INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2020

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
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ROSTER OF SCHOOL OFFICIALS
June 30, 2020

School Board Members and Officers

Chris Jourdain	Chairperson
Michael Barrett	Vice-Chairperson
Roy Nelson	Treasurer
Barbara Thomas	Clerk
Douglas Desjarlait	Director
Rob McClain	Director
Marcus Tyler	Director

Administration

Melinda Crowley	Superintendent
Willie Larson	Business Manager

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Independent School District No. 38
Red Lake, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 38, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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 No. 38, as of June 30, 2020, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 2 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 84, *Fiduciary Activities.* As discussed in Note 2 to the financial statements, the District has retroactively restated the previously reported net position and fund balances in accordance with this statement.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the District's total OPEB liability and related ratios, schedule of District contributions, schedule of District's share of net pension liability, and notes to required supplementary information as listed in the table of contents as required supplementary information 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 combining statements, schedule of changes in fund balances, and compliance table as listed in the table of contents as supplementary information 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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is not a required part of the basic financial statements.

The combining statements, schedule of changes in fund balances, compliance table, schedule of expenditures of federal awards, and notes to schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, schedule of changes in fund balances, compliance table, schedule of expenditures of federal awards, and notes to 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 7, 2020 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

December 7, 2020

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This section of Independent School District No. 38's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2020. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

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

- General fund balance increased by $2,531,244.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the district-wide statements.
  - The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short-term* as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general fund budget for the year, and supplementary information that is presented for additional analysis.

<u>District-wide Statements</u>

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

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional nonfinancial factors such as the condition of school buildings and other facilities.

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

- *Governmental activities*: All of the District's basic services are included here, such as regular and special education, transportation, and administration. Federal and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as accounting for capital projects) or to show that it is properly using certain revenues.

The District has one kind of fund:

- Governmental funds: The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, reconciliations have been provided following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances to help explain the relationship (or differences) between the governmental funds and governmental activities.

  The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and building fund, both of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data is provided in the form of combining statements elsewhere in this report.

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was $(75,811,210) on June 30, 2020 (see details in Table A-1). This was a decrease of 5.0 percent from the prior year.

Table A-1
Statement of Net Position

	2020	2019	Total Percentage Change
Current and Other Assets	$ 21,020,082	$ 25,487,185	(17.5) %
Capital Assets	59,910,080	51,559,442	16.2
Total Assets	80,930,162	77,046,627	5.0
Deferred Outflows of Resources	14,836,662	20,160,477	(26.4)
Long-term Liabilities	145,616,957	139,145,260	4.7
Other Liabilities	5,694,806	4,644,111	22.6
Total Liabilities	151,311,763	143,789,371	5.2
Deferred Inflows of Resources	20,266,271	25,628,243	(20.9)
Net Position			
Net Investment in Capital Assets	3,297,639	(5,052,999)	165.3
Restricted	3,855,354	2,157,378	78.7
Unrestricted	(82,964,203)	(69,314,889)	(19.7)
Total Net Position	$ (75,811,210)	$ (72,210,510)	(5.0) %

Change in Net Position

Table A-2 presents the change in net position of the District.

Table A-2
Change in Net Position

	2020	2019	Total Percentage Change
Revenues			
Program Revenues			
Charges for Services	$ 334,220	$ 330,326	1.2 %
Operating Grants and Contributions	13,172,944	10,613,511	24.1
Capital Grants and Contributions	1,320,684	1,426,969	(7.4)
General Revenues			
Property Taxes	4,212	4,171	1.0
Unrestricted State Aid	13,809,133	13,935,836	(0.9)
Unrestricted Federal Aid	12,284,102	14,351,805	(14.4)
Other Sources	490,238	754,842	(35.1)
Total Revenues	41,415,533	41,417,460	(0.0)
Expenses			
Administration	1,774,097	1,985,906	(10.7)
District Support Services	1,421,710	1,202,990	18.2
Elementary & Secondary Regular Instruction	17,794,929	9,488,773	87.5
Vocational Education Instruction	109,458	142,696	(23.3)
Special Education Instruction	5,821,254	5,710,398	1.9
Community Education and Services	571,438	637,912	(10.4)
Instructional Support Services	2,687,622	2,812,485	(4.4)
Pupil Support Services	3,850,831	3,277,116	17.5
Sites and Buildings	4,641,312	4,986,501	(6.9)
Fixed Costs	188,536	180,462	4.5
Interest on Long-Term Debt	4,855,509	4,638,948	4.7
Depreciation - Unallocated	1,300,667	1,301,394	(0.1)
Total Expenses	45,017,363	36,365,581	23.8
Change in Net Position	(3,601,830)	5,051,879	(171.3)
Net Position - Beginning	(72,210,510)	(77,262,389)	6.5
GASB 84 Adjustment - See Note 2	1,130		100.0
Net Position - Beginning as Restated	(72,209,380)	(77,262,389)	6.5
Net Position - Ending	$ (75,811,210)	$ (72,210,510)	(5.0) %

The District's total revenues were $41,415,533 for the year ended June 30, 2020. Federal and state aid payments accounted for 98 percent of total revenue for the year.

The total cost of all programs and services was $45,017,363. The District's expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position $3,601,830 over last year. For the year ended June 30, 2020, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA decreased net position by $1,244,994. For the year ended June 30, 2019, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA increased net position by $5,577,937.

The net cost of governmental activities is their total costs less program revenues applicable to each category.

Table A-3 presents these net costs.

Table A-3
Net Cost of Governmental Activities

	Total Cost of Services		Total Percentage	Net Cost of Services		Total Percentage
	2020	2019	Change	2020	2019	Change
Expenses						
Administration	$ 1,774,097	$ 1,985,906	(10.7) %	$ 1,774,097	$ 1,985,906	(10.7) %
District Support Services	1,421,710	1,202,990	18.2	1,421,710	1,202,990	18.2
Elementary & Secondary						
Regular Instruction	17,794,929	9,488,773	87.5	10,696,372	3,866,685	176.6
Vocational Education Instruction	109,458	142,696	(23.3)	91,053	125,909	(27.7)
Special Education Instruction	5,821,254	5,710,398	1.9	2,338,200	2,897,202	(19.3)
Community Education and Services	571,438	637,912	(10.4)	94,139	102,650	(8.3)
Instructional Support Services	2,687,622	2,812,485	(4.4)	2,297,893	2,266,986	1.4
Pupil Support Services	3,850,831	3,277,116	17.5	1,810,711	1,652,963	9.5
Sites and Buildings	4,641,312	4,986,501	(6.9)	3,320,628	3,772,680	(12.0)
Fixed Costs	188,536	180,462	4.5	188,536	180,462	4.5
Interest on Long-Term Debt	4,855,509	4,638,948	4.7	4,855,509	4,638,948	4.7
Depreciation - Unallocated	1,300,667	1,301,394	(0.1)	1,300,667	1,301,394	(0.1)
	$ 45,017,363	$ 36,365,581	23.8 %	$ 30,189,515	$ 23,994,775	25.8 %

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Table A-4
Major Funds

	Fund Balance		Increase	Percentage Increase
	2020	2019	(Decrease)	(Decrease)
Governmental Funds				
General	$ 23,246,945	$ 20,714,571	$ 2,532,374	12.2 %
Building	(8,198,859)	1,137	(8,199,996)	(721,195.8)

The general fund balance increased as a result of the District monitoring and controlling expenses. The building fund balance decreased as a result of the building project for the early childhood center.

General Fund

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

Table A-5 presents a summary of general fund revenue.

Table A-5
General Fund Revenue

	2020	2019	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	$ 4,212	$ 4,171	$ 41	1.0 %
Interest Earnings	292,132	473,703	(181,571)	(38.3)
Other	345,494	310,002	35,492	11.4
State Sources	23,135,946	22,412,312	723,634	3.2
Federal Sources	15,421,521	17,256,698	(1,835,177)	(10.6)
Other	4,966	40,173	(35,207)	(87.6)
Total General Fund Revenue	$ 39,204,271	$ 40,497,059	$ (1,292,788)	(3.2) %

Total general fund revenue decreased by $1,292,788 or 3.2 percent from the previous year. Basic general education revenue is determined by a state per student funding formula.

Table A-6 presents a summary of general fund expenditures.

Table A-6
General Fund Expenditures

	2020	2019	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 19,985,346	$ 19,315,444	$ 669,902	3.5 %
Employee Benefits	8,542,452	8,526,006	16,446	0.2
Purchased Services	3,180,215	3,606,458	(426,243)	(11.8)
Supplies and Materials	2,298,083	2,018,084	279,999	13.9
Capital Expenditures	2,368,608	3,166,500	(797,892)	(25.2)
Debt Service		180,708	(180,708)	(100.0)
Other Expenditures	203,627	197,331	6,296	3.2
Total General Fund Expenditures	$ 36,578,331	$ 37,010,531	$ (432,200)	(1.2) %

Total general fund expenditures decreased $432,200 or 1.2 percent from the previous year.

General Fund Budgetary Highlights

The District adopted its original budget in June 2019. During the year ended June 30, 2020, the District revised its budget.

The District's budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by $7,062,842 and the actual results for the year show a surplus of $2,531,244.

Capital Assets and Debt Administration

Capital Assets

Note 5 to the financial statements presents an analysis of capital asset transactions occurring during the year ended June 30, 2020. Additions totaling $10,348,460 mainly consist of construction in process for the early childhood center, a roofing project, building remodeling, flooring project, security system, a unit ventilator, a bus, and a vehicle. The District did not have any disposals.

Long-Term Debt

At year-end, the District had $122,858,279 of long-term debt. This consisted of capital loan payable of $56,612,441 and accrued interest on the capital loan payable of $66,245,838. Note 8 to the financial statements presents the details and payment provisions of these items.

Factors Bearing on the District's Future

Student Enrollment

The District closely monitors and evaluates student enrollment (ADM) and attendance.

In the FY 2007, the District adopted a strategic plan which included a comprehensive review of its curriculum and a student behavior management plan that focuses on community building and personal responsibility. The implementation of these and many other initiatives are designed to help bolster the District's academic rigor and provide students with a safe and healthy learning environment. With the implementation of these initiatives, the District has seen an increase in student enrollment, a decrease in student absenteeism and a decrease in student disciplinary referral actions.

An analysis of District enrollment trends reveals steady to slight increase in K-12 enrollment. This is due to the following factors.

- A flattening of the birth rate among district residents.
- A decrease in the number of students who open enroll out of the District beginning in the 5th grade.
- A decrease in the number of students dropping out of school.
- An increase in the number of students accessing district alternative education programs.

The District anticipates enrollment growth will remain flat during each of the next three fiscal years, 2021, 2022, and 2023.

Staffing

The District estimates the annual rate of staff turnover will be approximately 5% for FY 2021 and 2022. The District is expecting two (2) retirements and two (2) non-licensed retirements at the end of FY 2021.

The District continues to struggle with attracting adequate pools of candidates for all open positions (licensed and non-licensed). Looking forward, the District anticipates that it will not be able to fill all open positions. Specifically, positions in special education, language arts and mathematics will go unfilled or will be filled with licensed staff requiring personnel variances.

The District entered into employment agreements with the Teachers Union, Principals Union and MSEA Union. All agreements expire on June 30, 2021. The District and unions will enter into negotiations with each union for the 2021-2023 agreement during the last half of FY 2021.

Political Environment - Federal

The political environment at the Federal level has a significant effect on Red Lake School District's future finances. Federal funding accounts for approximately 40% of the District's General Fund budget. Federal Impact Aid, which accounts for 28% of the District's general fund budget is not forward funded and therefore subject to the annual appropriation process. The District is a member of the National Association of Federally Impact Schools (NAFIS) which provides Congress and the President with eligibility data regarding federally impacted students who reside on Indian lands, military bases, federal properties and low rent units. NAFIS members actively receive the support of a bipartisan coalition in both the U.S. Senate and U.S. House of Representatives in regard to Federal Impact Aid Appropriations.

Political Environment - State

State General Education Aid accounts for 60% of the District's General Fund budget.

Due to 99% of the real property within the District boundaries being held in federal trust, the District does not have a large enough tax base to be able to issue capital building bonds to build or remodel capital facilities. Rather, the Red Lake School District must request Maximum Effort Capital Loans from the State of Minnesota. As per Minnesota Statute 126C.69, the District may apply to the State for a Maximum Effort Capital Loan. The loan must be approved by the legislature and approved by the governor. The District first requested a capital loan in 1992 to build a new elementary school and develop a plan for further improvement of facilities. The legislature has never fully funded the District's loan requests, but provided partial funding in 2000, 2002, 2005, 2014 and 2018. The term of each loan is 50 years. Since the District is not able to levy adequate funds to fully pay the loan, the State of Minnesota will forgive the unpaid balance at the maturity of each loan.

Educational Initiatives – School Improvements

Four of the district's schools continue to be designated as Priority or Focus Schools, which is an indicator that they are performing among the lowest five percent in academically, and/or among those with the highest achievement gap. The designation, first assigned in October of 2014, by the Minnesota Department of Education (MDE), requires ongoing documentation of continuous improvement efforts. The District high school graduation rate increased from 26.1% in 2014, to 43.5% in 2019.

There are currently a number of interventions and improvement initiatives underway in all Red Lake Schools including Professional Learning Communities (PLC) that support job-embedded professional development on a weekly basis, and engage teachers in data-driven discussion regarding curriculum, instruction and assessment. Principals in all schools facilitate school leadership teams, which engage teacher leaders in continuous school improvement planning, and oversight of the implementation of research-based instructional strategies to improve outcomes for all students. The district superintendent meets weekly with the principals in each building, individually and also in small groups to provide coaching in the development of instructional leadership skills. To ensure teachers receive support to improve their practices, all licensed staff are evaluated between one and three times each year by the building principals, and engage in a summative conference at the conclusion of the school year. Instructional time has also been increased, by lengthening the school day, providing for afterschool programming, and summer school. Finally, the District has taken steps to increase parent and community involvement, launched the implementation an initiative to install for a guaranteed and viable curriculum that is culturally responsive, and partnered with Tribal agencies to provide for Tribal Truancy Court to increase attendance, enrollment and ultimately, graduation.

COVID-19

On March 13, 2020, a national emergency was declared for the COVID-19 outbreak in the United States of America. This event affects the economy and financial markets. The extent of the impact on the District may be both direct and indirect and will vary based on the duration of the outbreak and various other factors. Estimates of the effect cannot be determined at the time of this report.

Contacting the District’s Financial Management

This financial report is designed to provide the District’s citizens, taxpayers, customers, investors, and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact Willie Larson, Business Manager, at the District Administration Office, PO Box 499, Red Lake, MN 56671.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2020

GOVERNMENTAL ACTIVITIES		
ASSETS		
Cash and Investments	$	18,363,031
Property Taxes Receivable		266
Interest Receivable		16,202
Due From MN School Districts		7,281
Due From Department of Education		1,660,567
Due From Federal Govt. - DOE		847,435
Due From Federal Govt.		84,229
Due from Other Governments		7,587
Inventory		33,484
Capital Assets		
Construction in Process		9,268,758
Other Capital Assets, Net of Depreciation		50,641,322
TOTAL ASSETS		80,930,162
DEFERRED OUTFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan		14,552,068
Other Postemployment Benefit		284,594
TOTAL DEFERRED OUTFLOWS OF RESOURCES		14,836,662
LIABILITIES		
Accounts Payable		1,989,473
Salaries Payable		1,619,609
Payroll Deductions		1,893,641
Due to Other Governments		127,448
Long-Term Liabilities Due Within One Year		64,635
Long-Term Liabilities		
Compensated Absences Payable		222,990
Severance Payable		2,066,781
Capital Loan		56,612,441
Accrued Interest Payable		66,245,838
Total Other Postemployment Benefit Liability		1,141,867
Net Pension Liability		19,391,675
Less Amounts Due Within One Year		(64,635)
Total Long-Term Liabilities		145,616,957
TOTAL LIABILITIES		151,311,763
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied - Subs. Years		4,126
Cost Sharing Defined Benefit Pension Plan		20,250,324
Other Postemployment Benefit		11,821
TOTAL DEFERRED INFLOWS OF RESOURCES		20,266,271

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2020

NET POSITION	
Net Investment in Capital Assets	3,297,639
Restricted	
Student Activities	58,479
Scholarships	1,759
Staff Development	15,343
Operating Capital	650,476
Learning and Development	3,344
St. Approved Alt Program	722,289
Gifted and Talented	18,457
Basic Skills Extended Time	418,855
Long-Term Facilities Maintenance	286,684
Medical Assistance	19,061
Impact Aid	1,400,000
Food Service	142,714
Community Education	56,693
ECFE	36,999
Community Service	24,201
Unrestricted	(82,964,203)
TOTAL NET POSITION	$ (75,811,210)

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

		Program Revenues			Net (Expense)
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES					
Administration	$ 1,774,097	$	$	$	$ (1,774,097)
District Support Services	1,421,710				(1,421,710)
Elementary & Secondary					
Regular Instruction	17,794,929	155,542	6,943,015		(10,696,372)
Vocational Education Instruction	109,458		18,405		(91,053)
Special Education Instruction	5,821,254		3,483,054		(2,338,200)
Community Education and Services	571,438	151,697	325,602		(94,139)
Instructional Support Services	2,687,622	4,874	384,855		(2,297,893)
Pupil Support Services	3,850,831	22,107	2,018,013		(1,810,711)
Sites and Buildings	4,641,312			1,320,684	(3,320,628)
Fixed Costs	188,536				(188,536)
Interest on Long-Term Debt	4,855,509				(4,855,509)
Depreciation - Unallocated	1,300,667				(1,300,667)
TOTAL GOVERNMENTAL ACTIVITIES	$ 45,017,363	$ 334,220	$ 13,172,944	$ 1,320,684	(30,189,515)

GENERAL REVENUES	
Taxes	
Property Taxes, Levied for General Purposes	4,212
Unrestricted State Aid	13,809,133
Unrestricted Federal Aid	12,284,102
Unrestricted Investment Earnings	292,265
Other General Revenue	197,973
TOTAL GENERAL REVENUES	26,587,685
Change in Net Position	(3,601,830)
Net Position - Beginning	(72,210,510)
GASB 84 Adjustment - See Note 2	1,130
Net Position - Beginning as Restated	(72,209,380)
Net Position - Ending	$ (75,811,210)

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2020

	General Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	$ 18,154,521	$ 1,141	$ 207,369	$ 18,363,031
Current Property Taxes Receivable	266			266
Interest Receivable	16,202			16,202
Due From MN School Districts	7,281			7,281
Due From Department of Education	1,629,201		31,366	1,660,567
Due From Federal Govt. - DOE	591,658		255,777	847,435
Due From Federal Govt.	84,229			84,229
Due From Other Governments	7,587			7,587
Due From Other Funds	6,747,473			6,747,473
Inventory	15,957		17,527	33,484
TOTAL ASSETS	$ 27,254,375	$ 1,141	$ 512,039	$ 27,767,555
LIABILITIES				
Accounts Payable	$ 489,473	$ 1,500,000	$	$ 1,989,473
Salaries Payable	1,492,742		126,867	1,619,609
Payroll Deductions	1,893,641			1,893,641
Due To Other Governments	127,448			127,448
Due To Other Funds		6,700,000	47,473	6,747,473
TOTAL LIABILITIES	4,003,304	8,200,000	174,340	12,377,644
DEFERRED INFLOWS OF RESOURCES				
Property Taxes Levied - Subs. Years	4,126			4,126
TOTAL DEFERRED INFLOWS OF RESOURCES	4,126			4,126
FUND BALANCES				
Nonspendable: Inventory	15,957		17,527	33,484
Restricted for Student Activities	58,479			58,479
Restricted for Scholarships	1,759			1,759
Restricted for Staff Development	15,343			15,343
Restricted for Operating Capital	650,476			650,476
Restricted for Learning and Development	3,344			3,344
Restricted for St. Approved Alt Program	722,289			722,289
Restricted for Gifted and Talented	18,457			18,457
Restricted for Basic Skills Extended Time	418,855			418,855
Restricted for Long-Term Facilities Maintenance	286,684			286,684
Restricted for Medical Assistance	19,061			19,061
Restricted for Impact Aid	1,400,000			1,400,000
Restricted for Food Service			125,187	125,187
Restricted for Community Education			56,693	56,693
Restricted for ECFE			36,999	36,999
Restricted for Community Service			24,201	24,201
Restricted for Max Effort Loan			77,092	77,092
Assigned for Red Lake Early Childhood Center	845,747			845,747
Unassigned	18,790,494	(8,198,859)		10,591,635
TOTAL FUND BALANCES	23,246,945	(8,198,859)	337,699	15,385,785
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 27,254,375	$ 1,141	$ 512,039	$ 27,767,555

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2020

Total fund balances - governmental funds	$	15,385,785
Amounts reported for governmental activities in the statement of net position 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		93,004,744
Less accumulated depreciation		(33,094,664)
Deferred outflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		14,836,662
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Compensated Absences Payable		(222,990)
Severance Payable		(2,066,781)
Capital Loan		(56,612,441)
Accrued Interest Payable		(66,245,838)
Total Other Postemployment Benefit Liability		(1,141,867)
Net Pension Liability		(19,391,675)
Deferred inflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		(20,262,145)
Net position - governmental activities	$	(75,811,210)

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

	General Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local Property Tax Levies	$ 4,212	$	$	$ 4,212
Other Local & County Revenues	637,626	4	164,727	802,357
Revenue From State Sources	23,135,946		341,424	23,477,370
Revenue From Federal Sources	15,421,521		1,682,326	17,103,847
Sale/Other Conversion of Asset	4,966		17,140	22,106
TOTAL REVENUES	39,204,271	4	2,205,617	41,409,892
EXPENDITURES				
Current				
Administration	1,772,391			1,772,391
District Support Services	1,409,978			1,409,978
Elementary & Secondary Regular Instruction	15,984,029			15,984,029
Vocational Instruction	108,677			108,677
Special Education Instruction	5,819,415			5,819,415
Community Education and Services			570,720	570,720
Instructional Support Services	2,332,400			2,332,400
Pupil Support Services	2,167,359		1,536,584	3,703,943
Sites and Buildings	4,426,938			4,426,938
Fixed Costs	188,536			188,536
Debt Service				
Interest			5,040	5,040
Capital Outlay	2,368,608	8,200,000		10,568,608
TOTAL EXPENDITURES	36,578,331	8,200,000	2,112,344	46,890,675
Revenues Over (Under) Expenditures	2,625,940	(8,199,996)	93,273	(5,480,783)
OTHER FINANCING SOURCES (USES)				
Transfers In			94,696	94,696
Transfers Out	(94,696)			(94,696)
TOTAL OTHER FINANCING SOURCES (USES)	(94,696)		94,696	
Net Change in Fund Balances	2,531,244	(8,199,996)	187,969	(5,480,783)
Fund Balances - Beginning	20,714,571	1,137	149,730	20,865,438
GASB 84 Adjustment - See Note 2	1,130			1,130
Fund Balances - Beginning, As Restated	20,715,701	1,137	149,730	20,866,568
Fund Balances - Ending	$ 23,246,945	$ (8,198,859)	$ 337,699	$ 15,385,785

See Notes to the Financial Statements

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

Total net change in fund balances - governmental funds	$ (5,480,783)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlay	10,348,460
Depreciation expense	(1,997,822)
Change in net pension liability.	(1,199,238)
Changes in deferred outflows and inflows of resources related to net pension liability.	(45,756)
Changes in deferred outflows and inflows of resources related to other postemployment benefit liability.	83,913
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(4,850,469)
Recognition of additional pension expense and grant revenue for the District's proportionate share of the State of Minnesota's contribution to the PERA and TRA.	
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid.)	
Other postemployment benefits	17,472
Severance payable	(418,002)
Compensated absences payable	(59,605)
Change in net position - governmental activities	$ (3,601,830)

See Notes to the Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 38 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.

B. Reporting Entity

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

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

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

C. 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other 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 purposes for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

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

D. Measurement Focus and Basis of Accounting

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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for advance amounts recognized in accordance with a statutory "tax shift." Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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

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 available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific 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. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

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 entity. Descriptions of the major funds included in this report are as follows:

Major Governmental Funds

General Fund – Accounts for all financial resources and transactions except those required to be accounted for in other funds including pupil transportation and capital outlay activities, which were previously (prior to July 1, 1996) accounted for in separate special revenue funds.

Building Construction Fund – Accounts for resources used for the acquisition and construction of major capital facilities.

GASB No. 34 also requires that budget vs. actual information be presented for the general fund and all major special revenue funds.

Nonmajor Governmental Funds

Special Revenue Funds:

Food Service Fund – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches, or snacks in connection with school activities.

Community Service Fund – Accounts for all resources designated for programs other than those for elementary and secondary students.

Debt Redemption Fund – Accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

E. Specific Account Information

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

Investments are carried at fair value. The District considers certificates of deposit to be cash.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data
Level 3: Unobservable market inputs that are not corroborated by market data

Taxes Receivable – Taxes receivable represents taxes levied in 2019 which are not payable until 2020, net of the amount received prior to June 30.

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

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

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as unavailable revenue (property taxes levied for subsequent years).

The majority of the revenue in the general fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between property taxes and state aids by the legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the “tax shift.”

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year.

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

<u>Capital Assets</u> – Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school 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 construction in progress, if any. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

<u>Unearned Revenue</u> – Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned.

<u>Vacation and Sick Leave</u> – Teachers and principals do not receive paid vacation but are paid only for the number of days they are required to work each year, 184 days for teachers and 209 days for principals. Employees other than teachers and principals earn vacation pay. Employees lose vacation time if not taken before August 15 and are not compensated for any unused time upon termination or retirement. Therefore, a liability for vacation is not recorded in the financial statements.

All employees are entitled to accrue sick leave days at various rates for each year of employment, with limits. Sick days do not vest, and accordingly, employees can be paid personal leave only when sick or for emergencies. Since the employees accumulating rights to receive compensation for future absences are contingent upon the absences being accrued by future illnesses and such amounts cannot be reasonably estimated, a liability for accrued sick leave is not recorded in the financial statements.

<u>Compensated Absences</u> – Employees are afforded two days leave each year with pay for emergency matters. After being in the District for five years, employees may accumulate the unused days to a maximum of five days. A liability named “Compensated Absences” has been recorded on the Statement of Net Position for the qualifying accumulated personal leave.

<u>Severance Pay</u> – A maximum of five full-time teacher employees per year who have attained the age of 50 and accumulated 15 years of full-time service are eligible to receive severance benefits in the amount of accumulated unused sick leave up to a maximum of one years’ pay. The teacher’s daily rate of pay at the time of retirement is used to calculate this amount. Selection of teachers granted severance pay is based on seniority in the District. Severance is paid in one lump sum or equal annual installments over a period of time, at the discretion of the District, not to exceed two years from the effective date of severance.

Administrators shall receive as severance pay, accumulated sick leave, not to exceed one years’ pay. Severance shall be paid by the District in one lump sum or equal annual installments not to exceed five years from the effective date of severance. The Superintendent shall receive severance pay, up to 130 days of accumulated sick leave upon separation.

Non-licensed employees who have completed 10 years of service in the District will receive 30 percent of the accumulated sick leave days as pay figured on the employees’ average daily pay when leaving the District.

Non-licensed employees who have completed 15 years of service in the District will receive 60 percent of the accumulated sick leave days as pay figured on the employees' average daily pay when leaving the District.

Non-licensed employees hired after February 1, 2004 are not eligible to participate in the severance plan, but may participate in the District's matching deferred compensation plan. Non-licensed employees hired prior to February 1, 2004 may participate in both the matching deferred compensation plan and the severance plan. Upon retirement, an employee's severance pay will be calculated and all matching contributions under the provisions of the matching deferred compensation plan contributed by the District will be subtracted from the qualifying severance amount.

<u>Long-Term Obligations</u> – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued in the future, bond premiums and discounts will be deferred and amortized over the life of the bonds using the effective interest method. Bonds payable will be reported net of the applicable bond premium or discount. Bond issuance costs will be expensed in the period incurred.

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

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

PERA has a special funding situation created by direct aid contributions of $16 million made by the State of Minnesota to the fund in 2019.

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

<u>Deferred Outflows/Inflows of Resources</u> – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. The District has two items that qualify for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* which represents actuarial differences within PERA and TRA pension plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – delinquent taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The item, *property taxes levied – subs. years,* is reported as a deferred inflow of resources for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent property tax revenue levied for a subsequent period. The third items, *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* which represent actuarial differences within PERA and TRA pension plans and other postemployment benefits.

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

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance – The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

> Nonspendable – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
>
> Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the Minnesota Department of Education.
>
> Committed – Consists of amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
>
> Assigned – Consists of amounts a government intends to use for a specific purpose. These constraints are established by the Board of Education and/or management. The Board of Education delegates the power to assign fund balances to the superintendent and business manager.
>
> Unassigned – Consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

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.

The District will strive to maintain a minimum unassigned general fund balance of three months of operating expenditures.

F. Use of Estimates

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

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET POSITION AND FUND BALANCE

The District implemented GASB Statement No. 84, *Fiduciary Activities,* in the fiscal year ended June 30, 2020. As a result, beginning net position and general fund balance have been restated to reflect the scholarships cash balance of $830 as well as the change in the student activities equity balance of $300, resulting in an increase in an increase in net position and general fund balance of $1,130.

NOTE 3 RECLASSIFICATIONS

Certain reclassifications have been made to the 2019 financial statements in order to conform with 2020 presentation.

NOTE 4 DEPOSITS AND INVESTMENTS

The District maintains a cash account at its depository bank.

The District's interest income for the year ended June 30, 2020, was $292,265.

The pooled cash and investment account is comprised of the following:

Cash	$	1,724,828
Investments		16,638,203
Total	$	18,363,031

As of June 30, 2020, the District's investments were in the Minnesota School District Liquid Asset Fund external investment pool.

Investment	Fair Value (Level 1)
Minnesota School District Liquid Asset Fund	$16,638,203

The Minnesota School District Liquid Asset Fund is a common law trust organized and existing under the laws of the State of Minnesota, in accordance with the provisions of the Minnesota Joint Powers Act. The general objective of the Fund is to provide a high yield for the participants while maintaining liquidity and preserving capital by investing only in instruments authorized by Minnesota Statutes, which govern the temporary investment of School District monies. In addition, the fixed rate/fixed term portion of the program is also structured with safety of principal as the major objective.

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

Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The District may invest idle funds as authorized in Minnesota Statutes, as follows:

(a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
(b) General obligations and revenue obligations of any state or local government with taxing powers rated “A” and “AA”, respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better.
(c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
(d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
(e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
(f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
(g) Guaranteed investment contracts (GIC’s) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC’s issued by Minnesota banks.
(h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

The Minnesota School District Liquid Asset Fund is rated AAA by Standard & Poor’s.

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk - Deposits – The District does not have a formal custodial credit risk policy. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2020, the District was not exposed to custodial credit risk.

Custodial Credit Risk - Investments - The investment in the Minnesota School District Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

NOTE 5 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Construction in Process	$ 2,044,545	$ 8,222,537	$ 998,324	$ 9,268,758
Capital Assets, Being Depreciated:				
Land Improvements	663,877			663,877
Buildings	72,569,755	2,842,328		75,412,083
Equipment	7,378,108	281,919		7,660,027
Total Capital Assets, Being Depreciated	80,611,740	3,124,247		83,735,987
Less Accumulated Depreciation For:				
Land Improvements	526,772	13,226		539,998
Buildings	24,809,938	1,605,255		26,415,193
Equipment	5,760,133	379,341		6,139,474
Total Accumulated Depreciation	31,096,843	1,997,822		33,094,665
Total Capital Assets, Being Depreciated, Net	49,514,897	1,126,425		50,641,322
Governmental Activities Capital Assets, Net	$ 51,559,442	$ 9,348,962	$ 998,324	$ 59,910,080

In the statement of activities, depreciation expense was charged to the following governmental functions:

Administration	$ 1,706
District Support Services	524
Elementary & Secondary Regular Instruction	60,029
Vocational Education Instruction	781
Special Education Instruction	619
Community Education and Services	718
Instructional Support Services	48,149
Pupil Support Services	173,611
Sites and Buildings	411,018
	697,155
Unallocated	1,300,667
Total Depreciation Expense	$ 1,997,822

NOTE 6 DEFINED BENEFIT PENSION PLANS- STATEWIDE

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

Disclosures relating to these plans follow:

A. <u>Public Employees Retirement Association</u>

<u>Plan Description</u> – The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by 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 benefit pension plans are tax qualified plans under Section 401 (a) of the Internal Revenue Code.

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

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

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

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of 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 of 90 are exempt from the delay to normal retirement.

<u>Contributions</u> – Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2020 and the District was required to contribute 7.50 percent for Coordinated Plan members. The

District's contributions to the General Employees Fund for the year ended June 30, 2020, were $540,284. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2020, the District reported a liability of $5,324,211 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $165,493. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018, through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the District's proportionate share was 0.0963% at the end of the measurement period and 0.0886% for the beginning of the period.

District's proportionate share of net pension liability	$	5,324,211
State of Minnesota's proportionate share of the net pension liability associated with the District		165,493
Total	$	5,489,704

For the year ended June 30, 2020, the District recognized pension expense of $550,879 for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized an additional $12,394 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 142,026	$
Difference between projected and actual investment earnings		496,869
Changes in actuarial assumptions		392,602
Changes in proportion	371,564	9,660
Contributions paid to PERA subsequent to the measurement date	540,284	
Total	$ 1,053,874	$ 899,131

$540,284 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 ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30		Pension Expense
2021	$	(136,480)
2022		(279,762)
2023		22,118
2024		8,583

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

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

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

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

The following changes in actuarial assumptions and plan provisions occurred in 2019:

Changes in Actuarial Assumptions:
- The mortality projection scale was changed from MP-2017 to MP-2018.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	35.50%	5.10%
Private Markets	25.00%	5.90%
Fixed Income	20.00%	0.75%
International Equity	17.50%	5.90%
Cash	2.00%	0.00%

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

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 one percentage point lower or one percentage point higher than the current discount rate:

District Proportionate Share of NPL		
1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
$ 8,752,717	$ 5,324,211	$ 2,493,298

Pension Plan Fiduciary Net Position – Detailed information about each 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.mnpera.org.

Subsequent Events and the COVID-19 Pandemic Subsequent to Year-End
The United States and global markets experienced declines in values resulting from uncertainty caused by COVID-19. The resulting declines are expected to have a negative impact on PERA's discount rate as well as the value of the Plan's investments. Any impact caused by the resulting declines have not been included in the Schedules as of June 30, 2020.

B. Teachers Retirement Association

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

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

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

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

Tier I Benefits:

Tier I	Step Rate Formula	Percentage
Basic	1st ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1st ten years if service years are up to July 1, 2006	1.2 percent per year
	1st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are 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:

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

or

Tier II Benefits:

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

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree – no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans 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.

Contribution Rate - Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal years ended June 30, 2018, June 30, 2019, and June 30, 2020, were:

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

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

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

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

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2019
Experience Study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

Investment Rate of Return	7.5%
Price Inflation	2.50%
Wage Growth Rate	2.85% before July 1, 2028 and 3.25% after June 30, 2028
Projected Salary Increase	2.85 to 8.85% before July 1, 2028 and 3.25 to 9.25% after June 30, 2028
Cost of Living Adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually

Mortality 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 disabled retiree mortality table, without adjustment.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	35.50%	5.10%
International Equity	17.50%	5.30%
Private Markets	25.00%	5.90%
Fixed Income	20.00%	0.75%
Unallocated Cash	2.00%	0.00%

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” and “Changes of Assumptions” and “Changes in Proportion” use the amortization period of 6 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is over a period of 5 years as required by GASB 68.

Changes in actuarial assumptions since the 2018 valuation:

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

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

Net Pension Liability - On June 30, 2020, the District reported a liability of $14,067,464 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.2207% at the end of the measurement period and 0.2114% for the beginning of the year.

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

District's proportionate share of net pension liability	$	14,067,464
State's proportionate share of the net pension liability associated with the District	$	1,244,766

For the year ended June 30, 2020, the District recognized pension expense of $2,580,406. It also recognized $94,617 as an increase to pension expense for the support provided by direct aid.

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	$		$	325,474
Net difference between projected and actual earnings on plan inv.				1,078,431
Changes in actuarial assumptions		10,983,323		17,731,622
Changes in proportion		1,501,617		215,666
Contributions paid to TRA subsequent to the measurement date		1,013,254		
Total	$	13,498,194	$	19,351,193

$1,013,254 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ending June 30		Expense Amount
2021	$	872,075
2022		199,368
2023		(4,788,056)
2024		(3,269,697)
2025		120,057

Pension Liability Sensitivity - The following presents the net pension liability calculated using the discount rate of 7.50 percent as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage higher (8.50 percent) than the current rate.

Sensitivity of the Net Pension Liability (NPL) to Changes in the Discount Rate

1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
$ 22,426,978	$ 14,067,464	$ 7,175,169

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

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.

Subsequent Events and the COVID-19 Pandemic Subsequent to Year-End
The United States and global markets experienced declines in values resulting from uncertainty caused by COVID-19. The resulting declines are expected to have a negative impact on TRA's discount rate as well as the value of the Plan's investments. Any impact caused by the resulting declines have not been included in the Schedules as of June 30, 2020.

The District recognized total pension expense of $3,131,285 for all of the pension plans in which it participates.

NOTE 7 OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups. In as much as the Plan has no assets, reporting another employee benefit trust fund in the accompanying financial statements is not required nor was a separate or stand-alone report issued.

Benefits Provided – The District provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan. The District provides full single coverage healthcare for a retiring principal or teacher until Medicare eligibility. All principals and teachers have a service requirement of three years.

Funding Policy - Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. The District provides postemployment healthcare benefits to qualifying retirees.

Employees Covered by Benefit Term – At June 30, 2020, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	11
Active plan members	198
Total Members	209

Total OPEB Liability – The District's total OPEB liability of $1,141,867 was measured as of July 1, 2019 and was determined by an actuarial valuation as of July 1, 2019.

Actuarial Assumptions – The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5 percent
Salary increases	changed from a flat 3.0 percent per year to rates which vary by group
Healthcare Cost Trend Rates	6.5 percent decreasing to 5.0 percent over 6 years

The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale.

The discount rate is based on the estimated yield of 20-year AA-rated municipal bonds. The overall single discount rate is 3.10%.

In the July 1, 2019 actuarial valuation, the entry age, level percentage of pay actuarial cost method was used.

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 6/30/2019	$ 1,159,339
Changes for the year:	
Service Cost	47,489
Interest Cost	37,848
Assumption Changes	(13,792)
Differences Between Expected and Actual Experience	99,843
Benefit Payments	(188,860)
Net Changes	(17,472)
Balance at 6/30/2020	$ 1,141,867

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.1 percent) or one percentage point higher (4.1 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (2.1%)	Current (3.1%)	1% Increase (4.1%)
$ 1,193,150	$ 1,141,867	$ 1,091,955

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.5 percent decreasing to 4.0 percent over 6 years) or one percentage point higher (7.5 percent decreasing to 6.0 percent over 6 years) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.5% decreasing to 4.0% over 6 years)	(6.5% decreasing to 5.0% over 6 years)	(7.5% decreasing to 6.0% over 6 years)
$ 1,067,026	$ 1,141,867	$ 1,228,594

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2020, the District recognized OPEB expense of $97,630. At June 30, 2020, the District reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Assumption changes	$	$ 11,821
Differences between expected and actual experience	85,579	
Employer contributions paid subsequent to the measurement date	199,015	
Total	$ 284,594	$ 11,821

$199,015 reported as deferred outflows of resources related to OPEB resulting from District contributions to OPEB subsequent to the measurement date will be recognized as a reduction of the total other postemployment benefit liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ending June 30	OPEB Expense Amount
2021	$ 12,293
2022	12,293
2023	12,293
2024	12,293
2025	12,293
Thereafter	12,293

NOTE 8 LONG-TERM LIABILITIES

Changes in the District's long-term liabilities for the year ended June 30, 2020 are as follows:

Summary of Long-Term Liabilities

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Capital Loans Payable	$ 56,612,441	$	$	$ 56,612,441	$
Accrued Interest on Capital Loan	61,395,369	4,855,509	5,040	66,245,838	
Severance Payable	1,648,779	612,929	194,927	2,066,781	64,635
Total Long-Term Liabilities	$ 119,656,589	$ 5,468,438	$ 199,967	$ 124,925,060	$ 64,635

The District's interest expense for the year ended June 30, 2020 was $4,855,509.

The severance payable is generally liquidated by the general fund.

A. Capital Loan

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Additions	Balance 6/30/2020	Amounts Due in 2020-2021 Principal	Amounts Due in 2020-2021 Interest
1992	5.15-5.90%	2042	$ 10,000,000	$	$ 10,000,000	$	$
2001	4.03-4.30%	2051	11,166,000		11,166,000		
2002	4.00-4.03%	2052	11,736,595		11,736,595		
2005	2.18-4.03%	2055	18,391,198		18,391,198		
2015	2.93%	2065	5,318,648		5,318,648		
			$ 56,612,441	$	$ 56,612,441	$	$

During the 1992 fiscal year, the District received approval for a capital loan from the State of Minnesota through the Department of Education to fund the construction of a new school building and renovations to existing buildings. The loan is in the amount of $10,000,000.

During the 2001 fiscal year, the District received approval for an additional capital loan from the State of Minnesota to fund construction and renovations for the Middle School, Ponemah Elementary and the Early Learning Center. The loan is for $11,166,000.

During the 2002 fiscal year, the District received approval for new construction and remodeling of the Red Lake High School, Ponemah Elementary and the Early Learning Center. The loan is a capital loan from the State of Minnesota for $11,736,595.

During the 2005 fiscal year, the District received an additional capital loan for $18,391,198 from the State of Minnesota to remodel the Red Lake High School and Middle School.

During the 2015 fiscal year, the District received approval for the construction of the new kitchen and cafeteria at the Red Lake High/Middle School. The loan is a capital loan from the State of Minnesota for $5,257,101. During fiscal year 2017, an additional amount of $61,547 was recorded.

The District will repay the loans out of the excess of its maximum effort debt service levy over its required debt service levy, including interest at a rate equal to the weighted average annual rate payable on Minnesota state school loan bonds issued for the project and disbursed to Districts on a reimbursement basis, but in no event less than 3 ½ percent per year on the principal amount from time to time unpaid. If the capital loan is not repaid within fifty years after the date it is granted, the District's liability on the loan will be satisfied and discharged and interest thereon shall cease.

NOTE 9 SEVERANCE PAY

The District has several severance pay plans for various groups of employees. The plans call for employees to be paid for unused portions of their sick leave upon termination of employment. At June 30, 2020, the estimated liability under these plans was $2,066,781.

NOTE 10 DEFICIT FUND BALANCE

As of June 30, 2020, the building fund had a deficit fund balance of $8,198,859 due to the early childhood center building project. The deficit will be eliminated by the issuance of a capital loan.

NOTE 11 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2020 is as follows:

Due to/from Other Funds:

Receivable Fund	Payable Fund	Amount
General	Building	$6,700,000
General	Nonmajor Governmental Funds	47,473
		$6,747,473

The purpose of the interfund loan is to cover the early childhood center expenses in the building fund and to cover the cash shortage in the food service fund.

Interfund Transfers:

Transfer In	Transfer Out	Amount
Nonmajor Governmental Funds	General	$94,696

The purpose of the transfers is to cover the operating deficit in the community service fund.

NOTE 12 COMMITTED CONSTRUCTION

At June 30, 2020, the District had approximately $3,250,000 in committed construction for the early childhood center project.

NOTE 13 CONTINGENCIES

The District receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and aids. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2020.

NOTE 14 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

The District has joined together with other school districts in Minnesota in the Northwest Service Cooperative's Minimum Premium Funding Plan (Plan). The Plan is a public entity risk pool established as a health insurance purchasing pool for its members. The agreement for the formation of the Plan provides that the Plan will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $300,000. The pool and its members purchase reinsurance, currently with a $300,000 specific stop loss attachment point and 110% aggregate stop loss attachment point. If the assets of the Plan were to be exhausted, members would not be responsible for the Plan's liabilities. The Northwest Service Cooperative retains the risk of the Plan's liabilities.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 15 NEW PRONOUNCEMENTS

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021. Earlier application is encouraged.

GASB Statement No. 92, *Omnibus 2020*, provides additional guidance to improve consistency of authoritative literature by addressing practice issues identified during the application of certain GASB statements. This statement provides accounting and financial reporting requirements for specific issues related to leases, intra-entity transfers of assets, postemployment benefits, government acquisitions, risk financing and insurance related activity of public entity risk pools, fair value measurements and derivative instruments. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. Earlier application is encouraged.

GASB Statement No. 96, *Subscription-Based Information* Arrangements provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs). A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. Under this Statement, a government generally should recognize a right-to use subscription asset—an intangible asset—and a corresponding subscription liability. The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged.

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
REVENUES				
Local Property Tax Levies	$ 4,126	$ 4,126	$ 4,212	$ 86
Other Local & County Revenues	879,028	720,781	637,626	(83,155)
Revenue From State Sources	21,565,780	23,430,381	23,135,946	(294,435)
Revenue From Federal Sources	14,054,913	15,365,814	15,421,521	55,707
Sale/Other Conversion of Asset			4,966	4,966
TOTAL REVENUES	36,503,847	39,521,102	39,204,271	(316,831)
EXPENDITURES				
Current				
Administration	1,941,043	1,926,639	1,772,391	(154,248)
District Support Services	1,405,980	1,482,798	1,409,978	(72,820)
Elementary & Secondary Regular Instruction	16,761,906	16,581,351	15,984,029	(597,322)
Vocational Education Instruction	112,727	112,726	108,677	(4,049)
Special Education Instruction	6,020,954	5,960,660	5,819,415	(141,245)
Instructional Support Services	2,555,996	3,138,729	2,332,400	(806,329)
Pupil Support Services	2,156,286	2,156,287	2,167,359	11,072
Sites and Buildings	5,137,516	5,137,517	4,426,938	(710,579)
Fixed Costs	194,888	194,888	188,536	(6,352)
Capital Outlay	1,693,500	9,892,349	2,368,608	(7,523,741)
TOTAL EXPENDITURES	37,980,796	46,583,944	36,578,331	(10,005,613)
Revenues Over (Under) Expenditures	(1,476,949)	(7,062,842)	2,625,940	9,688,782
OTHER FINANCING USES				
Transfer Out			(94,696)	(94,696)
TOTAL OTHER FINANCING USES			(94,696)	(94,696)
Net Change in Fund Balances	(1,476,949)	(7,062,842)	2,531,244	9,594,086
Fund Balances - Beginning	20,714,571	20,714,571	20,714,571	
GASB 84 Adjustment - See Note 2	1,130	1,130	1,130	
Fund Balances - Beginning as Restated	20,715,701	20,715,701	20,715,701	
Fund Balances - Ending	$ 19,238,752	$ 13,652,859	$ 23,246,945	$ 9,594,086

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
Last 10 Years

	2018	2019	2020
Total OPEB Liability			
Service Cost	$ 42,167	$ 43,432	$ 47,489
Interest	43,744	40,870	37,848
Assumption Changes			(13,792)
Differences Between Expected and Actual Experience			99,843
Benefit Payments	(177,550)	(165,786)	(188,860)
Net Change in Total OPEB Liability	(91,639)	(81,484)	(17,472)
Total OPEB Liability - Beginning	1,332,462	1,240,823	1,159,339
Total OPEB Liability - Ending	$ 1,240,823	$ 1,159,339	$ 1,141,867
Covered Payroll	$ 11,376,047	$ 11,717,328	$ 12,825,345
District's Total OPEB Liability as a Percentage of a Covered Payroll	10.91%	9.89%	8.90%

The District implemented GASB No. 75 for the fiscal year ended June 30, 2018. Information from prior years is not available.

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF DISTRICT CONTRIBUTIONS
Last 10 Years

	Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
PERA						
	2015	$ 418,071	$ 418,071	$	$ 5,403,218	7.74 %
	2016	421,714	421,714		5,553,075	7.59
	2017	429,139	437,086	(7,947)	5,721,852	7.64
	2018	460,191	460,191		6,135,866	7.50
	2019	513,731	513,731		6,852,915	7.50
	2020	540,284	540,284		7,255,336	7.45
TRA						
	2015	$ 771,018	$ 771,018	$	$ 8,739,215	8.82 %
	2016	805,447	805,447		10,800,663	7.46
	2017	832,845	830,311	2,534	11,104,508	7.48
	2018	886,995	886,995		11,777,290	7.53
	2019	975,962	975,962		12,608,372	7.74
	2020	1,013,254	1,013,254		12,732,717	7.96

The amounts presented for each fiscal year were determined as of the District's year end which is June 30th.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30,2015. Information for the prior years is not available

See Notes to the Required Supplementary Information

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY
Last 10 Years

	Fiscal Year Ended June 30	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 (if Applicable)	Total	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA								
	2014	0.1042 %	$ 4,894,794	$	$ 4,894,794	$ 5,325,479	91.91 %	78.70 %
	2015	0.0961	4,980,401		4,980,401	5,403,218	92.17	78.19
	2016	0.0881	7,153,283	93,372	7,246,655	5,553,075	128.82	68.90
	2017	0.0889	5,675,317	71,383	5,746,700	5,721,852	99.19	75.90
	2018	0.0886	4,915,165	161,215	5,076,380	6,135,866	80.11	79.53
	2019	0.0963	5,324,211	165,493	5,489,704	6,852,915	77.69	80.23
TRA								
	2014	0.2316 %	$ 10,671,961	$ 750,870	$ 11,422,831	$ 9,111,648	117.12 %	81.50 %
	2015	0.2035	12,588,488	1,544,360	14,132,848	8,739,215	144.05	76.80
	2016	0.2076	49,517,553	4,969,452	54,487,005	10,800,663	458.47	44.88
	2017	0.2028	40,482,559	3,913,248	44,395,807	11,104,508	364.56	51.57
	2018	0.2114	13,277,272	1,247,702	14,524,974	11,777,290	112.74	78.07
	2019	0.2207	14,067,464	1,244,766	15,312,230	12,608,372	111.57	78.21

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30,2015. Information for the prior years is not available

See Notes to the Required Supplementary Information

NOTE 1 BUDGETARY DATA

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the District.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level. The annual appropriated budget is not legally binding on the District unless the District has a deficit fund balance which exceeds 2.5% of expenditures.

NOTE 2 DEFINED BENEFIT PLANS

PERA

2019 Changes
<u>Changes in Actuarial Assumptions:</u> The mortality projection scale was changed from MP-2017 to MP-2018.

<u>Changes in Plan Provisions:</u> 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
<u>Changes in Actuarial Assumptions:</u> The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

<u>Changes in Plan Provisions:</u> The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024. Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018. Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply. Contribution stabilizer provisions were repealed. Postretirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90.00 percent funding ratio to 50.00 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches normal retirement age; does not apply to Rule of 90 retirees, disability benefit recipients, or survivors. Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes
<u>Changes in Actuarial Assumptions:</u> 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 now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

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

2016 Changes
Changes in Actuarial Assumptions: The assumed 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 2.50% for inflation.

2015 Changes
Changes in Plan Provisions: On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions: The assumed post-retirement benefit increase was changed form 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.

TRA

Changes in Actuarial Assumptions Since the 2016 Valuation:
- The Cost of Living Adjustment (COLA) was assumed to increase from 2.0 percent annually to 2.5 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5 percent, but remain at 2.0 percent for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4 percent to 0.0 percent, the vested inactive load increased from 4.0 percent to 7.0 percent and the non-vested inactive load increased from 4.0 percent to 9.0 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

Changes in actuarial assumptions since the 2017 valuation:
- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least 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 payment and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.

- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

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

NOTE 3 OTHER POSTEMPLOYMENT BENEFITS

<u>Plan Changes:</u> None

<u>Assumption Changes:</u>

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale to the Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2018 Generational Improvement Scale.
- The salary increase rates were changed from a flat 3.00% per year for all employees to rates which vary by service and contract group.
- The discount rate was changed from 3.40% to 3.10%.

<u>Method Changes:</u> None

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2020

	Special Revenue Funds		Debt	Total Nonmajor
	Food Service Fund	Community Service Fund	Redemption Fund	Governmental Funds
ASSETS				
Cash and Investments	$	$ 130,544	$ 76,825	$ 207,369
Due From Department of Education		31,099	267	31,366
Due From Federal Govt. - DOE	240,505	15,272		255,777
Inventory	17,527			17,527
TOTAL ASSETS	$ 258,032	$ 176,915	$ 77,092	$ 512,039
LIABILITIES				
Salary Payable	$ 67,845	$ 59,022	$	$ 126,867
Due to Other Funds	47,473			47,473
TOTAL LIABILITIES	115,318	59,022		174,340
FUND BALANCES				
Nonspendable: Inventory	17,527			17,527
Restricted for Max Effort Loan			77,092	77,092
Restricted for Food Service	125,187			125,187
Restricted for Community Education		56,693		56,693
Restricted for ECFE		36,999		36,999
Restricted for Community Service		24,201		24,201
TOTAL FUND BALANCES	142,714	117,893	77,092	337,699
TOTAL LIABILITIES AND FUND BALANCES	$ 258,032	$ 176,915	$ 77,092	$ 512,039

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

	Special Revenue Funds			
	Food Service Fund	Community Service Fund	Debt Redemption Fund	Total Nonmajor Governmental Funds
REVENUES				
Other Local & County Revenues	$ 13,030	$ 151,697	$	$ 164,727
Revenue From State Sources	19,810	290,278	31,336	341,424
Revenue From Federal Sources	1,621,532	60,794		1,682,326
Sale/Other Conversion of Asset	17,140			17,140
TOTAL REVENUES	1,671,512	502,769	31,336	2,205,617
EXPENDITURES				
Current				
Community Education and Services		570,720		570,720
Pupil Support Services	1,536,584			1,536,584
Debt Service				
Interest			5,040	5,040
TOTAL EXPENDITURES	1,536,584	570,720	5,040	2,112,344
Revenues Over (Under) Expenditures	134,928	(67,951)	26,296	93,273
OTHER FINANCING SOURCES				
Transfer In		94,696		94,696
TOTAL OTHER FINANCING SOURCES		94,696		94,696
Net Change in Fund Balances	134,928	26,745	26,296	187,969
Fund Balances - Beginning	7,786	91,148	50,796	149,730
Fund Balances - Ending	$ 142,714	$ 117,893	$ 77,092	$ 337,699

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2020

Governmental Funds	Balance Beginning of Year as Restated	Revenues	Expenditures	Transfers	Balance End of Year
General Fund					
Nonspendable	$ 23,530	$	$	$ (7,573)	$ 15,957
Restricted for:					
Student Activities	48,868	53,412	43,801		58,479
Scholarships	830	2,929	2,000		1,759
Staff Development	14,665	201,146	200,468		15,343
Operating Capital	325,744	339,213	14,481		650,476
Learning and Development	3,344	393,312	393,312		3,344
St. Approved Alt Program	648,357	617,176	543,244		722,289
Gifted and Talented	4,221	20,323	6,087		18,457
Basic Skills Extended Time	212,048	206,807			418,855
Long-Term Facilities Maintenance	90,666	458,829	262,811		286,684
Medical Assistance	19,061				19,061
Impact Aid	746,987	12,416,794	11,893,825	130,044	1,400,000
Assigned for:					
Red Lake Early Childhood Center	845,747				845,747
Unassigned	17,731,633	24,494,330	23,218,302	(217,167)	18,790,494
Food Service Fund					
Nonspendable	7,786			9,741	17,527
Restricted: Food Service		1,671,512	1,536,584	(9,741)	125,187
Community Service Fund					
Restricted for:					
Community Education	32,620	109,849	85,776		56,693
ECFE	31,997	126,628	121,626		36,999
School Readiness		259,084	353,780	94,696	
Community Service	26,531	7,208	9,538		24,201
Building Fund					
Restricted for Building Fund	1,137	4	8,200,000	8,198,859	
Unassigned				(8,198,859)	(8,198,859)
Debt Service Fund					
Restricted for Max Effort Loan	50,796	31,336	5,040		77,092

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Education
Independent School District No. 38
Red Lake, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 38 as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated December 7, 2020.

Legal Compliance

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 contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards 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.

Purpose of the Report

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

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

December 7, 2020

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BradyMartz

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 Board of Education
Independent School District No. 38
Red Lake, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 38, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2020.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

The 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 and corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

December 7, 2020

BradyMartz

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

To the Board of Education
Independent School District No. 38
Red Lake, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 38's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2020. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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, 2020.

Report on Internal Control over Compliance

Management of Independent School District No. 38 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

Purpose of the Report

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

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

December 7, 2020

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2020

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Number	Federal CFDA Number	Amount
U.S. Department of Education			
Direct Programs:			
Impact Aid		84.041	$ 12,806,745
Indian Education		84.060	361,107
Total Direct			13,167,852
Passed-Through Minnesota Department of Education:			
Title I		84.010	1,456,332
Title II, Part A		84.367	103,382
Rural Education Achievement Program		84.358	36,776
Student Support and Academic Enrichment Program		84.424	170,087
COVID-19 Elementary and Secondary Education Relief Fund		84.425	143,760
COVID-19 Governor's Emergency Education Relief Fund		84.425	5,990
Special Education (IDEA) Cluster:			
Special Education Grants to States		84.027	352,455
Special Education Preschool Grants		84.173	16,829
Total Special Education (IDEA) Cluster:			369,284
Special Education Grants for Infants and Families		84.181	14,022
Passed-Through Bemidji Regional Inter-District Council:			
Special Education Grants for Infants and Families		84.181	7,281
Total CFDA #84.181			21,303
Passed-Through North Country Vocational Cooperative:			
Carl Perkins		84.048	1,618
Total Indirect			2,308,532
Total U.S. Department of Education			15,476,384
U.S. Department of Health and Human Services			
Passed-Through Minnesota Department of Education:			
Improving Student Health and Academic Achievement		93.981	5,932
Total U.S. Department of Health and Human Services			5,932
U.S. Department of Agriculture			
Passed-Through Minnesota Department of Education:			
Fresh Fruit and Vegetable Program		10.582	52,717
Child Nutrition Cluster:			
School Breakfast Program		10.553	207,926
After School Snacks		10.555	16,168
National School Lunch Program		10.555	481,285
Commodity Distribution (Nonmonetary Assistance)		10.555	62,910
Summer Food Service Program for Children		10.559	1,377
COVID-19 Summer Food Service Program for Children		10.559	799,148
Total Child Nutrition Cluster			1,568,814
Total U.S. Department of Agriculture			1,621,531
TOTAL FEDERAL AWARDS			$ 17,103,847

See Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the accompanying schedule of expenditures of federal awards (the Schedule) are reported under generally accepted accounting principles (U.S. GAAP). Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 2 INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal award activity of Independent School District No. 38 under programs of the federal government for the year ended June 30, 2020. 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 the Schedule presents only a selected portion of the operations of Independent School District No. 38, it is not intended to be and does not present the financial position or changes in net position of Independent School District No. 38.

NOTE 4 COMMODITY DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE 5 PASS-THROUGH ENTITIES

Pass-through entities listed above without a pass-through number use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 6 SUBRECIPIENTS

During 2020, the District did not pass any federal money to subrecipients.

Section I-Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	___ yes _x_ no
Significant deficiency(ies) identified?	_x_ yes ___ none reported
Noncompliance material to financial statements noted?	___ yes _x_ no

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	___ yes _x_ no
Significant deficiency(ies) identified?	___ yes _x_ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ yes _x_ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.041	Impact Aid

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	___ yes _x_ no

Section II-Financial Statement Findings

2020-001 FINDING

Criteria
An appropriate system of internal controls requires the District to prepare financial statements in compliance with accounting principles generally accepted in the United States of America.

Condition
The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. However, the District currently does not prepare the financial statements, including the accompanying note disclosures, as required by accounting principles generally accepted in the United States of America. The District has elected to have the auditors assist in the preparation of the financial statements and notes.

Cause
The District elected to have the auditors assist with the preparation of the financial statements for efficiency.

Effect
There is an increased risk of material misstatement to the District's financial statements.

Repeat Finding
Yes. Prior audit finding 2019-001.

Recommendation
We recommend the District consider the additional risk of having the auditors assist in the preparation of the financial statements and note disclosures. As a compensating control, the District should establish an internal control policy to document the annual review of the financial statement and to review a financial statement disclosure checklist.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will review on an annual basis.

Section III-Federal Award Findings and Questioned Costs

There are no findings which are required to be reported under this section.

2019-001 FINDING

Criteria
The District does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition
The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. For the year ended June 30, 2019, the District's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the District does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements for external reporting. The Board of Education is aware of this significant deficiency and addresses it by obtaining our assistance in the preparation of the District's annual financial statements.

Cause
The District does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect
The superintendent is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Repeat Finding
Yes. Prior audit finding 2018-001.

Recommendation
The District's financial statement preparation should be reviewed on an annual basis.

Corrective Action Taken
No action taken on financial statement preparation. See current year finding 2020-001 and Corrective Action Plan.

2019-002 FINDING

Criteria
The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records of the student activity accounts. Adequate procedures should be established for completing an audit trail that creates sufficient documentary (physical) evidence for each step in the flow of transactions within the activity fund. These procedures include pre-numbered forms and receipts and maintaining a perpetual inventory of the pre-numbered cash receipts; depositing receipts intact; and making timely deposits.

Condition
Student activity account source documentation was not sufficient to support the amount of the receipt.

Cause
Oversight by the staff.

Effect
Failure to retain sufficient source documentation for the student activity accounts could result in misstatement of revenues and expenses.

Repeat Finding
Yes. Prior audit finding 2018-002.

Recommendation
All source documentation is retained by an advisor and or submitted to the business office. If the source documentation is retained by the advisor, the business manager performs an internal audit periodically.

Corrective Action Taken
The District had sufficient student activity source documentation to support cash receipts.

Red Lake Public School District #38

PO Box 499
Red Lake, MN 56671
218-679-3353 (phone)
218-679-2321 (fax)

"…where each child is valued, life-long learning is embraced, and students are empowered to become Red Lake Nation ambassadors in the global community."

Corrective Action Plan for the Year Ending June 30, 2020

2020-001 FINDING

Contact Person – Superintendent

Corrective Action Plan – Will establish a policy to document review of financial statements and notes.

Completion Date – Ongoing

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2020

District Name: INDEPENDENT SCHOOL DISTRICT NO. 38

District Number: 38

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	39,204,271	39,204,271	
Total Expenditures	36,578,331	36,578,329	2
Non Spendable			
460 Non Spendable Fund Balance	15,957	15,957	
Restricted/Reserved:			
401 Student Activities	58,479	58,479	
402 Scholarships	1,759	1,758	1
403 Staff Development	15,343	15,334	9
407 Capital Projects Levy			
408 Cooperative Revenue			
413 Project Funded by COP			
414 Operating Debt			
416 Levy Reduction			
417 Taconite Building Maintenance			
424 Operating Capital	650,476	650,477	(1)
426 $25 Taconite			
427 Disabled Accessibility			
428 Learning & Development	3,344	3,344	
434 Area Learning Center			
435 Contracted Alt Programs			
436 State Approved Alt Program	722,289	722,290	(1)
438 Gifted & Talented	18,457	18,457	
440 Teacher Development and Eval			
441 Basic Skills Programs			
448 Achievement and Integration			
449 Safe Schools Levy			
451 QZAB Payments			
452 OPEB Liab Not In Trust			
453 Unfunded Sev & Retirement Levy			
459 Basic Skills Ext Time	418,855	418,855	
467 LTFM	286,684	286,684	
472 Medical Assistance	19,061	19,061	
473 PPP Loans			
474 EIDL Loans			
Restricted			
464 Restricted Fund Balance			
475 Title VII - Impact Aid	1,400,000	1,400,000	
476 PILT			
Committed			
418 Committed for Separation			
461 Committed			
Assigned			
462 Assigned Fund Balance	845,747	845,747	
Unassigned:			
422 Unassigned Fund Balance	18,790,494	18,790,495	(1)
Reconciliation of General	99,029,547	99,029,538	9

	Audit	UFARS	Variance
02 FOOD SERVICE			
Total Revenue	1,671,512	1,671,513	(1)
Total Expenditures	1,536,584	1,536,585	(1)
Non Spendable			
460 Non Spendable Fund Balance	17,527	17,527	
Restricted/Reserved:			
452 OPEB Liab Not In Trust			
474 EIDL Loans			
Restricted			
464 Restricted Fund Balance	125,187	125,187	
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Food Service	3,350,810	3,350,812	(2)

	Audit	UFARS	Variance
04 COMMUNITY SERVICE			
Total Revenue	502,769	502,769	
Total Expenditures	570,720	570,720	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
426 $25 Taconite			
431 Community Education	56,693	56,693	
432 E.C.F.E.	36,999	36,999	
440 Teacher Development and Eval			
444 School Readiness			
447 Adult Basic Education			
452 OPEB Liab Not In Trust			
473 PPP Loans			
474 EIDL Loans			
Restricted			
464 Restricted Fund Balance	24,201	24,201	
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Community Service	1,191,382	1,191,382	

	Audit	UFARS	Variance
06 BUILDING CONSTRUCTION			
Total Revenue	4	4	
Total Expenditures	8,200,000	8,200,000	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
407 Capital Projects Levy			
413 Projects Funded By COP			
467 LTFM			
Restricted			
464 Restricted Fund Balance			
Unassigned:			
463 Unassigned Fund Balance	(8,198,859)	(8,198,859)	
Reconciliation of Building Construction	1,145	1,145	

	Audit	UFARS	Variance
07 DEBT SERVICE			
Total Revenue	31,336	31,336	
Total Expenditures	5,040	5,040	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
425 Bond Refundings			
433 Max Effort Loan	77,092	77,094	(2)
451 QZAB Payments			
467 LTFM			
Restricted			
464 Restricted Fund Balance			
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Debt Service	113,468	113,470	(2)

	Audit	UFARS	Variance
08 TRUST			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of Trust			

	Audit	UFARS	Variance
20 INTERNAL SERVICE			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of Internal Service			

	Audit	UFARS	Variance
25 OPEB REVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Revocable Trust			

	Audit	UFARS	Variance
45 OPEB IRREVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Irrevocable Trust			

	Audit	UFARS	Variance
47 OPEB DEBT SERVICE FUND			
Total Revenue			
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted			
425 Bond Refunding			
464 Restricted Fund Balance			
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of OPEB Debt Service			