Annual Financial Report

Independent School District No. 2168

New Richland, Minnesota

For the Year Ended
June 30, 2020

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

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Independent School District No. 2168
New Richland, Minnesota
Annual Financial Report
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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 2168
NEW RICHLAND, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2020

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Independent School District No. 2168
New Richland, Minnesota
School District Officials
For the Year Ended June 30, 2020

Board of Education

Name	Term on Board Expires	Position
Rick Schultz	12/31/2022	Chairman
Dan Schmidt	12/31/2020	Vice-Chairman
Karen Flatness	12/31/2020	Clerk
Travis Routh	12/31/2022	Treasurer
Neil Schlaak	12/31/2020	Member
JoAnn Maloney	11/3/2020	Member
Rich Mueller	12/31/2022	Member

Administration

Dale Carlson	Superintendent
Karla Christopherson	Business Manager

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FINANCIAL SECTION

INDEPENDENT SCHOOL DISTRICT NO. 2168
NEW RICHLAND, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2020

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ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

Members of the School Board
Independent School District No. 2168
New Richland, 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. 2168, New Richland, Minnesota, (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

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Mankato, MN 56001
Office 507.625.2727 | Fax 507.388.9139

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the Schedules of Employer's Share of the Net Pension Liability and the Schedules of Employer's Contributions and Schedule of Changes in the District's Net OPEB Liability and Related Ratios starting on page 70 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 introductory section and the accompanying combining and individual fund financial statements and schedules and table are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 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.

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
October 8, 2020

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Management's Discussion and Analysis

As management of the Independent School District No. 2168, New Richland, Minnesota (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2020.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $3,576,497 (*net position*). Of this amount, a deficit of $12,924,630 (*unrestricted net position*) exists due to the recognition of long-term pension liabilities in accordance with GASB Statement No. 68.

- The District's total net position decreased by $464,040, compared to the prior year's increase of $2,034,278. This change is mainly due to revenues decreasing 2.0 percent and expenses increasing 24.5 percent. The main cause of the decrease in the current year is increased expenditures relating to elementary and secondary regular instruction and sites and buildings.

- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $9,777,171, an increase of $6,433,383 in comparison with the prior year. The main reason for the increase is the issuance of the 2019A School Building Bonds which were not all spent during the year. Unassigned fund balance represents amounts that are available for spending at the District's discretion. Of the total fund balance, $3,109,897 is unassigned.

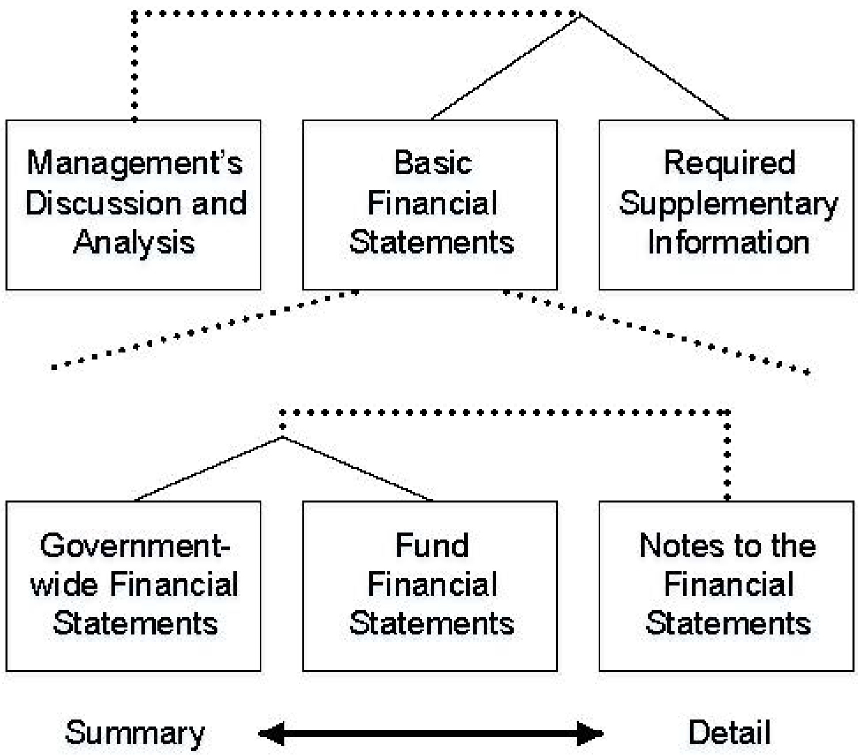
- At the end of the current fiscal year, unassigned fund balance for the General fund was $3,109,897 or 31.8 percent of total General fund expenditures. At the close of fiscal year 2019 there was an unassigned balance of $2,730,478.

- The District's total debt increased by $8,240,000 or 455.2 percent during the current fiscal year. This increase relates to issuance of bonds for the school building.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) District-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplemental information in addition to the basic financial statements themselves. The following chart shows how the various parts of this annual report are arranged and related to one another:

Organization of Independent School District No. 2168
Annual Financial Report



The following chart summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements:

Major Features of the District-wide and Fund Financial Statements

		Fund Financial Statements	
	District-wide Statements	**Governmental Funds**	**Fiduciary Funds**
Scope	Entire District (except fiduciary funds)	The activities of the District that are not fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	• Statement of net position • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balance	• Statement of fiduciary net position • Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and deductions during the year, regardless of when cash is received or paid

District-wide Financial Statements. The *District-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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

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

In the district-wide financial statements, the District activities are shown in one category titled “governmental activities”:

- *Governmental activities*: The District’s basic services are reported here, including regular and special education, transportation, administration, food services, and community education. Property taxes and State aids finance most of these activities.

The District-wide financial statements can be found starting on page 28 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental Funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact by the District’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *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, Debt Service fund, and Building Construction fund, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these no major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its General fund. A budgetary comparison statement has been provided for the General fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found starting on page 32 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the scholarships within the District. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are not available to support the District’s own programs. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those whom the assets belong. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found starting on page 37 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found starting on page 39 of this report.

Required Supplementary Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the District’s share of net pension liabilities (assets) for defined benefits plans, schedules of contributions, and progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found starting on page 70 of this report.

Other Information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the notes to the financial statements. Combining and individual fund financial statements and schedules and table can be found starting on page 76 of this report.

District-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows exceeded liabilities and deferred inflows of resources by $3,576,497 at the close of the most recent fiscal year.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. These funds are to be used for the construction of school facilities. Another large portion of the District's net position reflects amounts restricted for specific purposes. These restrictions consist of $246,133 for educational purposes, $6,259,256 for building construction, and $45,771 for food service. The remaining deficit of $12,924,630 is mainly due to the recognition of long-term pension liabilities in accordance with GASB Statement No. 68.

Independent School District No. 2168's Net Position

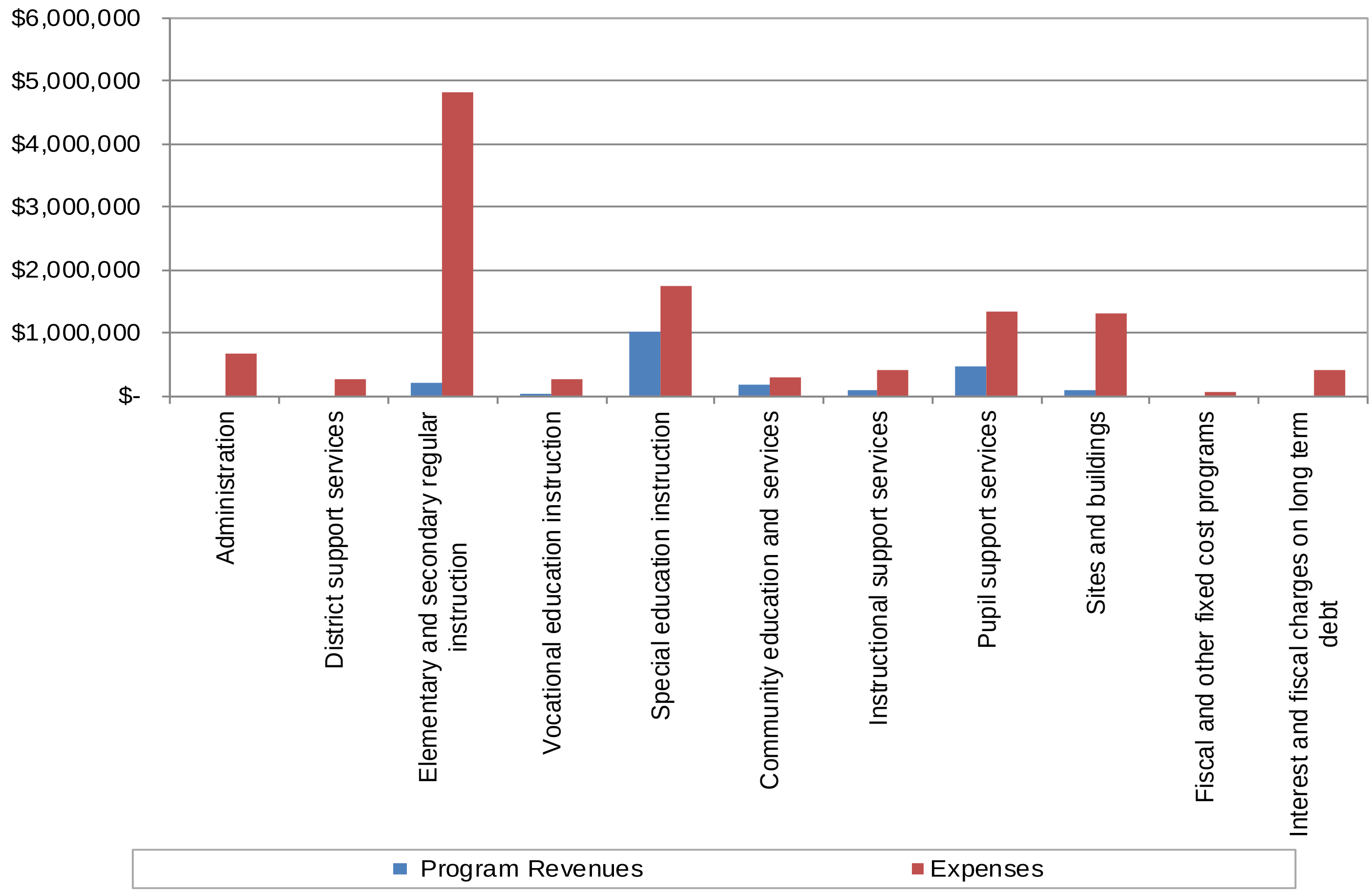
	Governmental Activities		Increase (Decrease)	
	2020	2019	Amount	Percent
Current and Other Assets	$ 13,157,058	$ 4,755,486	$ 8,401,572	176.7 %
Capital Assets	15,127,744	12,225,508	2,902,236	23.7
Total Assets	28,284,802	16,980,994	11,303,808	66.6
Deferred Outflows of Resources	4,894,291	7,316,242	(2,421,951)	(33.1)
Long-term Liabilities Outstanding	18,234,142	8,874,720	9,359,422	105.5
Other Liabilities	2,097,069	825,209	1,271,860	154.1
Total Liabilities	20,331,211	9,699,929	10,631,282	109.6
Deferred Inflows of Resources	9,271,385	10,556,770	(1,285,385)	(12.2)
Net Position				
Net investment in capital assets	9,949,967	9,778,538	171,429	1.8
Restricted	6,551,160	573,908	5,977,252	1,041.5
Unrestricted	(12,924,630)	(6,311,909)	(6,612,721)	104.8
Total Net Position	$ 3,576,497	$ 4,040,537	$ (464,040)	(11.5) %

Governmental Activities. Governmental activities decreased the District's net position by $464,040. Key elements of this decrease are as follows:

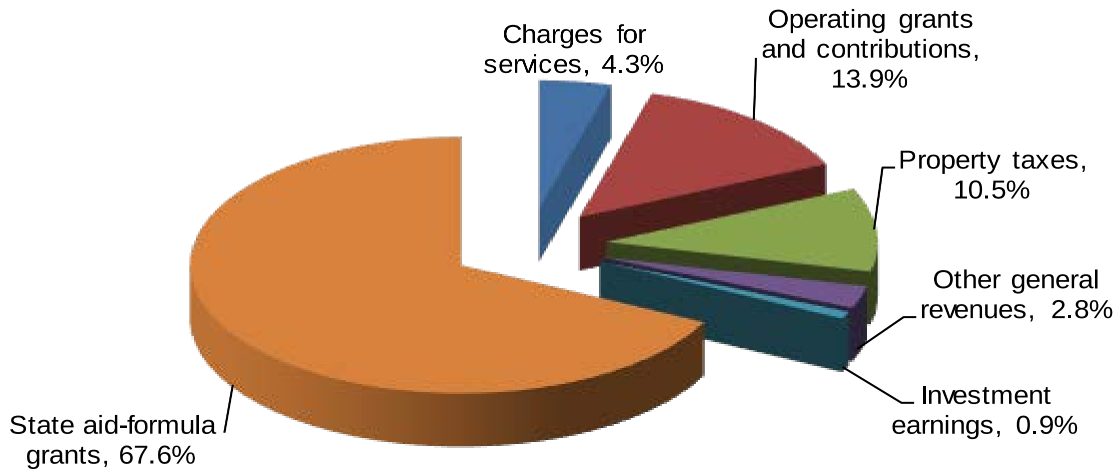
Independent School District No. 2168's Changes in Net Position

	Governmental Activities		Increase (Decrease)	
	2020	2019	Amounts	Percent
Revenues				
Program revenues				
Charges for services	$ 480,948	$ 675,214	$ (194,266)	(28.8) %
Operating grants and contributions	1,549,847	19,918	1,529,929	7,681.1
General revenues				
Property taxes	1,165,981	1,327,291	(161,310)	(12.2)
State aid-formula grants and other contributions	7,503,472	9,021,678	(1,518,206)	(16.8)
Other general revenues	307,698	219,032	88,666	40.5
Investment earnings	100,145	63,410	36,735	57.9
Gain on sale of assets	2,895	7,907	(5,012)	(63.4)
Total Revenues	11,110,986	11,334,450	(223,464)	(2.0)
Expenses				
Administration	684,024	654,677	29,347	4.5
District support services	277,352	279,255	(1,903)	(0.7)
Elementary and secondary regular instruction	4,813,047	3,438,534	1,374,513	40.0
Vocational education instruction	258,577	230,174	28,403	12.3
Special education instruction	1,732,259	1,738,533	(6,274)	(0.4)
Community education and services	286,278	241,156	45,122	18.7
Instructional support services	420,904	375,518	45,386	12.1
Pupil support services	1,336,099	1,369,533	(33,434)	(2.4)
Sites and buildings	1,304,975	887,318	417,657	47.1
Fiscal and other fixed cost programs	55,604	85,474	(29,870)	(34.9)
Interest and fiscal charges on long-term debt	405,907	-	405,907	100.0
Total Expenses	11,575,026	9,300,172	2,274,854	24.5
Change in Net Position	(464,040)	2,034,278	(2,498,318)	(122.8)
Net Position, July 1	4,040,537	2,006,259	2,034,278	101.4
Net Position, June 30	$ 3,576,497	$ 4,040,537	$ (464,040)	(11.5) %

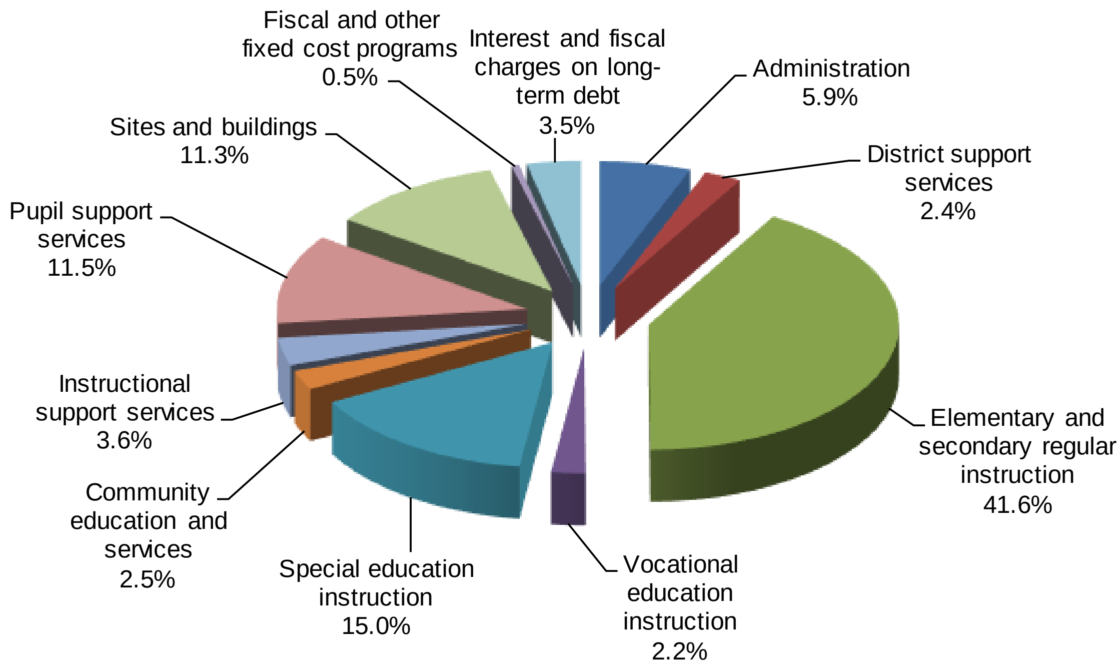
Expenses and Program Revenues - Governmental Activities



Revenues by Source - Governmental Activities



Expenses by Program - Governmental Activities



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.

Governmental Funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $9,777,171, an increase of $6,433,383 in comparison with the prior year. Unassigned fund balance represents amounts that are available for spending at the District's discretion. Unassigned fund balance at the close of 2020 had a balance of $3,109,897, compared to a balance of $2,714,627 in the prior year.

The General fund is the chief operating fund of the District. At the end of the current year, unassigned fund balance of the General fund had a balance of $3,109,897, while total fund balance reached $3,279,108. As a measure of the General fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 31.8 percent of total General fund expenditures, while total fund balance represents 33.5 percent of that same amount.

The fund balance of the District's General fund increased by $181,329 during the current fiscal year. The increase in fund balance was the result of a decrease in Elementary and Secondary Regular Instruction purchased services expenditures of $166,750, Special Education Instruction salaries of $74,302, and Site and Buildings purchased services of $94,245, which all relate to the effects of COVID-19.

The Debt Service fund has a total fund balance of $81,325, all of which is restricted for the payment of debt service. The net decrease in fund balance during the current year was $69,729. This decrease is due to property taxes and State aids being less than the regularly scheduled payment of principal and interest.

The Building Construction fund has a total fund balance of $6,259,256, all of which is restricted for the payment of Building Construction. The net increase in fund balance during the current year was $6,310,417. This increase is due to bonds issued for the school building but not yet spent.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operation budget in November of 2019.

- Actual revenues were approximately $102,214 more than budget as a result of addition state revenues.
- Actual expenditures were $2,866 less than budget due to less expenditures than expected in all departments except for Elementary and Secondary Regular Instruction and Vocational Education Instruction.

Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2020, amounts to $15,127,744 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements and machinery and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 23.7 percent. The total depreciation expense for the year was $747,825. The following is a schedule of capital assets as of June 30, 2020:

Independent School District No. 2168's Capital Assets
(Net of Depreciation)

	Governmental Activities		
	2020	2019	Increase (Decrease)
Land	$ 263,308	$ 263,308	$ -
Land Improvements	538,261	519,886	18,375
Buildings	9,789,496	10,186,165	(396,669)
Equipment	1,350,267	1,204,988	145,279
Construction in Progress	3,186,412	51,161	3,135,251
Total	$ 15,127,744	$ 12,225,508	$ 2,902,236

Additional information on the District's capital assets can be found in Note 3C on page 49 of this report.

Long-term Debt. At the end of the current fiscal year, the District had total general obligation bonds outstanding of $10,050,000. Most of this amount is to finance capital projects relating to school buildings.

Independent School District No. 2168's Outstanding Debt

	Governmental Activities		
	2020	2019	Increase (Decrease)
General Obligation Bonds	$ 10,050,000	$ 1,810,000	$ 8,240,000

The District's total debt increased by $8,240,000 (455.2 percent) during the current fiscal year due to issuance of the 2019A School Building Bonds.

Additional information on the District's long-term debt can be found in Note 3E on page 50 of this report.

Factors Bearing on the District's Future

Enrollment is an area of concern weighing on the District's financial future. Since Minnesota school districts are paid on pupil units served, any decline in enrollment results in less revenue. The District's student enrollment, which determines the pupil units for the purpose of funding, has been on a slight, but manageable decline up to this point. As we navigate through a worldwide pandemic, however, we have seen a larger than expected drop in enrollment. We have to be sensitive to the choices families are making during these unprecedented times and we have to work extremely hard to get those students back when we move into safer and more stable times.

The NRHEG Board of Education (BOE) unanimously approved asking voters for local financial support through an operating levy request on the November 3, 2020 ballot. The ballot question asks voters whether to approve a levy increase that would increase school funding by $560 per pupil annually over a ten-year period. The decision to put the operating levy on the ballot was based on several months of discussions and review of various options. The BOE took this action now after examining carefully the school district's financial history, present fiscal position and best budget projections looking several years into the future. Guiding the BOE's work has been its commitment to the school district's *Strategic Plan* beginning with the priority goal area of *Student Achievement*. Equally important is the BOE's focus and commitment to the priority goal of *Finance* and to "preserving the district's strong financial standing while maintaining programs, services, and facilities at maximum efficiency". The operating levy request is in response to a number of financial pressures resulting in expenses exceeding revenue, challenging the school district's ability to maintain the quality education students deserve and the community expects. These pressures include state funding that has not kept pace with inflation and additional unfunded mandates which draw resources away from the general fund and spending directly on our students.

Labor costs account for over 80% of the District expenses. As cost of benefits continue to skyrocket, it becomes more important during the negotiations of labor contracts that the District be cognizant to this potential unknown long-term liability. The District must continue to follow enrollment trends and maintain a responsible balance between staffing and student enrollment.

Requests for Information

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Superintendent, Independent School District No. 2168, 306 Ash Ave, New Richland, Minnesota 56072.

DISTRICT-WIDE FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 2168
NEW RICHLAND, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2020

Independent School District No. 2168

New Richland, Minnesota
Statement of Net Position
June 30, 2020

	Governmental Activities
Assets	
Cash and temporary investments	$ 11,004,618
Receivables	
Taxes	982,663
Accounts and interest	22,262
Intergovernmental	1,132,965
Inventories	14,550
Capital assets not being depreciated	3,449,720
Capital assets net of accumulated depreciation	11,678,024
Total Assets	28,284,802
Deferred Outflows of Resources	
Deferred pension resources	4,867,892
Deferred other post employment benefit resources	26,399
Total Deferred Outflows of Resources	4,894,291
Liabilities	
Salaries and wages payable	32,448
Accounts and other payables	1,594,910
Accrued interest payable	274,955
Due to other school districts	4,580
Accrued expenses	163,728
Unearned revenue	26,448
Unamortized premiums	
Noncurrent liabilities	
Due within one year	604,518
Due in more than one year	11,073,525
Net pension liability	6,159,120
Other postemployment benefits liability	396,979
Total Liabilities	20,331,211
Deferred Inflows of Resources	
Property taxes levied for subsequent year	1,547,022
Deferred pension resources	7,618,458
Deferred other post employment benefit resources	105,905
Total Deferred Inflows of Resources	9,271,385
Net Position	
Net investment in capital assets	9,949,967
Restricted for	
Building construction	6,259,256
Educational purposes	246,133
Food service	45,771
Unrestricted	(12,924,630)
Total Net Position	$ 3,576,497

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2168

New Richland, Minnesota
Statement of Activities
For the Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Governmental Activities					
Administration	$ 684,024	$ -	$ -	$ -	$ (684,024)
District support services	277,352	-	-	-	(277,352)
Elementary and secondary regular instruction	4,813,047	68,359	135,609	-	(4,609,079)
Vocational education instruction	258,577	-	3,000	-	(255,577)
Special education instruction	1,732,259	51,250	968,865	-	(712,144)
Community education and services	286,278	121,227	63,182	-	(101,869)
Instructional support services	420,904	-	79,469	-	(341,435)
Pupil support services	1,336,099	240,112	213,301	-	(882,686)
Sites and buildings	1,304,975	-	86,421	-	(1,218,554)
Fiscal and other fixed cost programs	55,604	-	-	-	(55,604)
Interest and fiscal charges on long term debt	405,907	-	-	-	(405,907)
Total Governmental Activities	$ 11,575,026	$ 480,948	$ 1,549,847	$ -	(9,544,231)

General revenues	
Taxes	
Property taxes, levied for general purposes	914,520
Property taxes, levied for community service	74,312
Property taxes, levied for debt service	177,149
State aid-formula grants and other contributions	7,503,472
Other general revenues	307,698
Investment earnings	100,145
Gain on sale of assets	2,895
Total General Revenues	9,080,191
Change in Net Position	(464,040)
Net Position, July 1,	4,040,537
Net Position, June 30	$ 3,576,497

The notes to the financial statements are an integral part of this statement.

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FUND FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 2168
NEW RICHLAND, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2020

Independent School District No. 2168
New Richland, Minnesota
Balance Sheet
Governmental Funds
June 30, 2020

	General	Debt Service	Building Construction	Other Governmental Funds	Total Governmental Funds
Assets					
Cash and temporary investments	$ 2,659,693	$ 302,082	$ 7,830,684	$ 212,159	$ 11,004,618
Receivables					
Taxes					
Current	450,150	473,868	-	47,894	971,912
Delinquent	8,366	1,864	-	521	10,751
Accounts and interest	18,454	-	-	3,808	22,262
Intergovernmental	1,109,934	12,291	-	10,740	1,132,965
Inventories	-	-	-	14,550	14,550
Total Assets	$ 4,246,597	$ 790,105	$ 7,830,684	$ 289,672	$ 13,157,058
Liabilities					
Salaries and wages payable	$ 18,263	$ -		$ 14,185	$ 32,448
Accounts and other payables	19,017	-	1,571,428	4,465	1,594,910
Due to other school districts	4,580	-	-	-	4,580
Accrued expenses	163,728	-	-	-	163,728
Unearned revenue	4,025	-	-	22,423	26,448
Total Liabilities	209,613	-	1,571,428	41,073	1,822,114
Deferred Inflows of Resources					
Property taxes levied for subsequent year	749,510	706,916	-	90,596	1,547,022
Unavailable revenue - delinquent property taxes	8,366	1,864	-	521	10,751
Total Deferred Inflows of Resources	757,876	708,780	-	91,117	1,557,773
Fund Balances					
Nonspendable	-	-	-	14,550	14,550
Restricted	133,901	81,325	6,259,256	142,932	6,617,414
Committed	35,310	-	-	-	35,310
Unassigned	3,109,897	-	-	-	3,109,897
Total Fund Balances	3,279,108	81,325	6,259,256	157,482	9,777,171
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 4,246,597	$ 790,105	$ 7,830,684	$ 289,672	$ 13,157,058

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2168
New Richland, Minnesota
Reconciliation of the Balance Sheet
to the Statement of Net Position
Governmental Funds
June 30, 2020

Amounts reported for governmental activities in the statement of net position are different because	
Total Fund Balances - Governmental Funds	$ 9,777,171
Capital assets, net of accumulated deprecation, used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	15,127,744
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.	
Bonds payable	(10,050,000)
Severance payable	(241,010)
Capital Lease	(689,550)
Unamortized premiums	(697,483)
Other postemployment benefits liability	(396,979)
Net pension liability	(6,159,120)
Long-term assets are not available to pay current-period expenditures and, therefore, are unavailable in the funds.	
Delinquent property taxes receivable	10,751
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	4,867,892
Deferred inflows of pension resources	(7,618,458)
Governmental funds do not report long-term amounts related to other post employment benefits.	
Deferred outflows of other post employment benefit resources	26,399
Deferred inflows of other post employment benefit resources	(105,905)
Governmental funds do not report a liability for accrued interest until due and payable.	(274,955)
Total Net Position - Governmental Activities	$ 3,576,497

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2168
New Richland, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2020

	General	Debt Service	Building Construction	Other Governmental Funds	Total
Revenues					
Local property tax levies	$ 887,119	$ 177,680	$ -	$ 74,316	$ 1,139,115
Other local and county revenue	377,725	-	-	127,237	504,962
Interest earned on investments	66,120	1,621	28,891	3,513	100,145
Revenue from state sources	8,314,487	122,945	-	89,784	8,527,216
Revenue from federal sources	339,557	-	-	265,463	605,020
Sales and other conversion of assets	35,582	-	-	159,664	195,246
Total Revenues	10,020,590	302,246	28,891	719,977	11,071,704
Expenditures					
Current					
Administration	641,677	-	-	-	641,677
District support services	274,848	-	-	-	274,848
Elementary and secondary regular instruction	4,233,632	-	-	-	4,233,632
Vocational education instruction	234,005	-	-	-	234,005
Special education instruction	1,668,085	-	-	-	1,668,085
Community education and services	-	-	-	271,452	271,452
Instructional support services	382,649	-	-	-	382,649
Pupil support services	789,903	-	-	463,087	1,252,990
Sites and buildings	775,379	-	19,965	-	795,344
Fiscal and other fixed cost programs	55,604	-	-	-	55,604
Capital outlay	509,109	-	3,162,179	3,917	3,675,205
Debt service					
Principal	229,101	335,000	-	-	564,101
Interest and other charges	-	36,975	-	-	36,975
Bond issuance costs	-	-	108,813	-	108,813
Total Expenditures	9,793,992	371,975	3,290,957	738,456	14,195,380
Excess (Deficiency) of Revenues Over (Under) Expenditures	226,598	(69,729)	(3,262,066)	(18,479)	(3,123,676)
Other Financing Sources (Uses)					
Sale of assets	2,895	-	-	-	2,895
Debt issued	281,681	-	8,575,000	-	8,856,681
Premium on bonds issued	-	-	697,483	-	697,483
Transfers in	-	-	300,000	29,845	329,845
Transfers out	(329,845)	-	-	-	(329,845)
Total Other Financing Sources (Uses)	(45,269)	-	9,572,483	29,845	9,557,059
Net Change In Fund Balances	181,329	(69,729)	6,310,417	11,366	6,433,383
Fund Balances, July 1	3,097,779	151,054	(51,161)	146,116	3,343,788
Fund Balances, June 30	$ 3,279,108	$ 81,325	$ 6,259,256	$ 157,482	$ 9,777,171

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2168
New Richland, Minnesota
Reconciliation of the Statement of
Revenues, Expenditures and Changes in Fund Balances
to Statement of Activities
Governmental Funds
For the Year Ended June 30, 2020

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

Total Net Change in Fund Balances - Governmental Funds	$ 6,433,383
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	3,650,061
Depreciation expense	(747,825)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.	
Issuance of long-term debt	(8,856,681)
Principal repayments	564,101
Amortization of bond premiums, net of premium on bonds issued	(697,483)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund 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.	(260,119)
Long-term pension activity is not reported in governmental funds.	
Pension expense	(573,319)
Direct aid contributions	36,336
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	51
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Severance costs	(10,012)
Other postemployment benefits costs	(2,533)
Change in Net Position - Governmental Activities	$ (464,040)

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2168

New Richland, Minnesota
Statement of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
General Fund
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Local property tax levies	$ 927,602	$ 920,745	$ 887,119	$ (33,626)
Other local and county revenue	388,043	369,788	377,725	7,937
Interest earned on investments	58,000	58,000	66,120	8,120
Revenue from state sources	8,010,981	8,192,383	8,314,487	122,104
Revenue from federal sources	325,200	340,460	339,557	(903)
Sales and other conversion of assets	33,800	37,000	35,582	(1,418)
Total Revenues	9,743,626	9,918,376	10,020,590	102,214
Expenditures				
Current				
Administration	659,589	657,430	641,677	15,753
District support services	288,814	293,827	274,848	18,979
Elementary and secondary regular instruction	4,348,967	4,362,001	4,233,632	128,369
Vocational education instruction	183,656	180,204	234,005	(53,801)
Special education instruction	1,719,832	1,749,489	1,668,085	81,404
Instructional support services	381,396	398,386	382,649	15,737
Pupil support services	904,523	829,255	789,903	39,352
Sites and buildings	938,980	892,174	775,379	116,795
Fiscal and other fixed cost programs	47,000	56,000	55,604	396
Capital outlay				
Administration	810	1,060	395	665
District support services	1,800	950	509	441
Elementary and secondary regular instruction	82,200	73,790	268,604	(194,814)
Vocational education instruction	2,000	-	95	(95)
Special education instruction	46,000	43,000	43,047	(47)
Instructional support services	1,000	2,100	312	1,788
Pupil support services	1,800	24,775	94,218	(69,443)
Sites and buildings	28,753	25,603	101,929	(76,326)
Debt service				
Principal	201,314	206,814	229,101	(22,287)
Total Expenditures	9,838,434	9,796,858	9,793,992	2,866
Excess (Deficiency) of Revenues Over (Under) Expenditures	(94,808)	121,518	226,598	105,080
Other Financing Sources (Uses)				
Debt issued	-	-	281,681	281,681
Sale of assets	-	2,895	2,895	-
Transfers out	-	-	(329,845)	(329,845)
Total Other Financing Sources (Uses)	-	2,895	(45,269)	(48,164)
Net Change In Fund Balances	(94,808)	124,413	181,329	56,916
Fund Balances, July 1	3,097,779	3,097,779	3,097,779	-
Fund Balances, June 30	$ 3,002,971	$ 3,222,192	$ 3,279,108	$ 56,916

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2168
New Richland, Minnesota
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2020

	Private Purpose Trust
Assets	
Cash and temporary investments	$ 112,489
Interest receivable	334
Total Assets	$ 112,823
Net Position	
Held in Trust for Scholarships	$ 112,823

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2168
New Richland, Minnesota
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2020

	Private Purpose Trust
Revenues	
Interest earned on investments	$ 675
Expenditures	
Other expenditures	2,175
Change in Net Position	(1,500)
Net Position, July 1	114,323
Net Position, June 30	$ 112,823

The notes to the financial statements are an integral part of this statement.

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

Independent School District No. 2168, (the District) was incorporated under the laws of the State of Minnesota, (the State). The District operates under a School Board form of government for the purpose of providing educational services to individuals within the area. The District is governed by an elected School Board of seven members. The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The District has no component units that meet the GASB criteria.

B. District-wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) 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.*

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The district-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advanced, which are recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized as revenue as soon as 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.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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 was made. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

Note 1: Summary of Significant Accounting Policies (Continued)

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlement and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue. On the modified accrual basis, receivables that will not be collected within the available period have been reported as unavailable revenue.

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

Description of Funds

The various District funds have been established by the State of Minnesota Department of Education. Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are as follows:

Major Governmental Funds

The *General fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund.

The *Debt Service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Building Construction capital project fund* accounts for capital costs related to building construction.

Non-Major Governmental Funds

The *Food Service special revenue fund* is used to account for food service revenue and expenditures.

The *Community Service special revenue fund* accounts for services provided to residents in the areas of recreation, civic activities, non-public pupils, adult or early childhood programs, or other similar services.

Fiduciary Funds

The *Private-Purpose Trust fund* is used to account for resources legally held in trust by agreements where the School Board has accepted the responsibility to serve as trustee.

Note 1: Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position/Fund Balance

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The District may also invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.

2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency and all of the investments have a final maturity of thirteen months or less.

3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.

4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.

5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.

6. Bankers acceptances of Unites States banks eligible for purchase by the Federal Reserve System.

7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.

8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

Note 1: Summary of Significant Accounting Policies (Continued)

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

The Minnesota School District Liquid Asset Fund (MSDLAF) investment pool operates in accordance with appropriate Minnesota laws and regulations. The reported value of the pool is the same as the fair value of the pool shares. The MSDLAF is an external investment pool not registered with the Securities and Exchange Commission (SEC); however, it follows the same regulatory rules of the SEC under rule §2a7. Financial statements of the MSDLAF fund can be obtained by contacting PFM Asset Management, LLC at P.O. Box 11760, Harrisburg, PA 17108-11760.

Property Taxes

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

Statutory funding formulas determine the majority of the District revenue in the General and special revenue funds. This revenue is divided 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." The remaining portion of taxes collectible in 2020 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

Taxes payable on qualifying property, as defined by Minnesota statutes, are partially reduced by a market value credit aid. The credits are paid to the District by the State in lieu of taxes levied against the property.

Current property taxes receivable is the uncollected portion of the taxes levied in 2019 and collectible in 2020. This levy is offset with a deferred inflow of resources, property taxes levied for subsequent year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

Accounts Receivable

All trade and property tax receivables are shown net of an allowance for uncollectible accounts. No allowance for uncollectible accounts has been recorded. The only receivable not expected to be collected within one year are delinquent property taxes receivable.

Inventories

Food Service fund inventories include items purchased by the District and commodities donated by the U.S. Department of Agriculture (USDA). Commodities are valued using a standard price list furnished by the USDA and purchased inventory is valued at the lower of cost or market on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Note 1: Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets include property, plant and equipment. Capital assets are defined by the District as assets with an initial, individual cost of more than $2,500 (amount not rounded). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50
Plumbing and electrical	30
Building improvements interior, portable classroom, and fire system	25
Heating and ventilation system, long-term admin software, furniture and fixtures, outdoor equipment, roofing, and site improvements	20
Custodial equipment, grounds equipment, kitchen euipment, and machinery and tools	15
All other equipment, short-term admin softwarem and long-term instructional software	10
Vehicles and buses	8
Carpet replacement	7
Computer hardware, copiers, short-term instructional software, and library books	5

Deferred Outflows of Resources

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 resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. Accordingly, the items, deferred pension resources and deferred other post-employment benefit resources, are reported only in the statement of net position. These items result from actuarial calculations and current year pension and OPEB contributions made subsequent to the measurement date.

Compensated Absences

Vacation Pay - Vacations taken or estimated to be taken within 60 days after year end are expensed and included in salaries payable as of June 30. Since teachers are not eligible for vacation pay and amounts accrued to other employees are insignificant, no long-term portion of vacation liabilities is recorded in the financial statements.

Sick Pay - Substantially all District employees are entitled to sick leave at various rates. Employees are not compensated for unused sick leave upon termination of employment.

Severance Pay - The District maintains a severance pay plan for its staff. The plan contains benefit formulas based on years of service and minimum age requirements. If severance benefits are paid within the first 60 days after year end, an accrual is made in the governmental fund incurring the liability. Otherwise, vested severance pay, if any, is recorded in the statement of net position and severance pay expenses are recognized when earned. As of June 30, 2020, the District has a severance liability of $203,640. The General fund is typically used to liquidate governmental severance benefits payable.

Note 1: Summary of Significant Accounting Policies (Continued)

Postemployment Benefits Other Than Pensions

Under Minnesota statute 471.61, subdivision 2b., public employers must allow retirees and their dependents to continue coverage indefinitely in an employer-sponsored health care plan, under the following conditions: 1) Retirees must be receiving (or eligible to receive) an annuity from a Minnesota public pension plan, 2) Coverage must continue in group plan until age 65, and retirees must pay no more than the group premium, and 3) Retirees may obtain dependent coverage immediately before retirement. All premiums are funded on a pay-as-you-go basis. The liability was actuarially determined, in accordance with GASB Statement 75, at July 1, 2019. The General fund is typically used to liquidate governmental other postemployment benefits payable.

Long-term Obligations

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. The recognition of bond premiums and discounts are amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period incurred.

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

Pensions

Teachers Retirement Association (TRA)

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Teachers Retirement Association (TRA) and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the 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. Additional information can be found in in Note 4.

Public Employees Retirement Association (PERA)

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 additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. The General fund is typically used to liquidate the governmental net pension liability.

The total pension expense for the GERP and TRA is as follows:

	Public Employees Retirement Association of Minnesota (PERA)	Teacher's Retirement Association (TRA)	Total All Plans
Pension Expense	$ 120,524	$ 879,153	$ 999,677

Note 1: Summary of Significant Accounting Policies (Continued)

Deferred Inflows of Resources

In addition to liabilities, the statement of net position and fund financial statements 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 one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: delinquent property taxes and property taxes levied for subsequent year. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

Furthermore, the District has additional items which qualify for reporting in this category on the statement of net position. The items, deferred pension resources and deferred other postemployment benefit resources, are reported only in the statement of net position and results from actuarial calculations involving net differences between projected and actual earnings on plan investments and changes in proportions.

Fund Balance

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

Nonspendable - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

Restricted - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the School Board (the Board), which is the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board modifies or rescinds the commitment by resolution.

Assigned - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Board itself or by an official to which the governing body delegates the authority. The Board has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the Board or the Budget Committee.

Unassigned - The residual classification for the General fund and also negative residual amounts in other funds.

The District considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of fund balance when expenditures are made.

The District has formally adopted a fund balance policy for the General fund. The District's policy is to maintain a minimum unassigned fund balance of 22% to 28% of the general fund annual operating budget.

Note 1: Summary of Significant Accounting Policies (Continued)

Net Position

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

a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.

b. Restricted net position - Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

c. Unrestricted net position - All other net position that do not meet the definition of “restricted” or “net investment in capital assets”.

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

Note 2: Stewardship, Compliance and Accountability

A. Budgetary Information

Budgets are prepared for District governmental funds on the same basis and using the same accounting practices that are used in accounting and preparing financial statements for the funds.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the budget is prepared by the Superintendent to be adopted by the School Board.
2. Budgets for General, Special Revenue and Debt Service funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).
3. Budgeted amounts are as originally adopted, or as amended.
4. Budget appropriations lapse at year end.
5. The legal level of budgetary control is the department level.
6. The District does not use encumbrance accounting.

The District amended the originally adopted budget for the General fund in the current year to account for the increase in elementary and secondary regular instruction current, sites and buildings current expenditures and elementary and secondary regular instruction capital outlay expenditures.

B. Excess of Actual Expenditures Over Appropriations

For the year ended June 30, 2020, expenditures exceeded appropriations in the following funds:

Fund	Budget	Actual	Excess
Community Service	$ 270,766	$ 275,369	$ 4,603
Debt service	371,045	371,975	930

The excess expenditures were funded by actual revenues in excess of budget and available fund balance.

Note 3: Detailed Notes on All Funds

A. Deposits and Investments

Deposits

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the District's deposits may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the School Board, the District maintains deposits at those depository banks 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, with the exception of irrevocable standby letters of credit issued by Federal Home Loan Banks as this type of collateral only requires collateral pledged equal to 100 percent of the deposits not covered by insurance or bonds.

Authorized collateral in lieu of a corporate surety bond includes:

- United States government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- General obligation securities of any state or local government with taxing powers which is rated "A" or better by a national bond rating service, or revenue obligation securities of any state or local government with taxing powers which is rated "AA" or better by a national bond rating service;
- General obligation securities of a local government with taxing powers may be pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letters of credit issued by Federal Home Loan Banks to a municipality accompanied by written evidence that the bank's public debt is rated "AA" or better by Moody's Investors Service, Inc., or Standard & Poor's Corporation; and
- Time deposits that are fully insured by any federal agency.

Minnesota statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the District.

At year end, the District's carrying amount of deposits was $2,966,975 and the bank balance was $3,425,403. Of the bank balance, $750,000 was covered by federal depository insurance and $2,675,403 was covered by bonds or collateral held by the District's agent in the District's name.

Note 3: Detailed Notes on All Funds (Continued)

Investments

The investments of the District are subject to the following risks:

- *Credit Risk*. Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota statutes limit the District's investments to the list on page 53 of the notes.

- *Custodial Credit Risk*. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

- *Concentration of Credit Risk.* Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

- *Interest Rate Risk.* Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

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

As of June 30, 2020, the District had the following investments:

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Fair Value and Carrying Amount
Pooled Investments at Amortized Costs			
Minnesota School District Liquid Asset Fund (MSDLAF)	AAAm	Less than 6 months	$ 8,150,132

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.
(2) Interest rate risk is disclosed using the segmented time distribution method.

The Minnesota School District Liquid Asset Fund (MSDLAF) is a trust organized and existing under the laws of the State of Minnesota and the Minnesota Joint Powers Act, as amended. The trust was established for the purpose of allowing Minnesota school districts to pool their investment funds to obtain a competitive investment yield, while maintaining liquidity and preserving capital. The credit rating for the MSDLAF is AAAm. The weighted average days to maturity are less than six months. The District's investment in the MSDLAF is equal to the value of pool shares.

A reconciliation of cash and temporary investments as shown on the statement of net position for the District follows:

Deposits	$ 2,966,975
Investments	8,150,132
Total	11,117,107
Less Fiduciary Fund Cash and Temporary Investments	(112,489)
Cash and Temporary Investments	$ 11,004,618

Note 3: Detailed Notes on All Funds (Continued)

B. Property Taxes

Current property taxes receivable is recorded for taxes levied in 2019 and payable in 2020. A portion of the current property taxes receivable is recognized as revenue in the fiscal year ended June 30, 2020 in accordance with Minnesota statutes and the remaining balance is recorded as a deferred inflow of resources for subsequent years' operations.

Delinquent property taxes receivable represents uncollected taxes from the previous six years' property tax levies.

Taxes receivable is comprised of the following components:

	General	Debt Service	Nonmajor Governmental	Total
Current Taxes	$ 450,150	$ 473,868	$ 47,894	$ 971,912
Delinquent Taxes	8,366	1,864	521	10,751
Total Taxes Receivable	$ 458,516	$ 475,732	$ 48,415	$ 982,663
Property Taxes Levied for Subsequent Year	$ 749,510	$ 706,916	$ 90,596	$ 1,547,022

C. Capital Assets

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

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Governmental Activities				
Capital Assets not Being Depreciated				
Land	$ 263,308	$ -	$ -	$ 263,308
Construction In Progress	51,161	3,135,251	-	3,186,412
Total Capital Assets not Being Depreciated	314,469	3,135,251	-	3,449,720
Capital Assets Being Depreciated				
Land Improvements	1,236,275	59,219		1,295,494
Buildings	19,291,768	5,672	-	19,297,440
Equipment	6,846,011	449,919	(2,910)	7,293,020
Total Capital Assets Being Depreciated	27,374,054	514,810	(2,910)	27,885,954
Less Accumulated Depreciation				
Land Improvements	(716,389)	(40,844)		(757,233)
Buildings	(9,105,603)	(402,341)	-	(9,507,944)
Equipment	(5,641,023)	(304,640)	2,910	(5,942,753)
Total Accumulated Depreciation	(15,463,015)	(747,825)	2,910	(16,207,930)
Total Capital Assets Being Depreciated, Net	11,911,039	(233,015)	-	11,678,024
Governmental Activities				
Capital Assets, Net	$ 12,225,508	$ 2,902,236	$ -	$ 15,127,744

Note 3: Detailed Notes on All Funds (Continued)

Depreciation expense was charged to governmental activities as follows:

Administration	$ 29
District Support Services	107
Elementary And Secondary Regular Instruction	188,539
Vocational Education Instruction	2,768
Community Education	2,008
Instructional Support Services	3,510
Pupil Support Services	64,673
Sites and Buildings	477,765
Special Education Instruction	8,426
Total Depreciation Expense	$ 747,825

Construction Commitments

The District has active construction projects as of June 30, 2020. At year end the District's commitments are as follows:

Project	Spent-to-Date	Remaining Commitment
NRHEG Public Schools Improvements	$ 2,653,564	$ 5,602,050

D. Interfund Receivables, Payables and Transfers

Transfers

During the year ended June 30, 2020, the District made the following transfers:

- $300,000 from the General Fund to the Building Construction fund for the Long-Term Facilities Maintenance revenue portion of the project.
- $8,338 from the General Fund to the Food Service Fund to cover the deficit change in fund balance.
- $21,507 from the General Fund to the Community Service Fund to cover additional expenses than planned.

E. Long-term Liabilities

Operating Lease Payable

The District entered into a noncancelable four year lease agreement for school buses, beginning August 2018, with a fifth year optional extension. Rent is paid in annual installments. Total cost for the lease was $26,515 for the year ended June 30, 2020. The District also entered into a noncancelable three year lease agreement for Chromebooks, beginning September 2018. Rent is paid in annual installments of $3,058 until the lease agreement is met. Total cost for the lease was $3,058 for the year ended June 30, 2020. Lease payments are made from the general fund. The future minimum lease payments for these leases are as follows:

Year Ending June 30,	Amount
2021	$ 29,947
2022	26,515
Total	$ 56,462

Note 3: Detailed Notes on All Funds (Continued)

Capital Lease Payable

The District entered into a lease agreement in December 2007 as lessee for the financing of energy cost savings projects. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The lease is payable in monthly installments of $12,351 over seven years through November 2023 at a 4.25% interest rate.

The District entered into a lease agreement in July 2017 as lessee for the financing of a computer technology equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The lease is payable in four annual installments of $21,998 through October 2020 at a 4.61% interest rate.

The District entered into a lease agreement in July 2019 as lessee for the financing of a Chromebooks. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The lease is payable in three annual installments of $38,382 through July 2021 at a 3.14% interest rate.

The District entered into a lease agreement in July 2019 as lessee for the financing of a iPads. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The lease is payable in four annual installments of $20,998 through July 2022 at a 3.72% interest rate.

The District entered into a lease agreement in July 2019 as lessee for Buses. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The lease is payable in four annual installments of $24,575 through September 2022 at a 2.93% interest rate.

Capital leases are paid from the general fund.

Assets related to above outstanding lease obligations are as follows:

Asset	
Energy savings upgrades	$ 5,199,531
SHI chromebooks	81,917
Bus 24 and 26	93,988
Providence Capital - Ipads	77,935
Providence Capital - Chromebooks	109,759
Less: accumulated depreciation	(1,157,504)
Total	$ 4,405,626

Annual debt service requirement to maturity for capital lease payments are as follows:

Year Ending June 30,	Principal Payments	Interest Payments	Total
2021	$ 227,148	$ 27,022	$ 254,170
2022	215,140	17,032	232,172
2023	186,156	7,634	193,790
2024	61,106	651	61,757
Total	$ 689,550	$ 52,339	$ 741,889

Note 3: Detailed Notes on All Funds (Continued)

General Obligation Bonds

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. In addition, general obligation bonds have been issued to refund general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds currently outstanding are as follows:

					Principal Outstanding	
Description	Original Issue	Interest Rate	Issue Date	Final Maturity	Due Within One Year	Total
G.O. Capital Facilities Bonds, Series 2013A	$ 1,215,000	0.30 - 2.50 %	05/01/13	02/01/28	$ 80,000	$ 675,000
G.O. Crossover Refunding Bonds, Series 2016A	1,300,000	2.00	07/15/16	02/01/23	260,000	800,000
G.O. School Building Bonds, Series 2019A	8,575,000	2.98 - 5.00	08/14/19	02/01/40	-	8,575,000
Total					$ 340,000	$ 10,050,000

The annual requirements to amortize all bonds outstanding at June 30, 2020 are as follows:

Year Ending June 30,	Principal Payments	Interest Payments	Total
2021	$ 340,000	$ 468,343	$ 808,343
2022	420,000	323,045	743,045
2023	425,000	312,945	737,945
2024	440,000	302,195	742,195
2025	460,000	282,745	742,745
2026-2030	2,430,000	1,093,862	3,523,862
2031-2035	2,565,000	680,350	3,245,350
2036-2040	2,970,000	271,900	3,241,900
Total	$ 10,050,000	$ 3,735,385	$ 13,785,385

Note 3: Detailed Notes on All Funds (Continued)

Changes in Long-term Liabilities

Long-term liability activity for the year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Governmental Activities					
Bonds Payable					
General obligation bonds	$ 1,810,000	$ 8,575,000	$ (335,000)	$ 10,050,000	$ 340,000
Bond premiums	-	697,483	-	697,483	-
Total Bonds Payable	1,810,000	9,272,483	(335,000)	10,747,483	340,000
Other Liabilities					
Capital Lease	636,970	281,681	(229,101)	689,550	227,148
Severance payable	230,998	47,392	(37,380)	241,010	37,370
Total Long-term Liabilities	$ 2,677,968	$ 9,601,556	$ (601,481)	$ 11,678,043	$ 604,518

F. Components of Fund Balance

At June 30, 2020, portions of the District's fund balance are not available for appropriation due to not being in spendable form (nonspendable), legal restrictions (Restricted), District School Board action (committed), and policy and/or intent (Assigned). The following is a summary of the components of fund balance:

	General	Debt Service	Building Construction	Nonmajor Governmental	Total
Nonspendable for					
Inventories	$ -	$ -	$ -	$ 14,550	$ 14,550
Restricted for					
Student activities	$ 34,617	$ -	$ -	$ -	$ 34,617
Staff development	7,261	-	-	-	7,261
Long term facility maintenance	92,023	-	-	-	92,023
Community education	-	-	-	56,822	56,822
Early childhood and family education	-	-	-	20,578	20,578
School readiness	-	-	-	17,854	17,854
Food service	-	-	-	31,221	31,221
Community service	-	-	-	16,457	16,457
Capital projects	-	-	6,259,256	-	6,259,256
Debt service	-	81,325	-	-	81,325
Total Restricted	$ 133,901	$ 81,325	$ 6,259,256	$ 142,932	$ 6,617,414
Committed for					
Student activities	$ 35,310	$ -	$ -	$ -	$ 35,310
Unassigned	$ 3,109,897	$ -	$ -	$ -	$ 3,109,897

Note 3: Detailed Notes on All Funds (Continued)

Restricted for Student Activities - This amount represents available resources for various student activities.

Restricted for Staff Development - This amount represents available resources for staff development. Revenues are derived from state aids and expenditures are for staff development at each site.

Restricted for Safe Schools - This amount represents resources restricted for crime prevention and making schools safe for students and staff.

Restricted for Long-term Facility Maintenance - This amount represents available resources for larger maintenance projects. Revenues are derived from State aids and expenditures are for maintenance.

Restricted for Community Education - This amount represents available resources for community education classes. Revenues are derived from local tax levies and State aids and expenditures are for salaries, benefits and supplies.

Restricted for Early Childhood Family Education (ECFE) - This amount represents available resources for ECFE classes. Revenues are derived from local tax levies and State aids and expenditures are for salaries, benefits and supplies.

Restricted for School Readiness - This amount represents available resources to provide for services for school readiness programs. Revenues are derived from State aids, fees and grants and expenditures are for salaries, benefits and supplies.

Restricted for Food Service - This amount represents available resources available for food service. Revenues are derived from sales to pupils and State aid.

Restricted for Community Service - This amount represents available resources available for community services. Revenues are derived from tax levies and local and county sources and expenditures are primarily for salaries, benefits, purchased services supplies and materials.

Restricted for Capital Projects - This amount represents available resources dedicated for capital expenditure building projects, equipment purchases, vehicles and computer hardware and software. Revenues are derived from tax levies and State aids and expenditures are for repair and restoration of existing facilities and construction of new facilities, purchase of equipment, computers, software, textbooks and library books.

Restricted for Debt Service - This amount represents available resources dedicated exclusively for debt service payments. Revenues are derived from tax levies and expenditures are for principal, interest and paying agent fees.

Note 4: 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. Teachers Retirement Association (TRA)

1. Plan Description

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

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

2. Benefits Provided

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

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

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 prior to July 1, 2006	1.2 percent per year
	1st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

With these provisions:

1. Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

2. Three percent per year early retirement reduction factors for all years under normal retirement age.

3. Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

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

Members first employed after **June 30, 1989** receive only the Tier II 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 or 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 also 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 provisions in effect at the time they last terminated their public service.

3. Contribution Rate

Per Minnesota statutes, chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

Plan	Ending June 30, 2018		Ending June 30, 2019		Ending 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 District’s contributions to TRA for the years ending June 30, 2020, 2019 and 2018 were $332,488, $338,986 and $330,057, respectively. The District’s contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

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

Employer Contributions Reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$ 403,300,000
Add Employer Contributions not Related to Future Contribution Efforts	(688,000)
Deduct TRA'S Contributions not Included in Allocation	(486,000)
Total Employer Contributions	402,126,000
Total Non-employer Contributions	35,588,000
Total Contributions Reported in Schedule of Employer and Non-employer Pension Allocations	$ 437,714,000

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.

1. **Actuarial Assumptions**

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation date	July 1, 2019
Experience study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% before July 1, 2028 and 3.25% thereafter
Projected salary increase	2.85 to 8.85% before July 1, 2028 and 3.25 to 9.25% thereafter
Cost of living adjustment	1.0% for January 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.

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

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	-
Total	100.00 %	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2019 is 6.00 years. The “Difference Between Expected and Actual Experience”, “Changes of Assumptions” and “Changes in Proportion” use the amortization period of 6.00 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is 5.00 years as required by GASB 68.

Changes in actuarial assumptions since the 2018 valuation:

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1 % each year until reaching the ultimate rate of 1.5% in January 1, 2028.

- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.

- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.

- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.

- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.

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

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

5. 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 year 2019 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

6. Net Pension Liability

At June 30, 2020, the District reported a liability of $5,003,606 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District proportionate share was 0.0785 percent at the end of the measurement period and 0.0796 percent 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	$ 5,003,606
State's Proportionate Share of Net Pension Liability Associated with the District	442,560

For the year ended June 30, 2020, the District recognized pension expense of $845,513. It also recognized $33,640 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	$ 2,863	$ 124,452
Changes in Actuarial Assumptions	4,278,001	6,736,661
Net Difference Between Projected and Actual Earnings on Plan Investments	-	421,845
Changes in Proportion	97,206	90,470
Contributions to TRA Subsequent to the Measurement Date	332,488	-
Total	$ 4,710,558	$ 7,373,428

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

Deferred outflows of resources totaling $332,488 related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

2021	$ 282,889
2022	7,798
2023	(1,911,016)
2024	(1,365,743)
2025	(9,286)

7. Pension Liability Sensitivity

The following presents the net pension liability of TRA 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 point higher (8.50 percent) than the current rate.

District Proportionate Share of NPL		
1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
$ 7,976,972	$ 5,003,606	$ 2,552,110

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

8. Pension Plan Fiduciary Net Position

Detailed information about 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.

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

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

B. Public Employees Retirement Association (PERA)

1. Plan Description

The District participates in the following 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.

<u>General Employees Retirement Plan (GERP)</u>

All full-time and certain part-time employees of the District, other than teachers, are covered by the General Employees Retirement Plan (GERP). GERP members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

2. Benefits Provided

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

GERP Benefits
GERP benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989 receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent of average salary for each of the first 10 years of service and 1.7 percent of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for average salary for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.
Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90 percent funded for two consecutive years, benefit recipients are given a 2.5 percent increase. If the plan has not exceeded 90 percent funded, or have fallen below 80 percent, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

3. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019 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 ending June 30, 2020, 2019 and 2018 were $114,294, $110,569 and $107,389, respectively. The District's contributions were equal to the contractually required contributions for each year as set by state statute.

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

4. Pension Costs

General Employee Fund Pension Costs

At June 30, 2020, the District reported a liability of $1,155,514 for its proportionate share of the General Employee 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 2018. 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 $35,998. The net pension liability was measured as of June 30, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2019 through June 30, 2020 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2020, the District's proportion was 0.0209 percent which was a decrease of 0.0004 percent from its proportion measured as of June 30, 2019.

District's proportionate share of the net pension liability	$ 1,155,514
State of Minnesota's proportionate share of the net pension liability associate with the District	35,998
Total	$ 1,191,512

For the year ended June 30, 2020, the District recognized pension expense of $117,828 for its proportionate share of GERP's pension expense. In addition, the District recognized an additional $2,696 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, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	$ 32,320	$ 410
Changes in Actuarial Assumptions	1,059	92,202
Net Difference Between Projected and Actual Earnings on Plan Investments	-	118,510
Changes in Proportion	9,661	33,908
Contributions to GERP Subsequent to the Measurement Date	114,294	-
Total	$ 157,334	$ 245,030

The $114,294 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2021	$ (78,438)
2022	(95,599)
2023	(29,817)
2024	1,864

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

5. 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 percent per year for General Employees Plan.

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

General Employees Fund

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

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

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Domestic Equity	35.50 %	5.10 %
Private Markets	25.00	5.90
Fixed Income	20.00	0.75
International Equity	17.50	5.90
Cash Equivalents	2.00	-
Total	100.00 %	

Note 4: Defined Benefit Pension Plans - Statewide (Continued)

6. Discount Rate

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

7. Pension Liability Sensitivity

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

District Proportionate Share of NPL		
1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
$ 1,899,603	$ 1,155,514	$ 541,121

8. Pension Plan Fiduciary Net Position

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

Note 5: Postemployment Benefits Other Than Pensions

A. Plan Description

The District administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan provides healthcare insurance for eligible retirees and their spouses through the District's group health insurance plan until Medicare age, which covers both active and retired members. Benefit provisions are established through negotiations between the District and the unions representing District employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

At June 30, 2020, the following employees were covered by the benefit terms:

Inactive Plan Members or Beneficiaries Currently Receiving Benefits	5
Active Plan Members	98
Total Plan Members	103

Note 5: Postemployment Benefits Other Than Pensions (Continued)

B. Funding Policy

The District has historically funded these liabilities on a pay-as-you-go basis. Contribution requirements are negotiated between the District and union representatives on a per contract basis. At the present time, no retiree benefits are provided except the allowance to continue health insurance that is mandated by Minnesota Law. The District does not contribute any of the cost of current-year premiums for eligible retired plan members or their spouses. For fiscal year 2020, the District contributed $26,399 to the plan. Plan members receiving benefits contribute 100 percent of their premium costs.

C. Actuarial Methods and Assumptions

The District's total OPEB liability of $396,979 was measured as of July 1, 2019, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of July 1, 2019.

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

Discount Rate	3.10%
20-Year Municipal Bond Yield	3.10%
Inflation Rate	2.50%
Salary Increases	2.00%
Medical Trend Rate	6.50% as of July 1, 2020 grading to 5.00% over 6 years
Dental Trend Rate	N/A

The discount rate used to measure the total OPEB liability was 3.10 percent. Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-Year Municipal Bond Yield.

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale

The actuarial assumptions used in the July 1, 2019 valuation were based on input from a variety of published sources of historical and projected future financial data. Each assumption was reviewed for reasonableness with the source information as well as for consistency with the other economic assumptions.

Note 5: Postemployment Benefits Other Than Pensions (Continued)

D. Changes in the Total OPEB Liability

	Total OPEB Liability (a)
Balance at June 30, 2019	$ 530,589
Changes for the Year	
Service Cost	31,943
Interest	18,171
Assumption Changes	(7,851)
Differences Between Expected and Actual Experience	(119,236)
Benefit Payments	(56,637)
Net Changes	(133,610)
Balances at June 30, 2020	$ 396,979

Since the prior measurement date, the following assumptions changed:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality table 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%.
- These changes decreased the liability $7,851.

Since the prior measurement date, there have been no changes in benefits:

Note 5: Postemployment Benefits Other Than Pensions (Continued)

E. Sensitivity of the Total OPEB Liability

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.10 percent) or 1-percentage-point higher 4.10 percent) than the current discount rate:

1 Percent Decrease (2.10%)	Current (3.10%)	1 Percent Increase (4.10%)
$ 416,802	$ 396,979	$ 377,590

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 Healthcare Cost Trent Rates that is 1-percentage point lower (5.50 percent decreasing to 4.00 percent) or 1-percentage-point higher (7.50 percent increasing to 6.00 percent) than the current Healthcare Cost Trend rate:

1 Percent Decrease (5.50% decreasing to 4%)	Healthcare Cost Trend Rates (6.50% decreasing to 5.00%)	1 Percent Increase (7.50% decreasing to 6%)
$ 365,931	$ 396,979	$ 432,637

F. 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 ($26,399). At June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 99,363
Changes in actuarial assumptions	-	6,542
Contributions Subsequent to the Measurement Date	26,399	-
Total	$ 26,399	$ 105,905

Deferred outflows of resources totaling $26,399 related to OPEB resulting from the District's contributions to the plan subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ended June 30, 2021.

Note 6: 403(b) Plan

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). Employees of the District are eligible to participate in the Plan beginning their fourth year of service with the District. Some employees are eligible to receive a match of employee contributions up to the qualifying amount set forth in their contract. Contributions are invested in tax deferred annuities hosted by a vendor from whom the District has obtained. The District's contributions for the years ended June 30, 2020, 2019, and 2018 are $61,705, $60,551, and $61,705, respectively. The related employee contributions were $116,686, $122,371, and $134,972, for the years ended June 30, 2020, 2019, and 2018, respectively.

Note 7: Other Information

A. 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; and natural disasters for which the District carries insurance. Settled claims have not exceeded this coverage in any of the past three fiscal years.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities, if any, include an amount for claims that have been incurred but not reported (IBNRs). The District's management is not aware of any incurred but not reported claims.

B. Federal And State Programs

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

C. Affiliated Organizations

The District, in conjunction with South Central Service Cooperative (SCSC), created a joint powers agreement for group employee benefits and other financial and risk management services. The SCSC's board is defined in the Joint Powers Agreement. A member may withdraw upon written notice given to the Board. In the event of dissolution, amounts received from participants to the benefit fund reserve shall be used exclusively for the payment of benefits to or on behalf of enrolled employees, payment of reasonable expenses, and payment of taxes. Separate financial statements of the affiliated organization may be obtained from SCSC. The affiliated organization is in good financial health. It is not anticipated to be a burden on the District.

Note 8: Subsequent Event

In December 2019, a novel strain of coronavirus (COVID-19) surfaced. The spread of COVID-19 around the world in the first quarter of 2020 has caused significant volatility in U.S. and international markets. There is significant uncertainty around the breadth and duration of business disruptions related to COVID-19, as well as its impact on the U.S. and international economies and, as such, the District is unable to determine if it will have a material impact to its operations.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 2168
NEW RICHLAND, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2020

Independent School District No. 2168
New Richland, Minnesota
Required Supplementary Information
For the Year Ended June 30, 2020

Schedule of Employer's Share of TRA Net Pension Liability

Fiscal Year Ending	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	Total (a+b)	District's Covered Payroll (c)	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/19	0.0785 %	$ 5,003,606	$ 442,560	$ 5,446,166	$ 4,396,706	123.9 %	78.2 %
06/30/18	0.0796	5,002,273	469,844	5,472,117	4,400,760	124.3	78.1
06/30/17	0.0792	15,809,757	1,529,052	17,338,809	4,262,867	406.7	51.6
06/30/16	0.0773	18,437,894	1,851,052	20,288,946	4,022,720	504.4	44.9
06/30/15	0.0803	4,967,349	608,958	5,576,307	4,432,631	125.8	76.8
06/30/14	0.0844	3,889,091	273,479	4,162,570	3,903,735	106.6	81.1

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's TRA Contributions

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	District's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
06/30/20	$ 332,488	$ 332,488	$ -	$ 4,198,081	7.9 %
06/30/19	338,986	338,986	-	4,396,706	7.7
06/30/18	330,057	330,057	-	4,400,760	7.5
06/30/17	319,715	319,715	-	4,262,867	7.5
06/30/16	301,704	301,704	-	4,022,720	7.5
06/30/15	332,447	332,447	-	4,432,627	7.5

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Notes to the Required Supplementary Information - TRA

Changes in Actuarial Assumptions

2019 - None

2018 - The investment return assumption was changed from 8.50% to 7.50%. The price inflation assumption was lowered from 3.00% to 2.50%. The payroll growth assumption was lowered from 3.50% to 3.00%. The wage inflation assumption (above price inflation) was reduced from 0.75% to 0.35% for the next 10 years, and 0.75% thereafter. The total salary increase assumption was adjusted by the wage inflation change. The amortization date for the funding of the Unfunded Actuarial Accrued Liability (UAAL) was reset to June 30, 2048 (30 years). A mechanism in the law that provided the TRA Board with some authority to set contribution rates was eliminated.

2017 - The Cost of Living Adjustment was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045. Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%

2016 - The assumed investment return was changed from 8.0 percent to 4.66 percent using the Single Equivalent Interest Rate calculation. The single discount rate was changed from 8.0 percent to 4.66 percent. The assumed future salary increases, payroll growth and inflation were changed by a 0.25 percent decrease for price inflation, a 0.50 percent increase for wage inflation and a 2.50 percent decrease in maximum salary increases based on years of service. Mortality assumptions were updated using the RP-2014 tables.

2015 - The assumed post-retirement benefit increase rate was changed from 2.0 percent per year through 2034 and 2.5 percent per year thereafter to 2.0 percent per year for all future years. The assumed investment return was changed from 8.25 percent to 8.0 percent. The single discount rate was changed from 8.25 percent to 8.0 percent.

Changes in Plan Provisions

2019 - None

2018 - The 2018 Omnibus Pension Bill contained a number of changes:

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

2017 - None

2016 - None

2015 - On June 30, 2015, the Duluth Teachers Retirement Fund Association was merged into TRA. This also resulted in a state-provided contribution stream of $14.377 million until the System becomes fully funded.

Independent School District No. 2168
New Richland, Minnesota
Required Supplementary Information (Continued)
For the Year Ended June 30, 2020

Schedule of Employer's Share of PERA Net Pension Liability

Fiscal Year Ending	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	Total (a+b)	District's Covered Payroll (c)	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/19	0.0209 %	$ 1,155,514	$ 35,998	$ 1,191,512	$ 1,474,253	80.8 %	80.2 %
06/30/18	0.0213	1,181,637	38,762	1,220,399	1,431,853	85.2	79.5
06/30/17	0.0210	1,340,626	16,832	1,357,458	1,350,813	100.5	75.9
06/30/16	0.0220	1,786,291	23,343	1,809,634	1,364,240	132.6	68.9
06/30/15	0.0221	1,145,337	-	1,145,337	1,278,861	89.6	78.2
06/30/14	0.0240	1,127,400	-	1,127,400	1,346,698	83.7	78.8

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Schedule of Employer's PERA Contributions

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	District's Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
06/30/20	$ 114,294	$ 114,294	$ -	$ 1,523,920	7.5 %
06/30/19	110,569	110,569	-	1,474,253	7.5
06/30/18	107,389	107,389	-	1,431,853	7.5
06/30/17	101,311	101,311	-	1,350,813	7.5
06/30/16	102,318	102,318	-	1,364,240	7.5
06/30/15	95,915	95,915	-	1,278,867	7.5

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Notes to the Required Supplementary Information – PERA

2019 - The mortality projection scale was changed from MP-2017 to MP-2018.

2018 - The mortality projection scale was changed from MP-2015 to MP-2017. The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

2017 - 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.

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Changes in Plan Provisions

2019 - The employer supplemental contribution was changed prospectively, decreasing from $31.0 million to $21.0 million per year. The state's special funding contribution was changed prospectively, requiring $16.0 million due per year through 2031.

2018 - 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 - 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 – None

2015 - 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.

Independent School District No. 2168
New Richland, Minnesota
Required Supplementary Information (Continued)
For the Year Ended June 30, 2020

Schedule of Changes in the School's Net OPEB Liability and Related Ratios

	2020	2019	2018
Total OPEB Liability			
Service cost	$ 31,943	$ 37,935	$ 36,830
Interest	18,171	18,147	17,772
Differences between expected and actual experience	(119,236)	-	-
Changes in assumptions	(7,851)	-	-
Benefit payments	(56,637)	(42,241)	(47,084)
Net Change in Total OPEB Liability	(133,610)	13,841	7,518
Total OPEB Liability - Beginning	530,589	516,748	509,230
Total OPEB Liability - Ending	$ 396,979	$ 530,589	$ 516,748
Covered - Employee Payroll	$ 4,709,828	$ 4,926,847	$ 4,783,347
Districts's Total OPEB Liability as a Percentage of Covered Employee Payroll	8.43 %	10.77 %	10.80 %

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

Changes in Benefits

2019 - None

Changes in Assumptions

2019 - The health care trend rates were changed to better anticipate short term and long term medical increases. 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 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%. These changes decreased the liability $7,851.

Changes in Method

2019 - None

COMBINING AND INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES AND TABLE

INDEPENDENT SCHOOL DISTRICT NO. 2168
NEW RICHLAND, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2020

Independent School District No. 2168
New Richland, Minnesota
Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2020

	Special Revenue		
	Food Service	Community Service	Totals
Assets			
Cash and temporary investments	$ 50,199	$ 161,960	$ 212,159
Receivables			
Taxes			
Current	-	47,894	47,894
Delinquent	-	521	521
Accounts and interest	-	3,808	3,808
Intergovernmental	6,345	4,395	10,740
Inventories	14,550	-	14,550
Total Assets	$ 71,094	$ 218,578	$ 289,672
Liabilities			
Salaries and wages payable	$ 135	$ 14,050	$ 14,185
Accounts and other payables	4,465	-	4,465
Unearned revenue	20,723	1,700	22,423
Total Liabilities	25,323	15,750	41,073
Deferred Inflows of Resources			
Property taxes levied for subsequent year	-	90,596	90,596
Unavailable revenue - delinquent property taxes	-	521	521
Total Deferred Inflows of Resources	-	91,117	91,117
Fund Balances			
Nonspendable for			
Inventories	14,550	-	14,550
Restricted for			
Community education	-	35,315	35,315
Early childhood family education	-	20,578	20,578
School readiness	-	17,854	17,854
Community service	-	37,964	37,964
Food service	31,221	-	31,221
Total Fund Balances	45,771	111,711	157,482
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 71,094	$ 218,578	$ 289,672

Independent School District No. 2168
New Richland, Minnesota
Nonmajor Governmental Funds
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
For the Year Ended June 30, 2020

	Special Revenue		
	Food Service	Community Service	Totals
Revenues			
Local property tax levies	$ -	$ 74,316	$ 74,316
Other local and county revenue	-	127,237	127,237
Interest earned on investments	1,336	2,177	3,513
Revenue from state sources	28,286	61,498	89,784
Revenue from federal sources	265,463	-	265,463
Sales and other conversion of assets	159,664	-	159,664
Total Revenues	454,749	265,228	719,977
Expenditures			
Current			
Community education and services	-	271,452	271,452
Pupil support services	463,087	-	463,087
Capital outlay	-	3,917	3,917
Total Expenditures	463,087	275,369	738,456
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,338)	(10,141)	(18,479)
Other Financing Sources (Uses)			
Transfers in	8,338	21,507	29,845
Net Change In Fund Balances	-	11,366	11,366
Fund Balances, July 1	45,771	100,345	146,116
Fund Balances, June 30	$ 45,771	$ 111,711	$ 157,482

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Independent School District No. 2168

New Richland, Minnesota
General Fund
Balance Sheets
June 30, 2019

Assets	
Cash and temporary investments	$ 2,659,693
Receivables	
Taxes	
Current	450,150
Delinquent	8,366
Accounts	18,454
Intergovernmental	1,109,934
Total Assets	$ 4,246,597
Liabilities	
Salaries payable	$ 18,263
Accounts and other payables	19,017
Due to other school districts	4,580
Accrued expenses	163,728
Unearned revenue	4,025
Total Liabilities	209,613
Deferred Inflows of Resources	
Property taxes levied for subsequent year	749,510
Unavailable revenue - delinquent property taxes	8,366
Total Deferred Inflows of Resources	757,876
Fund Balances	
Nonspendable for	
Restricted for	
Student activities	34,617
Staff development	7,261
Long term facility maintenance	92,023
Committed for	
Student activities	35,310
Unassigned	3,109,897
Total Fund Balances	3,279,108
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$ 4,246,597

Independent School District No. 2168
New Richland, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual (Continued on the Following Page)
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Local property tax levies	$ 927,602	$ 920,745	$ 887,119	$ (33,626)
Other local and county revenue	388,043	369,788	377,725	7,937
Interest earned on investments	58,000	58,000	66,120	8,120
Revenue from state sources	8,010,981	8,192,383	8,314,487	122,104
Revenue from federal sources	325,200	340,460	339,557	(903)
Sales and other conversion of assets	33,800	37,000	35,582	(1,418)
Total revenues	9,743,626	9,918,376	10,020,590	102,214
Expenditures				
Current				
Administration				
Salaries	446,045	447,449	436,362	11,087
Employee benefits	187,464	190,521	187,390	3,131
Purchased services	11,500	6,492	6,454	38
Supplies and materials	3,850	2,427	1,160	1,267
Other expenditures	10,730	10,541	10,311	230
Total administration	659,589	657,430	641,677	15,753
District support services				
Salaries	109,900	110,721	95,820	14,901
Employee benefits	44,854	44,978	38,593	6,385
Purchased services	105,050	97,050	100,654	(3,604)
Supplies and materials	8,260	10,378	9,516	862
Other expenditures	20,750	30,700	30,265	435
Total district support services	288,814	293,827	274,848	18,979
Elementary and secondary regular instruction				
Salaries	2,938,654	2,989,659	2,938,645	51,014
Employee benefits	921,325	956,604	921,318	35,286
Purchased services	277,738	209,588	192,508	17,080
Supplies and materials	197,550	192,250	164,761	27,489
Other expenditures	13,700	13,900	16,400	(2,500)
Total elementary and secondary regular instruction	4,348,967	4,362,001	4,233,632	128,369
Vocational education instruction				
Salaries	122,559	122,964	165,178	(42,214)
Employee benefits	47,837	47,580	60,434	(12,854)
Purchased services	2,100	-	-	-
Supplies and materials	11,160	9,660	8,393	1,267
Total vocational education instruction	183,656	180,204	234,005	(53,801)
Special education instruction				
Salaries	1,153,597	1,150,348	1,114,656	35,692
Employee benefits	305,985	301,241	282,663	18,578
Purchased services	253,400	291,100	262,662	28,438
Supplies and materials	6,625	6,575	7,418	(843)
Other expenditures	225	225	686	(461)
Total special education instruction	1,719,832	1,749,489	1,668,085	81,404

Independent School District No. 2168
New Richland, Minnesota
General Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual (Continued)
For the Year Ended June 30, 2020

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Expenditures (Continued)				
Current (continued)				
Instructional support services				
Salaries	$ 229,756	$ 252,370	$ 243,910	$ 8,460
Employee benefits	46,690	57,405	51,418	5,987
Purchased services	89,100	75,111	78,946	(3,835)
Supplies and materials	15,850	13,500	8,375	5,125
Total instructional support services	381,396	398,386	382,649	15,737
Pupil support services				
Salaries	487,323	479,435	472,717	6,718
Employee benefits	139,950	116,545	106,977	9,568
Purchased services	157,820	146,845	123,837	23,008
Supplies and materials	119,430	86,430	86,372	58
Total pupil support services	904,523	829,255	789,903	39,352
Sites and buildings				
Salaries	240,686	235,000	243,320	(8,320)
Employee benefits	113,249	108,979	112,099	(3,120)
Purchased services	435,045	403,695	278,444	125,251
Supplies and materials	150,000	144,500	141,516	2,984
Total sites and buildings	938,980	892,174	775,379	116,795
Fiscal and other fixed cost programs				
Purchased services	47,000	56,000	55,604	396
Total current	9,472,757	9,418,766	9,055,782	362,984
Capital outlay				
Administration	810	1,060	395	665
District support services	1,800	950	509	441
Elementary and secondary regular instruction	82,200	73,790	268,604	(194,814)
Vocational education instruction	2,000	-	95	(95)
Special education instruction	46,000	43,000	43,047	(47)
Instructional support services	1,000	2,100	312	1,788
Pupil support services	1,800	24,775	94,218	(69,443)
Sites and buildings	28,753	25,603	101,929	(76,326)
Total capital outlay	164,363	171,278	509,109	(337,831)
Debt service				
Principal	201,314	206,814	229,101	(22,287)
Total Expenditures	9,838,434	9,796,858	9,793,992	2,866
Excess (Deficiency) of Revenues Over (Under) Expenditures	(94,808)	121,518	226,598	105,080
Other Financing Sources (Uses)				
Debt issued	-	-	281,681	281,681
Sale of assets	-	2,895	2,895	-
Transfers out	-	-	(329,845)	(329,845)
Total Other Financing Sources (Uses)	-	2,895	(45,269)	(48,164)
Net Change In Fund Balances	(94,808)	124,413	181,329	56,916
Fund Balances, July 1	3,097,779	3,097,779	3,097,779	-
Fund Balances, June 30	$ 3,002,971	$ 3,222,192	$ 3,279,108	$ 56,916

Independent School District No. 2168
New Richland, Minnesota
Food Service Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2020

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget
Revenues				
Interest earned on investments	$ 700	$ 700	$ 1,336	$ 636
Revenue from state sources	32,800	22,200	28,286	6,086
Revenue from federal sources	253,100	279,100	265,463	(13,637)
Sales and other conversion of assets	218,500	162,150	159,664	(2,486)
Total Revenues	505,100	464,150	454,749	(9,401)
Expenditures				
Current				
Pupil support services				
Salaries	140,749	140,749	162,514	(21,765)
Employee benefits	66,327	80,707	82,484	(1,777)
Purchased services	18,200	18,700	14,074	4,626
Supplies and materials	262,400	228,400	203,855	24,545
Other expenditures	1,000	200	160	40
Total Expenditures	488,676	468,756	463,087	5,669
Excess (Deficiency) of Revenues Over (Under) Expenditures	16,424	(4,606)	(8,338)	(3,732)
Other Financing Sources (Uses)				
Transfers in	-	-	8,338	8,338
Net Change In Fund Balances	16,424	(4,606)	-	4,606
Fund Balances, July 1	45,771	45,771	45,771	-
Fund Balances, June 30	$ 62,195	$ 41,165	$ 45,771	$ 4,606

Independent School District No. 2168
New Richland, Minnesota
Community Service Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Local property tax levies	$ 75,167	$ 74,942	$ 74,316	$ (626)
Other local and county revenue	106,140	123,233	127,237	4,004
Interest earned on investments	-	-	2,177	2,177
Revenue from state sources	50,981	57,638	61,498	3,860
Total revenues	232,288	255,813	265,228	9,415
Expenditures				
Current				
Community education and services				
Salaries	120,113	157,012	164,579	(7,567)
Employee benefits	30,236	34,683	34,041	642
Purchased services	41,635	41,310	39,653	1,657
Supplies and materials	24,600	33,188	32,588	600
Other expenditures	1,000	595	591	4
Total community education and services	217,584	266,788	271,452	(4,664)
Capital outlay				
Community education and services	17,900	3,978	3,917	61
Total Expenditures	235,484	270,766	275,369	(4,603)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,196)	(14,953)	(10,141)	4,812
Other Financing Sources (Uses)				
Transfers in	-	-	21,507	(21,507)
Net Change in Fund Balances	(3,196)	(14,953)	11,366	26,319
Fund Balances, July 1	100,345	100,345	100,345	-
Fund Balances, June 30	$ 97,149	$ 85,392	$ 111,711	$ 26,319

Independent School District No. 2168
New Richland, Minnesota
Debt Service Fund
Schedule of Revenues, Expenditures and Changes in Fund Balances -
Budget and Actual
For the Year Ended June 30, 2020

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
Revenues				
Local property tax levies	$ 248,304	$ 178,767	$ 177,680	$ (1,087)
Interest earned on investments	1,000	1,000	1,621	621
Revenue from state sources	75,883	122,947	122,945	(2)
Total Revenues	325,187	302,714	302,246	(468)
Expenditures				
Debt service				
Principal	335,000	335,000	335,000	-
Interest and other charges	36,045	36,045	36,975	(930)
Total Expenditures	371,045	371,045	371,975	(930)
Net Change in Fund Balances	(45,858)	(68,331)	(69,729)	(1,398)
Fund Balances, July 1	151,054	151,054	151,054	-
Fund Balances, June 30	$ 105,196	$ 82,723	$ 81,325	$ (1,398)

Independent School District No. 2168
New Richland, Minnesota
Schedules of Tax Capacity, Tax Levy and Tax Rates
For the Year Ended June 30, 2020

Tax Capacity	
Agricultural	$ 7,415,762
Nonagricultural	3,689,646
Total	$ 11,105,408
Tax Levy	
General	$ 894,802
Community Service	90,756
Debt Service	707,939
Total	$ 1,693,497
Tax Capacity Rates	
General	4.021
Community Service	0.817
Debt Service	6.375
Total	11.213

DEPARTMENT OF EDUCATION

Fiscal Compliance

Fiscal Compliance Report - 6/30/2020
District: N.R.H.E.G. (2168-1)

	Audit	UFARS	Audit - UFARS
01 GENERAL FUND			
Total Revenue	$10,020,590	$10,020,592	($2)
Total Expenditures	$9,793,992	$9,793,992	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.01 Student Activities	$34,617	$34,617	$0
4.02 Scholarships	$0	$0	$0
4.03 Staff Development	$7,261	$7,261	$0
4.07 Capital Projects Levy	$0	$0	$0
4.08 Cooperative Revenue	$0	$0	$0
4.13 Project Funded by COP	$0	$0	$0
4.14 Operating Debt	$0	$0	$0
4.16 Levy Reduction	$0	$0	$0
4.17 Taconite Building Maint	$0	$0	$0
4.24 Operating Capital	$0	$0	$0
4.26 $25 Taconite	$0	$0	$0
4.27 Disabled Accessibility	$0	$0	$0
4.28 Learning & Development	$0	$0	$0
4.34 Area Learning Center	$0	$0	$0
4.35 Contracted Alt. Programs	$0	$0	$0
4.36 State Approved Alt. Program	$0	$0	$0
4.38 Gifted & Talented	$0	$0	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.41 Basic Skills Programs	$0	$0	$0
4.48 Achievement and Integration	$0	$0	$0
4.49 Safe School Crime - Crime Levy	$0	$1	($1)
4.51 QZAB Payments	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
4.53 Unfunded Sev & Retiremt Levy	$0	$0	$0
4.59 Basic Skills Extended Time	$0	$0	$0
4.67 LTFM	$92,023	$92,023	$0
4.72 Medical Assistance	$0	$0	$0
4.73 PPP Loan	$0	$0	$0
4.74 EIDL Loan	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
4.75 Title VII Impact Aid	$0	$0	$0
4.76 Payments in Lieu of Taxes	$0	$0	$0
Committed:			
4.18 Committed for Separation	$0	$0	$0
4.61 Committed Fund Balance	$35,310	$35,310	$0
Assigned:			
4.62 Assigned Fund Balance	$0	$0	$0
Unassigned:			
4.22 Unassigned Fund Balance	$3,109,897	$3,109,900	($3)
02 FOOD SERVICES			
Total Revenue	$454,749	$454,751	($2)
Total Expenditures	$463,087	$463,088	($1)
Non Spendable:			
4.60 Non Spendable Fund Balance	$14,550	$14,550	$0
Restricted / Reserved:			
4.52 OPEB Liab Not In Trust			

	Audit	UFARS	Audit - UFARS
06 BUILDING CONSTRUCTION			
Total Revenue	$28,891	$28,891	$0
Total Expenditures	$3,290,957	$3,290,958	($1)
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.07 Capital Projects Levy	$0	$0	$0
4.13 Project Funded by COP	$0	$0	$0
4.67 LTFM	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$6,259,256	$6,259,256	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0
07 DEBT SERVICE			
Total Revenue	$302,246	$302,247	($1)
Total Expenditures	$371,975	$371,975	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.25 Bond Refundings	$0	$0	$0
4.33 Maximum Effort Loan Aid	$0	$0	$0
4.51 QZAB Payments	$0	$0	$0
4.67 LTFM	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$81,325	$81,325	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0
08 TRUST			
Total Revenue	$675	$675	$0
Total Expenditures	$2,175	$2,175	$0
Restricted / Reserved:			
4.01 Student Activities	$0	$0	$0
4.02 Scholarships	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$112,823	$112,823	$0
18 CUSTODIAL			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Restricted / Reserved:			
4.01 Student Activities	$0	$0	$0
4.02 Scholarships	$0	$0	$0
4.48 Achievement and Integration	$0	$0	$0
4.64 Restricted Fund Balance	$0	$0	$0
20 INTERNAL SERVICE			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0
25 OPEB REVOCABLE TRUST			
Total Revenue	$0	$0	$0
Total Expenditures			

	$0	$0	$0
4.74 EIDL Loan	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$31,221	$31,222	($1)
Unassigned:			
4.63 Unassigned Fund Balancee	$0	$0	$0

04 COMMUNITY SERVICE

Total Revenue	$265,228	$265,227	$1
Total Expenditures	$275,369	$275,368	$1
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.26 $25 Taconite	$0	$0	$0
4.31 Community Education	$56,822	$56,823	($1)
4.32 E.C.F.E	$20,578	$20,578	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.44 School Readiness	$17,854	$17,853	$1
4.47 Adult Basic Education	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
4.73 PPP Loan	$0	$0	$0
4.74 EIDL Loan	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$16,457	$16,457	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

45 OPEB IRREVOCABLE TRUST

Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

47 OPEB DEBT SERVICE

Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted:			
4.25 Bond Refundings	$0	$0	$0
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

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OTHER REPORTS

INDEPENDENT SCHOOL DISTRICT NO. 2168
NEW RICHLAND, MINNESOTA

FOR THE YEAR ENDED
JUNE 30, 2020

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ABDO
EICK &
MEYERS LLP
Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT ON
MINNESOTA LEGAL COMPLIANCE

Members of the School Board
Independent School District No. 2168
New Richland, 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 the Independent School District No. 2168, New Richland, Minnesota, (the District) 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 October 8, 2020.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements and miscellaneous provisions sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions, insofar as they relate to accounting matters.

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

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
October 8, 2020

100 Warren Street, Suite 600
Mankato, MN 56001
Office 507.625.2727 | Fax 507.388.9139

ABDO EICK & MEYERS LLP
Certified Public Accountants & Consultants

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*

Members of the School Board
Independent School District No. 2168
New Richland, 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 the Independent School District No. 2168, New Richland, Minnesota, (the District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 8, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. As described below, we identified a deficiency in internal control that we consider to be a material weakness, as finding 2020-001. We also identified certain deficiencies in internal control, described below as items 2020-002 and 2020-003 that we consider to be a significant deficiency.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters, 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the District's compliance with those requirements. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported in accordance with *Government Auditing Standards* or statutes set forth by the State of Minnesota.

Purpose of this Report

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

Abdo Eick & Meyers, LLP

ABDO, EICK & MEYERS, LLP
Mankato, Minnesota
October 8, 2020

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2020-001 **Material Audit Adjustments**

Condition: During our audit, adjustments were needed adjust Federal and State receivables, taxes receivable, and capital assets.

Criteria: The financial statements are the responsibility of the District's management.

Cause: District staff has not prepared a year end trial balance reflecting all necessary accounting entries.

Effect: It is likely that if a misstatement were to occur, it would not be detected by the District's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.

Recommendation: We recommend the business manager review each journal entry, obtain an understanding of why the entry was necessary, and modify current procedures to ensure that future corrections are not needed.

Management Response:

The Business and Finance Manager continues training dealing with governmental financial/accounting practices.

2020-002 **Segregation of Duties**

Condition: During our audit, we found that the District has a limited segregation of duties related to many aspects of its accounting systems.

Criteria: There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities.

Cause: Specific situations include: cash receipts, cash disbursements and payroll. The Business and Finance Manager has responsibility over all areas of authorization, custody of assets, recording and reconciling activity. While there is some review of transactions by the Board and Superintendent, there is more than a remote likelihood that a misstatement of the District's financial statements that is more that inconsequential could go undetected.

Effect: The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in segregation of duties and internal controls can result in undetected errors or misappropriation of assets of the District.

Recommendation: Under these circumstances the most effective controls lie in 1) managements knowledge of the District's financial operations and 2) striving to obtain as much segregation of duties as possible so that no one person has complete control of any type of financial transaction. We recommend the District evaluate its controls and make any changes considered necessary. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost and other considerations.

Management Response:

The District will continue to review its procedures to determine if any improvements can be made using the limited personnel available.

2020-003 **Financial Report Preparation**

Condition: We were requested to draft the audited financial statements and related footnote disclosures as part of our regular audit services. Auditing standards require auditors to communicate this situation to the Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organizations of your size. However, based on auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process.

Criteria: Internal controls should be in place to provide reasonable assurance over financial reporting.

Cause: From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size.

Effect: The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting.

Recommendation: It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. We have instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the District is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the District should agree its financial software to the numbers reported in the financial statements.

Management Response:

The District is aware of the control deficiency, which is an unavoidable consequence of the financial restrictions of school districts. Each year, the District has a presentation from our auditor to the Board of Education after the audit is performed. Management recognizes that it is not economically feasible to fully correct this finding; it is aware of the deficiency and is relying on oversight by management and School Board to monitor the deficiency.

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New Richland-Hartland-Ellendale-Geneva Public Schools
Independent School District No. 2168

NRHEG

District Office
306 Ash Avenue South
New Richland, MN 56072
(507)465-3206
Fax (507)465-8633
Dale Carlson, Superintendent

Secondary School
306 Ash Avenue South
New Richland, MN 56072
(507)465-3205
Fax (507)465-8633
David Bunn, Principal

Elementary School
600 School Street
Ellendale, MN 56026
(507)684-3181
Fax (507)684-2108
Douglas Anderson, Principal

Empowering students with knowledge and skills to succeed

2020-001 Material Audit Adjustments

Corrective Action Plan (CAP):

1. Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding:

The Business and Finance Manager continues training dealing with UFARS financial/accounting practices and works with the audit team to understand the adjustments made and to correct them for future years.

3. Official Responsible for Ensuring CAP:

Dale Carlson, Superintendent, is the official responsible for ensuring corrective action.

4. Planned Completion Date for CAP:

Continuous.

5. Plan to Monitor Completion of CAP:

The Board of Education will be monitoring this corrective action plan.

Dale Carlson
Superintendent

New Richland-Hartland-Ellendale-Geneva Public Schools
Independent School District No. 2168

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2020-002 Segregation of Duties

Corrective Action Plan (CAP):

1. Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding:

The District reviews and makes improvements to its internal control structure on an ongoing basis and attempts to maximize the segregation of duties in all areas with the limited staff available.

3. Official Responsible for Ensuring CAP:

Dale Carlson, Superintendent, is the official responsible for ensuring corrective action.

4. Planned Completion Date for CAP:

Continuous.

5. Plan to Monitor Completion of CAP:

The Board of Education will be monitoring this corrective action plan.

Dale Carlson
Superintendent

New Richland-Hartland-Ellendale-Geneva Public Schools

Independent School District No. 2168

NRHEG

District Office	Secondary School	Elementary School
306 Ash Avenue South	306 Ash Avenue South	600 School Street
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Fax (507)465-8633	Fax (507)465-8633	Fax (507)684-2108
Dale Carlson, Superintendent	David Bunn, Principal	Douglas Anderson, Principal

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2020-003 Financial Statement Preparations

Corrective Action Plan (CAP):

1. Explanation of Disagreement with Audit Finding:

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding:

The District will have the auditor prepare the financial statements. The District is relying on oversight of management and Board to monitor the deficiency.

3. Official Responsible for Ensuring CAP:

Dale Carlson, Superintendent, is the official responsible for ensuring corrective action.

4. Planned Completion Date for CAP:

Continuous.

5. Plan to Monitor Completion of CAP:

The Board of Education will be monitoring this corrective action plan.

Dale Carlson

Dale Carlson
Superintendent