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District placed no limit on the amount the District may invest in any one issuer. More than 5 percent of the district's investments are held in certificates of deposits at various financial institutions.

NOTE 3 RECEIVABLE FROM OTHER GOVERNMENTS

The District has amounts due from other governments at June 30 as follows:

	General	Debt Service Fund	Other Governmental Funds	Total District- Wide
Due from the Dept. of Education	\$ 2,109,542	\$ 54,523	\$ 28,579	\$ 2,192,644
Due from the federal government through the Dept. of Education	1,973,503	-	146,245	2,119,748
Due from other governmental units	1,217,350	-	-	1,217,350
	<u>\$ 5,300,395</u>	<u>\$ 54,523</u>	<u>\$ 174,824</u>	<u>\$ 5,529,742</u>

NOTE 4 CAPITAL ASSETS

The following is a summary of changes in the capital assets during the year:

	Balance June 30, 2020	Additions	Retirements	Balance June 30, 2021
Land	\$ 326,700	\$ -	\$ -	\$ 326,700
Land improvements	2,981,948	-	-	2,981,948
Buildings	59,252,126	666,152	-	59,918,278
Equipment	5,061,448	6,073	-	5,067,521
Construction in progress	264,784	1,832,926	-	2,097,710
	<u>\$ 67,887,006</u>	<u>\$ 2,505,151</u>	<u>\$ -</u>	<u>\$ 70,392,157</u>

Accumulated depreciation activity for the year ended June 30, 2021 is as follows:

	Accumulated Depreciation June 30, 2020	Additions	Retirements	Accumulated Depreciation June 30, 2021
Land improvements	\$ 1,656,335	\$ 97,975	\$ -	\$ 1,754,310
Buildings	28,464,549	1,756,107	-	30,220,656
Equipment	3,786,832	214,839	-	4,001,671
	<u>\$ 33,907,716</u>	<u>\$ 2,068,921</u>	<u>\$ -</u>	<u>\$ 35,976,637</u>

The District reflected \$367,379 in proceeds from the sale of technology equipment (ipads) that originally had not met the threshold for capitalization.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 4 CAPITAL ASSETS (Continued)

Capital assets, net of accumulated depreciation, as of June 30, 2021 is as follows:

Land (not being depreciated)	\$	326,700
Land improvements		1,227,638
Buildings		29,697,622
Equipment		1,065,850
Construction in progress (not currently being depreciated until placed in service)		2,097,710
		<hr/>
	\$	34,415,520
		<hr/>

No interest was required to be capitalized during the year by the District.

Depreciation expense of \$2,068,921 for the year ended June 30, 2021 was charged to the following governmental functions:

District and school administration	\$	2,886
Instruction - regular		59,881
Instruction - vocational		18,902
Instruction - special education		1,844
Instruction support services		7,912
Pupil support services		34,812
Site, buildings and equipment		569,790
Food service		2,894
Unallocated		1,370,000
		<hr/>
	\$	2,068,921
		<hr/>

NOTE 5 LONG-TERM DEBT

General obligation bonds and notes are direct obligations and pledge the full faith and credit of the District. General obligation debt at June 30, 2021 is comprised of the following:

\$7,500,000 General Obligation Taxable Alternative Facilities Bonds, Series 2010A, due in annual interest only installments of \$105,000 through July 1, 2025. As of January 1, 2026 a one time principal payment of \$7,500,000 will be due, interest rate of 1.4 percent.	\$	7,500,000
\$940,000 General Obligation Tax Abatement Bonds, Series 2014A, dated July 23, 2014, due in annual installments of \$75,000 to \$105,000 through February 1, 2025. Interest rate of 2.0 to 3.0%.		410,000
\$9,355,000 Certificate of Participation, Series 2021A, dated April 21, 2021, due in annual installments of \$385,000 to \$580,000 through March 1, 2041. Interest rate of 2.0 to 3.0%.		9,355,000
\$1,550,000 General Obligation Bonds, Series 2017A, dated February 13, 2017 due in annual installments of \$120,000 to \$175,000 through February 1, 2027. Interest rate of 2.0 to 3.0%.		985,000
		<hr/>
		18,250,000
Plus: unamortized bond premiums		331,817
Less: current portion of long-term obligations		(665,000)
		<hr/>
	\$	17,916,817
		<hr/>

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 5 LONG-TERM DEBT (Continued)

Minimum principal and interest payments required to retire long-term liabilities are as follows:

Year ending June 30,	Principal	Interest	Total
2022	\$ 665,000	\$ 331,116	\$ 996,116
2023	645,000	347,178	992,178
2024	660,000	333,627	993,627
2025	670,000	318,145	988,145
2026	8,080,000	249,650	8,329,650
2027-2031	2,360,000	812,450	3,172,450
2032-2036	2,435,000	546,950	2,981,950
2037-2041	2,735,000	245,450	2,980,450
	<u>\$ 18,250,000</u>	<u>\$ 3,184,566</u>	<u>\$ 21,434,566</u>

During the year, the following changes occurred in the District's long-term debt:

	General Obligation Debt	Severance Payable	Compensated Absences Payable
Beginning of Year	\$ 9,405,725	\$ 1,768,690	\$ 345,972
Increases	9,355,000	511,780	531,453
Decreases	(510,725)	(581,350)	(587,101)
End of Year	<u>\$ 18,250,000</u>	<u>\$ 1,699,120</u>	<u>\$ 290,324</u>

The liabilities are reported on the District-wide statements as follows:

	General Obligation Debt	Severance Payable	Compensated Absences Payable
Current liabilities	\$ 665,000	\$ 211,102	\$ 75,072
Long-term obligations	17,916,817	1,488,018	215,252
	<u>\$ 18,581,817</u>	<u>\$ 1,699,120</u>	<u>\$ 290,324</u>

The debt service fund will liquidate the long term debt in future years for the general obligation bond and the general fund, food service or community education funds will finance the severance, and compensated absences liabilities in relation to the funds where the original salaries were paid.

See Notes 6 and 7 for further discussions on pension and OPEB liabilities for the District.

NOTE 6 PENSION PLANS

Substantially all employees of the District are required by State law to belong to pension plans administered by the Teachers Retirement Association (TRA) or the Public Employees Retirement Association (PERA), both of which are administered on a statewide basis.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 6 PENSION PLANS (Continued)

TEACHERS RETIREMENT ASSOCIATION

A Plan Description

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

Educators employed in Minnesota's public elementary and secondary school, charter schools, and certain educational institutions maintained by the state (except those employed by St. Paul schools or Minnesota State colleges and universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Defined Contribution Plan (DCR) administered by the State of Minnesota.

B Benefits Provided

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

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

Tier I Benefits

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

With these provisions:

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

or

Tier II Benefits

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

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 6 PENSION PLANS (Continued)

TEACHERS RETIREMENT ASSOCIATION (Continued)

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

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

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

C Contribution Rate

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

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

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

	in thousands
Employer contributions reported in TRA's CAFR	
Statement of Changes in Fiduciary Net Position	\$ 425,223
Add employer contributions not related to future contribution efforts	(56)
Deduct TRA's contributions not included in allocation	(508)
Total employer contributions	<u>424,659</u>
Total non-employer contributions	<u>35,587</u>
Total contributions reported in Schedule of Employer and Non-Employer Allocations	<u>\$ 460,246</u>

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

D Actuarial Assumptions

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

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 6 PENSION PLANS (Continued)

TEACHERS RETIREMENT ASSOCIATION (Continued)

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2020	
Experience Study	June 5, 2015	November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal	
Actuarial Assumptions:		
Investment Rate of Return	7.50%	
Price Inflation	2.50%	
Wage growth rate	2.85%	before July 1, 2028 and 3.25% after June 30, 2028
Projected Salary Increase	2.85 - 8.85%	before July 1, 2028 and 3.25% to 9.25% after June 30, 2028
Cost of living adjustment	1.00%	for January 2019 through January 2023, then increasing by .1% each year up to 1.5% annually.

Mortality Assumption

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

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Geometric Mean)
Domestic Equity	35.5%	5.10%
International Equity	17.5%	5.30%
Private Markets	25.0%	5.90%
Fixed income	20.0%	0.75%
Unallocated Cash	2.0%	0.00%
Total	100%	

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

Changes in actuarial assumptions since the 2018 valuation:

- The COLA was reduced from 2% each January 1 to 1% effective January 1, 2019. Beginning January 1, 2024, the COLA will increase .1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 6 PENSION PLANS (Continued)

TEACHERS RETIREMENT ASSOCIATION (Continued)

- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero % beginning July 1, 2019. Interest payable on refund to members was reduced from 4% to 3%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5% effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate increase from 7.5% to 7.75% on July 1, 2023. The state provides funding for the higher employer contributions rate through an adjustment in the school aid formula.

E Discount Rate

The discount rate used to measure the total pension liability was 7.50%. There was no change since the prior measurement date. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 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).

F Net Pension Liability

On June 30, 2021, the District reported a liability of \$16,202,178 for its proportionate share of net pension liability. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.2193% at the end of the measurement period and 0.2151% for the beginning of the year.

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

District's proportionate share of net pension liability	\$ 16,202,178
State's proportionate share of the net pension liability associated with the district	1,357,915

For the year ended June 30, 2021, the District recognized pension expense of \$1,648,732. It also recognized \$124,394 as an increase to pension expense for the support provided by direct aid.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 6 PENSION PLANS (Continued)

TEACHERS RETIREMENT ASSOCIATION (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 324,919	\$ 94,807
Change in actuarial assumptions	12,195	5,872,059
Net difference between projected and actual earnings on plan investments	301,608	-
Change in proportion	495,233	623,717
Contributions paid subsequent to year end	1,071,908	-
	<u>\$ 2,205,863</u>	<u>\$ 6,590,583</u>

\$1,071,908 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022.

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

2022	\$ (6,358,605)
2023	209,159
2024	369,940
2025	322,878

G Pension Liability Sensitivity

The following presents the net pension liability of TRA calculated using the discount rate of 7.5%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.5%) or 1% higher (8.5%) than the current rate

District Proportionate Share of NPL		
1 percent decrease (6.50%)	Current (7.50%)	1 percent increase (8.50%)
\$ 24,805,363	\$ 16,202,178	\$ 9,113,588

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

H Pension Plan Fiduciary Net Position

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

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 6 PENSION PLANS (Continued)

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

A Plan Description

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

General Employees Retirement Plan (GERF)

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

B Benefits Provided

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. The postretirement increase is equal to 50% of the cost of living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1% and a maximum of 1.5%. 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 the full increase.

For recipients receiving the annuity or benefit for at least one month but less than a full year as of 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 90 are exempt from the delay to normal retirement.

C Contributions

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

Coordinated Plan members were required to contribution 6.5% of their annual covered salary in fiscal year 2021; the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2021 were \$303,856. The District's contributions were equal to the required contributions for each year as set by state statute.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 6 PENSION PLANS (Continued)

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

D Pension Costs

At June 30, 2021, the District reported a liability of \$3,435,396 for its proportionate share of the GERF's net pension liability. The net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$105,995. The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019 through June 30, 2020 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020 the District's proportion share was .0573% at the end of the measurement period and .0553% for the beginning of the period.

District's proportionate share of the net pension liability	\$ 3,435,396
State of Minnesota's proportionate share of the net pension liability association with the District	105,995
	<u>\$ 3,541,391</u>

There were no provision changes during the measurement period.

For the year ended June 30, 2021, the District recognized a reduction in pension expense of \$305,073 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional \$9,225 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 30,211	\$ 12,998
Change in actuarial assumptions	-	124,325
Net difference between projected and actual earnings on plan investments	71,801	-
Change in proportion	108,943	6,912
Contributions paid subsequent to year end	303,856	-
	<u>\$ 514,811</u>	<u>\$ 144,235</u>

\$303,856 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amount reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

2022	\$ (149,641)
2023	40,578
2024	92,782
2025	83,001
Thereafter	-

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 6 PENSION PLANS (Continued)

PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

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:

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on Pub-2010 tables for males and females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1.25 percent per year for all future years for the General Employees Plan.

Actuarial assumptions used in the June 30, 2020 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2020.

Changes in Actuarial Assumptions

- The price inflation assumption was decreased from 2.5% to 2.25%.
- The payroll growth assumption was decreased from 3.25% to 3.00%.
- Assumed salary increase rates were changed as recommended in the June 20, 2020 experience study. The net effect is assumed rates that average 0.25% less than previous rates.
- Assumed rates of retirement were changed as recommended in the June 30, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly fewer Rule 90 and early retirements.
- Assumed rates of termination were changed as recommended in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for years 2-5 and slightly higher thereafter.
- Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females.
- The base mortality table for healthy annuitants and employees was changed from the RP-2014 table to the Pub-2010 general mortality table, with adjustments. The base mortality table for disabled annuitants was changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 general/teacher disabled annuitant mortality table, with adjustments.
- The mortality improvement scale was changed from Scale MP-2018 to Scale MP-2019.
- The assumed spouse age difference was changed from two years older for females to one year older.
- The assumed number of married male new retirees electing the 100% joint & survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% joint & survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the life annuity option was adjusted accordingly.

Changes in Plan Provisions

- Augmentation for current privatized members was reduced to 2% for the period of July 1, 2020 through December 31, 2023 and 0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 6 PENSION PLANS (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Rate of Return</u>
Domestic stocks	35.5%	5.10%
International stocks	17.5%	5.30%
Bonds (fixed income)	20%	0.75%
Alternative assets (private mkt)	25.0%	5.90%
Cash	2%	0.00%
Total	100%	

F Discount Rate

The discount rate used to measure the total pension liability in 2020 was 7.5%.

The projection of cash flows used to determine the discount rate assumed that contributions will be made at the rate specified in statute. Based on that assumption, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G Pension Liability Sensitivity

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

District Proportionate Share of NPL		
1 percent decrease (6.5%)	Current (7.5%)	1 percent increase (8.5%)
\$ 5,505,750	\$ 3,435,396	\$ 1,727,522

G Pension Plan Fiduciary Net Position

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

Total Disclosures Reported in the Accompanying Financial Statements as follows:

The total of the Teachers Retirement Association (TRA) and the Public Employees Retirement Association (PERA) pension liabilities and deferred items are reflected in the accompanying District wide statement of financial position as follows:

	TRA	PERA	Total
Deferred outflows of resources	\$ 2,205,863	\$ 514,811	\$ 2,720,674
Deferred inflows of resources	6,590,583	144,235	6,734,818
Noncurrent liability - Net Pension Liability	16,202,178	3,435,396	19,637,574

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 6 PENSION PLANS (Continued)

Defined Contribution Plan

The District's board members are covered by defined contribution plan, a multiple-employer deferred compensation plan administered by PERA. The defined contribution plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specified plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For salaried employees there is a fixed percentage of salary. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

Total contributions made by the District during fiscal year 2021 were:

Contribution Amounts		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rate
\$1,236	\$1,236	5%	5%	5%

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The District's defined benefit OPEB plan provides a single-employer defined benefit health care plan to eligible retirees. The plan offers both medical and dental coverage. No assets have been set aside in a trust.

Benefits

The District provides medical and life insurance to employees of the School District who are covered by an employment contract which provides for such post-employment benefits. For employees who are age 55 and are covered under the Administrative, Confidential Unit, Non-aligned or the Hibbing United Educators contracts with 10 years of service (or 20 years at any age), the District pays 92% of the medical premium for single coverage less \$55 plus 75% of the additional premium for family coverage. Upon the retiree's death, the spouse may continue coverage at their own expense.

For employees covered under the AFSCME contract at age 62 with 10 years of service (or 20 years at any age), the District pays 92% of the medical premium for single coverage less \$55 plus 75% of the additional premium for family coverage.

The District also pays for post-employment life insurance benefits. For employees under the Administrative and Non-aligned contracts, as well as the Superintendent, the District pays for \$8,000 of coverage. For Confidential Unit employees, the coverage is limited to \$6,000 and for AFSCME and the United Educators employees are given \$5,000 of coverage.

Contributions

Contribution requirements for employees and retirees are set by the District and employment contracts. The required contributions are based on projected pay-as-you go financing requirements. For the current fiscal year, the District contributed \$2,088,674 to the plan.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

Members

As of the valuation date of June 30, 2020, the District has 248 retirees and 181 active employees electing coverage and used in the determination of the OPEB valuation for the June 30, 2021 reporting year.

Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018 using the following assumptions applied to all periods included in the measurement period, unless otherwise specified.

- Discount rate	3.13%
- Inflation rate	2.50%
- Mortality	From the July 1, 2018 TRA actuarial valuation, mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments. For non-teachers, the mortality rates were based on the RP-2014 tables with projected mortality improvements based on scale MP-2017, and other adjustments.
- Health care cost trend rate	6.9% for FY2019, gradually decreasing over several decades to an ultimate rate of 4% in FY2076 and later years

Total OPEB Liability

The District's total OPEB liability of \$38,571,263 was measured as of June 30, 2020 and was determined by an actuarial valuation date using June 30, 2020 census data. This information is reported in the District's June 30, 2021 financials as allowed under the GASB standards.

Changes in the total OPEB liability is as follows:	Total OPEB Liability
	<hr/>
Balance as of June 30, 2020	\$ 39,142,691
Changes for the year:	
Service cost	660,302
Interest cost	1,213,146
Differences between expected and actual experience	2,511,535
Changes in assumptions	(2,867,737)
Benefit payments	(2,088,674)
	<hr/>
Net changes	(571,428)
	<hr/>
Balance as of June 30, 2021	\$ 38,571,263
	<hr/> <hr/>

OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.53% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% Decrease	Current	1% Increase
	1.45%	2.45%	3.45%
	<hr/>	<hr/>	<hr/>
Total OPEB Liability	\$ 44,259,562	\$ 38,571,263	\$ 33,943,046

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS (Continued)

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

	1% Decrease	Current	1% Increase
	<u> </u>	<u> </u>	<u> </u>
Total OPEB Liability	\$ 33,464,416	\$ 38,571,263	\$ 44,937,603

OPEB Expense and Deferred Outflows and Inflows of Resources

For the year ended June 30, 2021, the District recognized OPEB expense of \$1,723,922. As of June 30, 2021, the District reported deferred inflows and outflows related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Difference between expected and actual liability	\$ 3,362,688	\$ -
Change in assumptions	1,431,292	4,074,830
Contributions between measurement and reporting date	1,714,072	-
	<u>\$ 6,508,052</u>	<u>\$ 4,074,830</u>

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

Fiscal year ended	2022	\$ (149,526)
	2023	21,870
	2024	421,802
	2025	348,662
	2026	117,784
	Thereafter	(41,442)

NOTE 8 CONTINGENT LIABILITIES

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

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 9 FUND BALANCES

Fund balances were reserved as follows at June 30:

	General	Building Construction	Debt Service	Other Governmental Funds
Nonspendable:				
Inventory	\$ -	\$ -	\$ -	\$ 32,702
Restricted for:				
Student Activities	30,447	-	-	-
Scholarships	113,895	-	-	-
Early Childhood/Family Education	-	-	-	288,359
Community Education	-	-	-	153,563
School Readiness	-	-	-	277,278
\$25 Taconite	47,485	-	-	-
Safe School Crime	(241,792)	-	-	-
Long term facility maintenance	860,091	-	-	-
Operating capital	213,224	-	-	-
Construction COP	-	7,634,401	-	-
Debt Service	-	-	6,387,331	-
Food Service	-	-	-	213,584
Total Restricted	1,023,350	7,634,401	6,387,331	932,784
Committed to:				
Severance	3,561,618	-	-	-
Assigned to:				
Student Activities	22,099	-	-	-
Total Assigned	22,099	-	-	-
Unassigned	7,148,164	(51,250)	-	-
	<u>\$ 11,755,231</u>	<u>\$ 7,583,151</u>	<u>\$ 6,387,331</u>	<u>\$ 965,486</u>

Nonspendable - Represents a portion of the fund balance that is not available since the amounts have already been spent on inventory.

Restricted for student activities - Represents resources for extracurricular activities raised by students with District admin control.

Restricted for scholarships - Represents resources available for scholarship funds with District administrative control.

Restricted for early childhood/family education - Represents resources available to provide for service for early childhood programming.

Restricted for community education - Represents resources available to provide programming for community education.

Restricted for school readiness - Represents resources available to provide services for school readiness program.

Restricted for \$25 Taconite - Represents program income from taconite referendum revenue.

Restricted for safe schools crime - Represents available resources for future projects.

Restricted for long term facility maintenance - Represent program income from specific revenue sources to be used for capital.

Restricted for operating capital - Represent unspent resources set aside for purchases of equipment and facilities.

Restricted for construction COP - Represents resources set aside for building construction funded by certificates of participation.

Restricted for debt service - Represents resources required to be set aside for future debt payments.

Restricted for food service - Represents resources required by statute to be segregated for food services.

Committed for - future estimated costs of second ensuing year retirement payments and equipment purchases. A majority vote of the board is required to commit a fund balance to a specific purpose. The Board passed a resolution as of June 30, 2019 to commit investment earnings from the original \$3.5 million for future fiscal years for severance.

Assigned for - transportation and general student activities under board control.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO FINANCIAL STATEMENTS

June 30, 2021

NOTE 9 FUND BALANCES (Continued)

Deficit Fund Balances

No funds had deficit fund balances as of June 30, 2021.

NOTE 10 INTERNAL SERVICE FUND

The District maintains an internal service fund to record the activity related to providing both health and dental coverage for eligible employees. Previously, the District discontinued the self-insurance portion relating to health coverage but continued the self-insurance for the dental plan. The financial activity of the plan is accounted for as an internal service fund in the accompanying financial statements.

Annually the District establishes rates to represent premiums required to cover the anticipated claims for the upcoming year. Those premiums are then charged to the respective funds and programs and a transfer is made to bank accounts established to pay the costs of the benefits under each plan. In addition, any required employee contributions are also transferred to the established bank accounts.

For dental coverage, the insurance carrier processes the claims on behalf of the District and is reimbursed for the claims processed in addition to an administrative fee based on a percentage of the dollar amount of claims processed.

As of June 30, 2021, the District had advanced funds to the administrator which were adequate to cover all anticipated claims paid after year end.

NOTE 11 EXPENDITURES IN EXCESS OF BUDGET

The general fund actual expenditures exceeded the budget by \$138,391 for the year ending June 30, 2021.

NOTE 12 GASB STANDARDS ISSUED NOT YET IMPLEMENTED

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

NOTE 13 TAX ABATEMENT

In conjunction with a construction project in 2014, the District adopted a resolution granting tax abatement to certain properties as allowed under Minnesota Statutes 469.1812 to 469.1815. It was determined that all properties within the District benefitted from the projects but only a portion of the properties were necessary for the abatement. The abatement commenced with taxes payable in 2015 and will conclude with taxes payable in 2024. The abatement reduced the District's portion of the taxes for each property and did not exceed \$95,000 per year or \$950,000 in total. The abatements were applied to a portion of the construction costs and for continuing payment of the bonds issued to finance the projects.

NOTE 14 SUBSEQUENT EVENT - ISSUANCE OF DEBT

Subsequent to year end, the District issued \$3,665,000 in a Taxable General Obligation Bond, Series 2021B. The proceeds will be used for capital facilities including improvements to the football and track fields along with restoration of bleachers, lighting, fencing, and parking areas.

INDEPENDENT SCHOOL DISTRICT 701

**REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF CHANGES IN THE DISTRICT'S
NET OPEB LIABILITY AND RELATED RATIOS AND NOTES**

For the Fiscal Year Ended June 30, 2021

	2018	2019	2020	2021
Total OPEB Liability				
Service cost	\$ 845,916	\$ 752,330	\$ 561,286	\$ 660,302
Interest	1,108,065	1,262,419	1,329,946	1,213,146
Differences between expected and actual experience	-	2,255,821	-	2,511,535
Changes in assumptions	(3,256,572)	(1,215,961)	2,061,816	(2,867,737)
Changes of benefit terms	-	-	-	-
Benefit payments	(1,642,601)	(1,798,813)	(1,975,818)	(2,088,674)
Net change in total OPEB liability	(2,945,192)	1,255,796	1,977,230	(571,428)
Total OPEB liability - Beginning of the year	38,854,857	35,909,665	37,165,461	39,142,691
Total OPEB liability - End of the year	\$ 35,909,665	\$ 37,165,461	\$ 39,142,691	\$ 38,571,263
Plan Fiduciary Net Position				
Employee contributions	-	-	-	-
Employer contributions	1,642,601	1,798,813	1,975,818	2,088,674
Net investment income	-	-	-	-
Other additions	-	-	-	-
Benefit payments	(1,642,601)	(1,798,813)	(1,975,818)	(2,088,674)
Administrative expense	-	-	-	-
Other deductions	-	-	-	-
Net change in plan fiduciary net position	-	-	-	-
Plan Fiduciary Net Position - Beginning of the year	-	-	-	-
Plan Fiduciary Net Position - End of the year	\$ -	\$ -	\$ -	\$ -
NET OPEB LIABILITY - END OF THE YEAR	\$ 35,909,665	\$ 37,165,461	\$ 39,142,691	\$ 38,571,263
Fiduciary net position as a percentage of total OPEB liability	NA	NA	NA	NA
Payroll for the measurement period	\$ 15,492,894	\$ 15,970,544	\$ 13,709,880	\$ 15,873,048
Net OPEB liability as a % of employee payroll	231.8%	232.7%	285.5%	243.0%

Note 1

The District implemented the provisions of GASB Statement No. 75 in the fiscal year ending June 30, 2018. This schedule is intended to present a 10-year trend information. Additional years will be added as they become available.

The District does not have a formal funding policy and does not calculate an Actuarially Determined Contribution (ADC) as such the disclosure of a Schedule of Contributions is not required.

The District does not have funds placed in a trust to offset the total OPEB liability. As such a schedule of investment returns is not required.

INDEPENDENT SCHOOL DISTRICT 701

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - TEACHERS RETIREMENT ASSOCIATION (TRA)

June 30, 2021

Schedule of Employer's Share of Net Pension Liability - Teachers Retirement Association

District FYE	TRA's Measure Date	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District	Total	District's Covered Employee Payroll	District's Proportionate Share of the NPL (asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2015	6/30/2014	0.2269%	\$10,455,389	\$735,637	\$11,191,026	\$10,356,305	108.0%	81.50%
6/30/2016	6/30/2015	0.2116%	\$13,089,553	\$1,605,864	\$14,695,417	\$10,738,461	136.85%	76.77%
6/30/2017	6/30/2016	0.2127%	\$50,734,026	\$5,091,295	\$55,825,321	\$11,062,827	458.6%	44.88%
6/30/2018	6/30/2017	0.2101%	\$41,939,771	\$4,054,013	\$45,993,784	\$11,308,915	370.9%	51.57%
6/30/2019	6/30/2018	0.2079%	\$13,059,119	\$1,227,204	\$14,286,323	\$11,487,187	113.7%	78.07%
6/30/2020	6/30/2019	0.2151%	\$13,710,519	\$1,213,155	\$14,923,674	\$12,213,541	112.3%	78.07%
6/30/2021	6/30/2020	0.2193%	\$16,202,178	\$1,357,915	\$17,560,093	\$12,746,361	127.1%	75.48%

Schedule of Employer's Contributions - Teachers Retirement Association

District FYE	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	District's Covered Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
6/30/2015	\$805,381	\$805,381	-	\$10,738,461	7.50%
6/30/2016	\$829,712	\$829,712	-	\$11,062,827	7.50%
6/30/2017	\$848,169	\$848,169	-	\$11,308,915	7.50%
6/30/2018	\$861,539	\$861,539	-	\$11,487,187	7.50%
6/30/2019	\$941,664	\$941,664	-	\$12,213,541	7.71%
6/30/2020	\$1,009,513	\$1,009,513	-	\$12,746,361	7.92%
6/30/2021	\$1,071,908	\$1,071,908	-	\$13,184,589	8.13%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

INDEPENDENT SCHOOL DISTRICT 701

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - TEACHERS RETIREMENT ASSOCIATION (TRA)

June 30, 2021

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE FISCAL YEAR ENDING JUNE 30, 2021

Note 1 Changes in Assumptions and Benefit Terms

2020 changes in actuarial assumptions included the assumed termination rates were changed to more closely reflect actual experience. The pre-retirement mortality assumptions were changed to the RP2014 white collar employee table, male rates set back five years and female rates set back seven. Generational projection uses the MP 2015 scale. Assumed form of annuity election proportions were changed to more closely reflect actual experience for female retirees.

2019 had no changes in actuarial assumptions.

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

2017 changes in actuarial assumptions included the cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2015. The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years. Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%. The investment return assumption was changed from 8.0% to 7.5%. The price inflation assumption was lowered from 2.75% to 2.5%. The payroll growth assumption was lowered from 2.5% to 3.0%. The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter. The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

2016 changes in actuarial assumptions included the COLA was not assumed to increase for funding or the GASB calculations. It remained at 2% for all future years. The price inflation assumption was lowered from 3% to 2.75%. The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%. Minor changes included durations for the merit scale of the salary increase assumption. The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale. The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale. The post-disability mortality assumption was changed to the RP 2014 disable retiree mortality table, without adjustment. Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility. Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience. A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 changes in benefit terms included that the DTRFA merged into TRA on June 30, 2015. Changes in actuarial assumptions for that year included the annual COLA for the year valuation was assumed to be 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 20134. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

INDEPENDENT SCHOOL DISTRICT 701

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY

AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

June 30, 2021

Schedule of Employer's Share of Net Pension Liability - Public Employees Retirement Association

District FYE	PERA's Measure Date	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District	Total	District's Covered Employee Payroll	District's Proportionate Share of the NPL (asset) as a Percentage of its Covered-Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2015	6/30/2014	0.0570%	\$2,677,574	-	\$2,677,574	\$2,994,303	89.4%	78.75%
6/30/2016	6/30/2015	0.0541%	\$2,803,743	-	\$2,803,743	\$3,226,208	86.9%	78.19%
6/30/2017	6/30/2016	0.0536%	\$4,352,054	\$56,839	\$4,408,893	\$3,332,850	130.5%	68.91%
6/30/2018	6/30/2017	0.0549%	\$3,504,780	\$44,084	\$3,548,864	\$3,547,725	98.7%	75.90%
6/30/2019	6/30/2018	0.0545%	\$3,023,436	\$99,196	\$3,122,632	\$3,638,920	83.1%	79.53%
6/30/2020	6/30/2019	0.0553%	\$3,057,413	\$94,996	\$3,152,409	\$3,910,494	78.2%	80.23%
6/30/2021	6/30/2020	0.0573%	\$3,435,396	\$105,995	\$3,541,391	\$4,003,652	85.8%	79.06%

Schedule of Employer's Contributions - Public Employees Retirement Association

District FYE	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	District's Covered Employee Payroll	Contributions as a Percentage of Covered-Employee Payroll
6/30/2015	\$234,942	\$234,942	-	\$3,226,208	7.25%
6/30/2016	\$249,965	\$249,965	-	\$3,332,850	7.50%
6/30/2017	\$266,082	\$266,082	-	\$3,547,725	7.50%
6/30/2018	\$272,919	\$272,919	-	\$3,638,920	7.50%
6/30/2019	\$293,258	\$293,258	-	\$3,910,494	7.50%
6/30/2020	\$296,934	\$296,934	-	\$4,003,652	7.50%
6/30/2021	\$303,856	\$303,856	-	\$4,051,372	7.50%

These schedules are presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend has been compiled, information is presented only for the years for which the required supplementary information is available.

INDEPENDENT SCHOOL DISTRICT 701

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY

AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

June 30, 2021

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE FISCAL YEAR ENDING JUNE 30, 2021

Note 1 Changes in Assumptions and in Benefit Terms

2020 changes in actuarial assumptions include the price inflation assumption was decreased from 2.5% to 2.25%. The payroll growth assumption was decreased from 3.25% to 3.00%. Assumed salary increase rates were changed as recommended in the June 30, 2019 experience study. The net effect is assumed rates that average 0.25% less than previous rates. Assumed rates of retirement were changed as recommended in the June 20, 2019 experience study. The changes result in more unreduced (normal) retirements and slightly few Rule of 90 and early retirements. Assumed rates of termination were changed as recommend in the June 30, 2019 experience study. The new rates are based on service and are generally lower than the previous rates for year 2-5 and slightly higher thereafter. Assumed rates of disability were changed as recommended in the June 30, 2019 experience study. The change results in fewer predicted disability retirements for males and females. The base mortality table for healthy annuitants and employees were changed from the RF-2014 table to the Pub-2010 General Mortality table, with adjustments. The base mortality table for disabled annuitants were changed from the RP-2014 disabled annuitant mortality table to the PUB-2010 General/Teacher disabled annuitant mortality table with adjustments. The mortality improvement scale was changed from Scale MP-2018 to scale MP-2019. the assumed spouse age difference was changed from two years older for females to one year older. The assumed number of married male new retirees electing the 100% joint & survivor option changed from 35% to 45%. The assumed number of married female new retirees electing the 100% joint& survivor option changed from 15% to 30%. The corresponding number of married new retirees electing the life annuity option was adjusted accordingly. Changes in plan provisions include augmentation for current privatized members being reduced to 2.)% for the period of July 1, 2020 through December 31, 2023 and 0% after. Augmentation was eliminated for privatizations occurring after June 30, 2020.

2019 changes in actuarial assumptions include the mortality projection scale was changed from MP-2017 to MP-2018. Changes in plan provisions included the employer supplemental contribution was changed prospectively, decreasing from \$31 million to \$21 million per year. The State's special funding contribution was changed prospectively, requiring \$16 million due per year through 2031.

2018 changes in actuarial assumptions included the mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1% per year through 2044 and 2.5% per year thereafter to 1.25% per year. Changes in the plan provisions included 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% to 3%, beginning July 1, 2018. Deferred augmentation was changed to 0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Post-retirement benefit increase were changed from 1% per year with a provision to increase to 2.5% upon attainment of 90% funding ration to 50% of the social security cost of living adjustment, not less than 1% and not more than 1.5%, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

INDEPENDENT SCHOOL DISTRICT 701

REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND SCHEDULE OF EMPLOYER CONTRIBUTIONS AND NOTES - PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (PERA)

June 30, 2021

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE FISCAL YEAR ENDING JUNE 30, 2021

Note 1 Changes in Assumptions and in Benefit Terms - Continued

2017 changes in actuarial assumptions included the combined service annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are no 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested member liability. The assumed post-retirement benefit increase rate was changed from 1 percent per year for all years to 1 percent per year through 2044 and 2.5 percent per year thereafter.

2016 changes in actuarial assumptions included the assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years. The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.5% for inflation.

2015 changes involves changes in plan provisions. On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consideration, state and employer contributions were revised. 2015 changes in assumptions included the assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

INDEPENDENT SCHOOL DISTRICT 701

COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS

June 30, 2021

	Special Revenue - Food Service	Special Revenue - Community Service	Total
Assets			
Cash and cash equivalents	\$ 140,235	\$ 726,218	\$ 866,453
Receivables			
Other governments	146,561	28,263	174,824
Inventory	32,702	-	32,702
	<hr/>	<hr/>	<hr/>
Total Assets	319,498	754,481	1,073,979
Deferred Outflows of Resources			
	-	-	-
	<hr/>	<hr/>	<hr/>
Total Assets and Deferred Outflows of Resources	\$ 319,498	\$ 754,481	\$ 1,073,979
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Liabilities, Deferred Inflows of Resources, and Fund Balances			
Liabilities			
Accounts payable	\$ 73,212	\$ 1,015	\$ 74,227
Salaries payable	-	23,187	23,187
Accrued expenses	-	10,615	10,615
Compensated absences payable	-	464	464
	<hr/>	<hr/>	<hr/>
Total Liabilities	73,212	35,281	108,493
Deferred Inflows of Resources	-	-	-
Equity			
Fund balance - nonspendable	32,702	-	32,702
Fund balance - restricted	213,584	719,200	932,784
	<hr/>	<hr/>	<hr/>
Total Fund Balance	246,286	719,200	965,486
	<hr/>	<hr/>	<hr/>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 319,498	\$ 754,481	\$ 1,073,979
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

INDEPENDENT SCHOOL DISTRICT 701

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - NON-MAJOR GOVERNMENTAL FUNDS

For the Year Ended June 30, 2021

	Special Revenue - Food Service	Special Revenue - Community Service	Total
Revenues			
Other local and county	\$ 758	\$ 200,540	\$ 201,298
State sources	9,879	327,294	337,173
Federal sources	863,882	-	863,882
Sales and other conversions of assets	149,550	-	149,550
Total Revenues	1,024,069	527,834	1,551,903
Expenditures			
Current			
Community education and services	-	532,967	532,967
Food service	945,578	-	945,578
Total Expenditures	945,578	532,967	1,478,545
Excess of Revenues Over (Under) Expenditures	78,491	(5,133)	73,358
Fund Balance - Beginning of the year	167,795	724,333	892,128
Fund Balance - End of the year	\$ 246,286	\$ 719,200	\$ 965,486

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Fiscal Year Ended June 30, 2021

	Final Budget	Actual	Variance
Revenues			
Local property tax levies			
Levies	\$ 2,295,539	\$ 2,050,172	\$ (245,367)
Other local and county			
Admissions and student activity revenues	90,500	42,924	(47,576)
County apportionment	65,205	67,482	2,277
Gifts and bequests	191,750	73,094	(118,656)
Investment earnings	1,985	15,210	13,225
Rent	7,000	72	(6,928)
Miscellaneous	1,957,850	1,409,291	(548,559)
Tuition and fees from patrons	147,000	164,043	17,043
Homestead taconite credit	70,000.00	81,598	11,598
Taconite payments	2,510,042	2,509,754	(288)
	5,041,332	4,363,468	(677,864)
State sources			
Endowment fund apportionment	96,442	96,259	(183)
General education aid	19,999,516	19,294,771	(704,745)
Homestead market value credit	392	392	-
Other state aids	648,977	612,484	(36,493)
Special education	3,497,584	3,446,809	(50,775)
	24,242,911	23,450,715	(792,196)
Federal sources			
Title I	400,000	589,352	189,352
ESSER/GEER/CRF	1,399,852	2,367,210	967,358
Other	140,445	183,165	42,720
Special education	519,896	525,121	5,225
	2,460,193	3,664,848	1,204,655
Sales and other conversions of assets			
Sales of materials and supplies	5,000	5,223	223
Insurance recovery	-	12,557	12,557
	5,000	17,780	12,780
Total Revenues	34,044,975	33,546,983	(497,992)

(Continued)

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Fiscal Year Ended June 30, 2021

(Continued)

	Final Budget	Actual	Variance
<i>Expenditures</i>			
District and school administration			
Salaries and wages	\$ 1,071,229	\$ 1,062,729	\$ (8,500)
Employee benefits	438,649	400,331	(38,318)
Purchased services	26,515	13,704	(12,811)
Supplies and materials	1,715	1,643	(72)
Capital expenditure	9,000	-	(9,000)
Other	42,000	49,184	7,184
	<hr/> 1,589,108	<hr/> 1,527,591	<hr/> (61,517)
District support services			
Salaries and wages	572,189	613,386	41,197
Employee benefits	367,137	374,974	7,837
Purchased services	312,460	309,394	(3,066)
Supplies and materials	32,847	12,523	(20,324)
Capital expenditure	7,000	-	(7,000)
Other	(72,863)	10,799	83,662
	<hr/> 1,218,770	<hr/> 1,321,076	<hr/> 102,306
Regular instruction			
Salaries and wages	9,159,641	8,536,508	(623,133)
Employee benefits	5,023,384	4,667,786	(355,598)
Purchased services	948,204	681,850	(266,354)
Supplies and materials	195,883	200,091	4,208
Capital expenditure	65,000	32,590	(32,410)
Other	105,033	228,973	123,940
	<hr/> 15,497,145	<hr/> 14,347,798	<hr/> (1,149,347)
Vocational instruction			
Salaries and wages	88,753	90,378	1,625
Employee benefits	38,713	37,872	(841)
Purchased services	4,221	2,000	(2,221)
Supplies and materials	25,898	16,620	(9,278)
Capital expenditure	7,562	8,806	1,244
Other	400	-	(400)
	<hr/> 165,547	<hr/> 155,676	<hr/> (9,871)
Special Education instruction			
Salaries and wages	3,671,156	4,882,966	1,211,810
Employee benefits	1,207,052	1,658,476	451,424
Purchased services	732,584	599,183	(133,401)
Supplies and materials	49,177	32,140	(17,037)
Capital expenditure	22,430	25,393	2,963
Other	40,612	-	(40,612)
	<hr/> 5,723,011	<hr/> 7,198,158	<hr/> 1,475,147
Instructional support services			
Salaries and wages	952,351	885,073	(67,278)
Employee benefits	373,626	257,362	(116,264)
Purchased services	125,975	65,821	(60,154)
Supplies and materials	1,264,739	1,153,989	(110,750)
Capital expenditure	352,680	316,349	(36,331)
Other	14,371	14,371	-
	<hr/> 3,083,742	<hr/> 2,692,965	<hr/> (390,777)

(Continued)

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL GENERAL FUND

For the Fiscal Year Ended June 30, 2021

(Continued)

	Final Budget	Actual	Variance
<i>Expenditures</i>			
Pupil support services			
Salaries and wages	\$ 268,588	\$ 658,180	\$ 389,592
Employee benefits	106,299	173,910	67,611
Purchased services	1,515,844	1,592,859	77,015
Supplies and materials	5,415	5,549	134
Capital expenditure	41,675	-	(41,675)
Other	330	-	(330)
	<u>1,938,151</u>	<u>2,430,498</u>	<u>492,347</u>
Site, buildings and equipment			
Salaries and wages	1,443,747	1,326,294	(117,453)
Employee benefits	1,039,879	964,860	(75,019)
Purchased services	650,074	525,089	(124,985)
Supplies and materials	1,110,811	1,090,333	(20,478)
Capital expenditure	1,191,500	1,186,387	(5,113)
Other	6,900	5,113	(1,787)
	<u>5,442,911</u>	<u>5,098,076</u>	<u>(344,835)</u>
Fiscal and other fixed cost programs			
Purchased services	167,981	188,432	20,451
Other	61,625	66,112	4,487
	<u>229,606</u>	<u>254,544</u>	<u>24,938</u>
Total Expenditures	<u>34,887,991</u>	<u>35,026,382</u>	<u>138,391</u>
Excess of Expenditures Over Revenues	(843,016)	(1,479,399)	(636,383)
Other Financing Sources			
Proceeds from sale of equipment	367,379	367,379	-
Excess of Expenditures Over Revenues and Other Financing Sources	<u>\$ (475,637)</u>	<u>\$ (1,112,020)</u>	<u>\$ (636,383)</u>
Fund Balance - Beginning of year	\$ 12,867,251	\$ 12,867,251	\$ -
Excess of Expenditures Over Revenues	(475,637)	(1,112,020)	(636,383)
Fund Balance - End of year	<u>\$ 12,391,614</u>	<u>\$ 11,755,231</u>	<u>\$ (636,383)</u>

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOOD SERVICE SPECIAL REVENUE FUND For the Fiscal Year Ended June 30, 2021

	Final Budget	Actual	Variance
Revenues			
Other local and county			
Investment earnings	\$ 750	\$ 258	\$ (492)
Gifts and bequests	-	500	500
	<u>750</u>	<u>758</u>	<u>8</u>
State sources			
State program aids	63,000	9,879	(53,121)
Federal sources			
Breakfast	130,000	-	(130,000)
Regular lunch program	85,000	-	(85,000)
Commodities	85,000	80,055	(4,945)
Free and reduced	390,000	-	(390,000)
Summer food service program	-	782,514	782,514
Other	4,500	1,313	(3,187)
	<u>694,500</u>	<u>863,882</u>	<u>169,382</u>
Sales and other conversions of assets			
Program revenue	444,000	149,550	(294,450)
	<u>1,202,250</u>	<u>1,024,069</u>	<u>(178,681)</u>
Total Revenues			
	<u>1,202,250</u>	<u>1,024,069</u>	<u>(178,681)</u>
Expenditures			
Pupil support services			
Purchased services	593,500	500,136	(93,364)
Supplies and commodities	604,000	445,442	(158,558)
Capital expenditures	15,000	-	(15,000)
Other	250	-	(250)
	<u>1,212,750</u>	<u>945,578</u>	<u>(267,172)</u>
Total Expenditures			
	<u>1,212,750</u>	<u>945,578</u>	<u>(267,172)</u>
Excess of Revenues Over Expenditures	<u>\$ (10,500)</u>	<u>\$ 78,491</u>	<u>\$ 88,991</u>
Fund Balance - Beginning of year	\$ 167,795	\$ 167,795	\$ -
Excess of Revenues Over Expenditures	(10,500)	78,491	88,991
Fund Balance - End of year	<u>\$ 157,295</u>	<u>\$ 246,286</u>	<u>\$ 88,991</u>

INDEPENDENT SCHOOL DISTRICT 701

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL COMMUNITY SERVICE SPECIAL REVENUE FUND For the Fiscal Year Ended June 30, 2021

	Final Budget	Actual	Variance
Revenues			
Other local and county			
Fees from patrons	\$ 130,500	\$ 45,281	\$ (85,219)
Investment earnings	1,500	806	(694)
Miscellaneous	6,000	3,785	(2,215)
Rent	14,000	831	(13,169)
Taconite payments	150,261	149,837	(424)
	<u>302,261</u>	<u>200,540</u>	<u>(101,721)</u>
State sources			
Community education	(9,445)	23,917	33,362
After school enrichment	21,762	-	(21,762)
Early childhood/family education	122,279	122,028	(251)
Adults with disabilities	5,840	5,101	(739)
Learning readiness	104,834	99,715	(5,119)
Nonpublic pupils	39,589	4,190	(35,399)
Preschool screening	4,830	9,760	4,930
Other	90,943	62,583	(28,360)
	<u>380,632</u>	<u>327,294</u>	<u>(53,338)</u>
Total Revenues	682,893	527,834	(155,059)
Expenditures			
Community education and services			
Salaries and wages	376,704	317,159	(59,545)
Employee benefits	119,446	133,891	14,445
Purchased services	101,325	45,558	(55,767)
Supplies and materials	40,180	27,359	(12,821)
Capital expenditures	7,500	-	(7,500)
Other	6,000	9,000	3,000
	<u>651,155</u>	<u>532,967</u>	<u>(118,188)</u>
Excess of Revenues Over (Under) Expenditures	<u>\$ 31,738</u>	<u>\$ (5,133)</u>	<u>\$ (36,871)</u>
Fund Balance - Beginning of year	\$ 724,333	\$ 724,333	\$ -
Excess of Revenues Over (Under) Expenditures	31,738	(5,133)	(36,871)
Fund Balance - End of year	<u>\$ 756,071</u>	<u>\$ 719,200</u>	<u>\$ (36,871)</u>

Fiscal Compliance Report - 6/30/2021 District: HIBBING (701-1)

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$33,546,983	<u>\$33,546,983</u>	\$0	Total Revenue	\$95,060	<u>\$95,060</u>	\$0
Total Expenditures	\$35,026,382	<u>\$35,026,382</u>	\$0	Total Expenditures	\$2,204,351	<u>\$2,204,351</u>	\$0
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.01 Student Activities	\$30,447	<u>\$30,447</u>	\$0	4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0
4.02 Scholarships	\$113,895	<u>\$113,895</u>	\$0	4.13 Project Funded by COP	\$7,634,401	<u>\$7,634,401</u>	\$0
4.03 Staff Development	\$0	<u>\$0</u>	\$0	4.67 LTFM	\$0	<u>\$0</u>	\$0
4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.08 Cooperative Revenue	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0
4.13 Project Funded by COP	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
4.14 Operating Debt	\$0	<u>\$0</u>	\$0	4.63 Unassigned Fund Balance	(\$51,250)	<u>(\$51,250)</u>	\$0
4.16 Levy Reduction	\$0	<u>\$0</u>	\$0	07 DEBT SERVICE			
4.17 Taconite Building Maint	\$0	<u>\$0</u>	\$0	Total Revenue	\$976,801	<u>\$976,801</u>	\$0
4.24 Operating Capital	\$213,224	<u>\$213,224</u>	\$0	Total Expenditures	\$397,653	<u>\$397,653</u>	\$0
4.26 \$25 Taconite	\$47,485	<u>\$47,485</u>	\$0	<i>Non Spendable:</i>			
4.27 Disabled Accessibility	\$0	<u>\$0</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
4.28 Learning & Development	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
4.34 Area Learning Center	\$0	<u>\$0</u>	\$0	4.25 Bond Refundings	\$0	<u>\$0</u>	\$0
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	\$0	4.33 Maximum Effort Loan Aid	\$0	<u>\$0</u>	\$0
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	\$0	4.51 QZAB Payments	\$5,845,639	<u>\$5,845,639</u>	\$0
4.38 Gifted & Talented	\$0	<u>\$0</u>	\$0	4.67 LTFM	\$0	<u>\$0</u>	\$0
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.41 Basic Skills Programs	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$541,692	<u>\$541,692</u>	\$0
4.48 Achievement and Integration	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
4.49 Safe School Crime - Crime Levy	(\$241,792)	<u>(\$241,792)</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.51 QZAB Payments	\$0	<u>\$0</u>	\$0	08 TRUST			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
4.59 Basic Skills Extended Time	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
4.67 LTFM	\$860,091	<u>\$860,091</u>	\$0	4.01 Student Activities	\$0	<u>\$0</u>	\$0
4.72 Medical Assistance	\$0	<u>\$0</u>	\$0	4.02 Scholarships	\$0	<u>\$0</u>	\$0
4.73 PPP Loan	\$0	<u>\$0</u>	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
4.74 EIDL Loan	\$0	<u>\$0</u>	\$0	18 CUSTODIAL			
<i>Restricted:</i>				Total Revenue	\$0	<u>\$0</u>	\$0
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
4.75 Title VII Impact Aid	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
4.76 Payments in Lieu of Taxes	\$0	<u>\$0</u>	\$0	4.01 Student Activities	\$0	<u>\$0</u>	\$0
<i>Committed:</i>				4.02 Scholarships	\$0	<u>\$0</u>	\$0
4.18 Committed for Separation	\$3,561,618	<u>\$3,561,618</u>	\$0	4.48 Achievement and Integration	\$0	<u>\$0</u>	\$0
4.61 Committed Fund Balance	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0
<i>Assigned:</i>				20 INTERNAL SERVICE			
4.62 Assigned Fund Balance	\$22,099	<u>\$22,099</u>	\$0	Total Revenue	\$5,815,285	<u>\$5,815,285</u>	\$0
<i>Unassigned:</i>				Total Expenditures	\$5,457,591	<u>\$5,457,591</u>	\$0
4.22 Unassigned Fund Balance	\$7,148,164	<u>\$7,148,164</u>	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$2,971,577	<u>\$2,971,577</u>	\$0
02 FOOD SERVICES				25 OPEB REVOCABLE TRUST			
Total Revenue	\$1,024,069	<u>\$1,024,069</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
Total Expenditures	\$945,578	<u>\$945,578</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0

<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$32,702	<u>\$32,702</u>	\$0
<i>Restricted / Reserved:</i>			
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0
4.74 EIDL Loan	\$0	<u>\$0</u>	\$0
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$213,584	<u>\$213,584</u>	\$0
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
04 COMMUNITY SERVICE			
Total Revenue	\$527,834	<u>\$527,834</u>	\$0
Total Expenditures	\$532,967	<u>\$532,966</u>	\$1
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
<i>Restricted / Reserved:</i>			
4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0
4.31 Community Education	\$150,911	<u>\$150,911</u>	\$0
4.32 E.C.F.E	\$288,359	<u>\$288,359</u>	\$0
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0
4.44 School Readiness	\$277,278	<u>\$277,278</u>	\$0
4.47 Adult Basic Education	\$0	<u>\$0</u>	\$0
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0
4.73 PPP Loan	\$0	<u>\$0</u>	\$0
4.74 EIDL Loan	\$0	<u>\$0</u>	\$0
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$2,652	<u>\$2,652</u>	\$0
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0

4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
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45 OPEB IRREVOCABLE TRUST

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

47 OPEB DEBT SERVICE

Total Revenue	\$0	<u>\$0</u>	\$0
Total Expenditures	\$0	<u>\$0</u>	\$0

<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0

<i>Restricted:</i>			
4.25 Bond Refundings	\$0	<u>\$0</u>	\$0
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0

INDEPENDENT SCHOOL DISTRICT 701

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2021

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients		Federal Expenditures
U.S. Department of Education					
Minnesota Department of Education/E3701					
Covid 19 - Elementary and Secondary School Emergency Relief Fund (ESSER I)	84.425D	0701-01-000	-	\$ 463,454	
Covid 19 - Elementary and Secondary School Emergency Relief Fund (ESSER II)	84.425D	0701-01-000	-	930,862	
Covid 19 - Expanded Summer Learning - Special Allocation (ESSER II)	84.425D	0701-01-000	-	36,496	
Covid 19 - Governors Emergency Relief Fund (GEER)	84.425C	0701-01-000	-	64,390	
					1,495,202
U.S. Department of Treasury					
Minnesota Department of Education/E3701					
Covid 19 - CARES Relief Funds for Back to School	21.019	0701-01-000	-	622,008	
St. Louis County Covid 19 - CARES Relief Funds	21.019	-	-	250,000	
					872,008
U.S. Department of Education					
Minnesota Department of Education/E3701					
Title I	84.010	0701-01-000	-		589,352
U.S. Department of Education					
Minnesota Department of Education/E3701					
Supporting Effective Instruction Title II/ Part A	84.367	0701-01-000	-		89,399
U.S. Department of Education					
Minnesota Department of Education/E3701					
Special Education (Cluster) Federal IDEA, Part B	84.027	0701-01-000	-	477,125	
Minnesota Department of Education Special Education IDEA, Preschool	84.173	0701-01-000	-	28,814	
Total Special Education Cluster					505,939
U.S. Department of Education					
Minnesota Department of Education/E3701					
Special Education/ Grants for Infants and Families with Disabilities/ IDEA Part C	84.181	0701-01-000	-		19,182
U.S. Department of Education					
Minnesota Department of Education/E3701					
Title IV/Student Support and Academic Enrichment Program	84.424	0701-01-000	-		39,853
U.S. Department of Education					
Minnesota Department of Education/E3701					
Career and Technical Education Carl Perkins Grant - passed to subrecipients	84.048	0701-01-000	2,252	2,252	
Carl Perkins Grant	84.048	0701-01-000	-	34,430	
Total Carl Perkins Grant					36,682
U.S. Department of Education					
Direct Program					
Title IV-A - Indian Education	84.060	-	-		17,231
U.S. Department of Agriculture					
Minnesota Department of Education/E3701					
National School Lunch Program					
Child Nutrition - After School Snack	10.558	0701-01-000	-		1,313
Covid 19-Child Nutrition-Summer Food	10.559	0701-01-000	-	782,514	
Food Distribution (Commodities)	10.555	0701-01-000	-	80,055	
Total Child Nutrition Cluster					862,569
Total Expenditures of Federal Awards					\$ 4,528,730

See accompanying note which is an integral part of this schedule.

INDEPENDENT SCHOOL DISTRICT 701

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Fiscal Year Ended June 30, 2021

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of the District under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because this schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 NONMONETARY ASSISTANCE

Nonmonetary assistance is reported in the accompany schedule at the fair market value of the commodities received and disbursed in the amount of \$80,055. At June 30, 2021, the District had food commodities remaining of \$32,702 reported in inventory.

NOTE 4 INDIRECT COST RATE

The District has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance but instead utilizes the 8% indirect cost rate as assigned by the State of Minnesota as flow through grantor to the District.



**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 Members of the
School Board
Independent School District 701
Hibbing, MN

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, the aggregate remaining fund information, and the budgetary comparison information of the General Fund of Independent School District 701, Hibbing, Minnesota, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report, thereon dated December 17, 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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. (2021-001 and 2021-002)

Compliance and Other Matters

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

District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The District's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of the Report

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

Sterle & Co, Ltd
December 17, 2021



**Independent Auditor's Report on Compliance For Each Major Program
and on Internal Control Over Compliance Required by
Uniform Guidance**

To the Members of the
School Board
Independent School District 701
Hibbing, MN

Report on Compliance for Each Major Federal Program

We have audited Independent School District 701, Hibbing, Minnesota's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on 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 auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and 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; 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.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our 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 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 that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance as described in the accompanying schedule of findings and questioned costs as item 2021-001, that we consider to be a significant deficiency.

The District's responses 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 the response.

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.

Stull & Co. Ltd
December 17, 2021

INDEPENDENT SCHOOL DISTRICT 701

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2021

SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Independent School District 701, Hibbing, Minnesota were prepared in accordance with GAAP.
2. Two significant deficiencies disclosed during the audit of the financial statements are reported below as findings 2021-001 and 2021-002. No material weaknesses are reported.
3. No instances of noncompliance material to the financial statements of Independent School District 701, Hibbing, MN, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. One significant deficiency in internal control over major federal award programs disclosed during the audit is reported below as finding 2021-001. No material weaknesses are reported.
5. The auditor's report on compliance for the major federal award programs for Independent School District 701, Hibbing, Minnesota expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with 2 CFR section 200.516(a) are reported in this Schedule.
7. The programs tested as a major program were: Elementary and Secondary School Emergency Relief Funds (ESSER I and II) and Governors Emergency Relief Fund (GEER) CFDA 84.425: CARES Relief Funds CFDA (21.019); and Child Nutrition Cluster (CFDA 10.555/10.559)
8. The threshold used for distinguishing Type A and B programs was \$750,000.
9. Independent School District 701, Hibbing, Minnesota was determined to be a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

2021-001 *Inadequate segregation of duties within a significant account or process - Significant Deficiency*

- Condition: Due to the limited number of District staff, appropriate segregation of duties is not feasible for all accounting and reporting functions. Specific examples include:
- a. The District places the authority over the year end financial reporting process, including all controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements with one individual (the business manager.)
 - b. The District has several staff that have duties involving both processing and recording transactions into the general ledger. Such duties are involved in the district's cash receipting, disbursing and payroll functions. Several employees have access to the initial processing of the information as well as subsequent recording into the general ledger. These same staff are also responsible for reconciliation of related cash accounts.
 - c. The District has several departments that are responsible for the collection of fees charged to students and the general public. The departments are responsible for the collection, processing and reporting to the business office. In most instances, one individual in each department performs these duties.
- Criteria: Internal controls should be in place to provide adequate segregation of duties to provide reasonable assurance of compliance with District financial accounting controls and policies.
- Cause: Generally the lack of segregation is due to the limited funding available to add additional staff to appropriately divide related duties.

INDEPENDENT SCHOOL DISTRICT 701

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Fiscal Year Ended June 30, 2021

FINDINGS - FINANCIAL STATEMENT AUDIT - Continued

Effect: The lack of segregation of duties creates a control deficiency because the design and operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis creating a more than remote likelihood that a misstatement in the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. Many of the staff reconcile their own work.

Context: The lack of segregation of duties exists within the district as a whole over all of its accounting and reporting functions. This is a common circumstance in Districts of similar size.

Recommendation: The District's management needs to be cognizant of this situation which may include re-assigning duties, adding additional reconciling features, or providing appropriate oversight responsibility.

Views of Responsible Officials and Planned Corrective Actions:

The District is aware of the situation and will monitor as it deems appropriate. Monitoring will include educating program managers to provide additional oversight for the interim and year end reporting.

Repeat Finding: Yes - Prior year finding noted as 2020-001

2021-002 Preparation of financial statements and footnote disclosures - Significant Deficiency

Condition: The District does not have in place a system to prepare the financial reports in accordance with generally accepted accounting principles under governmental standards presentation.

Criteria: The District should have a system in place to report all financial data reliably in accordance with generally accepted accounting principles using the presentation model required under GASB 34. Currently there is more than a remote likelihood that a misstatement in the financial statement reporting, including footnote disclosures, that is more than inconsequential will not be presented accordingly.

Cause: The District does not have enough staff with the time available or training to prepare a complete financial reporting package.

Effect: The District requests assistance with the preparation of the draft financial statements and footnotes.

Context: The situation is common in governments of similar size.

Recommendation: The District staff continue to take advantage of training opportunities in GAAP and GASB presentation methods and models.

Views of Responsible Officials and Planned Corrective Actions:

The District is aware of the situation and due to budget constraints deems it more cost beneficial to contract for such services.

Repeat Finding: Yes - Prior year finding noted as 2020-002

FINDINGS - MAJOR FEDERAL AWARD PROGRAM AUDIT

2021-001 Inadequate segregation of duties within a significant account or process - Significant Deficiency

See finding details noted previously under Financial Audit section as 2021-001. This finding covers both non-federal and federal transactions.

INDEPENDENT SCHOOL DISTRICT 701

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Fiscal Year Ended June 30, 2021

FINANCIAL STATEMENT AUDIT

2020-001 Lack of segregation of duties - Significant deficiency

Condition: Due to the limited number of District staff, appropriate segregation of duties is not feasible for all accounting and reporting functions.

Recommendation: The District's management needs to be cognizant of this situation which may include re-assigning duties, adding additional reconciling features, or providing appropriate oversight responsibility.

Current Status: A similar finding is noted in the current year as a significant deficiency as item 2021-001

Grantee Response: The District continues to acknowledge the lack of segregation of duties, but the District lacks the resources (both in staff and financial means) to completely alleviate the noted issue.

2020-002 Preparation of financial statements and footnote disclosures - Significant Deficiency

Condition: The District does not have in place a system to prepare the financial reports in accordance with generally accepted accounting principles under governmental standards presentation.

Recommendation: The District staff continue to take advantage of training opportunities in GAAP and GASB presentation methods and models.

Current Status: A similar finding is noted in the current year as a significant deficiency as item 2021-002 for the financial statement audit.

Grantee Response: The District is aware of the situation and due to budget constraints deems it more cost beneficial to contract for such services.

2020-003 Minnesota Legal Compliance - Collateral Coverage

Condition: The District did not have adequate collateral pledged on deposits held in a local financial institution at times during the year and was exposed to custodial credit risk.

Recommendation: The District be cognizant of the situation and review coverage and amendments timely with the financial institution as they occur.

Current Status: The District complied in the current year. No similar finding was noted.

FINDINGS - MAJOR FEDERAL AWARD PROGRAM AUDIT

2020-001 Lack of segregation of duties - Significant deficiency

See above.



**Independent Auditor's Report on
Minnesota Legal Compliance**

To the Members of the
School Board
Independent School District 701
Hibbing, MN

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, the aggregate remaining fund information, and the budgetary comparison information of the General Fund of Independent School District 701, Hibbing, Minnesota, as of and for the year ended June 30, 2021, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2021.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards sections of the *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the State Auditor pursuant to Minn. Stat 6.65, 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.

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

Sterle & Co. Ltd
December 17, 2021