Financial Statements
June 30, 2020

Independent School District No. 771
Chokio-Alberta Area Public Schools

Name	Position	Term Expires
Mark Gibson	Chairperson	2022
Kurt Staples	Vice Chairperson	2020
Christina Pederson	Treasurer/Clerk	2020
Keith Anderson	Director	2022
Robyn Marty	Director	2020
Matt Westerman	Director	2022
	Administration	
Dave Baukol	Superintendent	
Jeannie Maanum	Business Manager	

Independent Auditor's Report

The School Board of
Independent School District No. 771
Chokio-Alberta Area Public Schools
Chokio, Minnesota

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of Independent School District No. 771, Chokio, MN, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

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

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

Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the 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 respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Notes 1 and 10 to the financial statements, the District has adopted the provisions of GASB Statement No. 84, Fiduciary Activities, which has resulted in an adjustment of the net position and fund balance of the General Fund as of July 1, 2019. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the District's total OPEB liability and related ratios, schedule of the Employer's share of net pension liability, and schedule of Employer contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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 financial statements. The school board and administration, combining and individual fund schedules, and uniform accounting and reporting standards compliance table are presented for purposes of additional analysis and are not a required part of the financial statements.

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

The school board and administration 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 November 5, 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.

Report on Other Legal and Regulatory Requirements

In accordance with the Legal Compliance Audit Guide prepared by the Office of the State Auditor pursuant to Minn. Stat. §6.65, we have also issued a report dated November 5, 2020, on our consideration of the District's compliance with aspects of the provisions of the Minnesota Legal Compliance Audit Guide for School Districts. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with the Office of the State Auditor's Minnesota Legal Compliance Audit Guide for School Districts in considering the District's compliance with certain regulatory requirements pursuant to Minn. Stat. §6.65.

Eide Bailly LLP

Fargo, North Dakota
November 5, 2020

This section of Independent School District 771's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2020.

Financial Highlights

Key financial highlights for the 2019-2020 fiscal year:

- General fund revenues were $2,620,812 and $184,552 more than expenditures.

Overview of the Financial Statements

The financial section of the annual report consists of three parts – Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

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

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The following outline shows how the various parts of this annual report are arranged and related to one another.

1. Management's Discussion and Analysis
2. Basic Financial Statements
    - District-Wide Financial Statements
    - Fund Financial Statements
    - General Fund Budget to Actual

Footnote 1 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.

District-Wide Statements

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

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

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

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

Governmental Activities – All of the District's basic services are included here, such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds – focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has one type of funds:

Governmental Funds – All of the District's basic services are included in governmental funds, which generally focus on:

1. how cash and other financial assets that can readily be converted to cash flow in and out and
2. the balances left at year-end that are available for spending.

Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.

Financial Analysis of the District as a Whole

Net Position – The District's combined net position was at $439,728 on June 30, 2020. A condensed version of the Statement of Net Position at June 30, 2020 and 2019 is as follows:

Statement of Net Position
June 30, 2020 and 2019

	2020	2019
Assets		
Current assets	$ 2,440,668	$ 2,245,096
Capital assets	704,689	724,297
Total assets	3,145,357	2,969,393
Deferred Outflows of Resources	1,251,858	1,797,043
Liabilities		
Other liabilities	274,758	338,534
Long-term liabilities	1,480,089	1,449,250
Total liabilities	1,754,847	1,787,784
Deferred Inflows of Resources	2,202,640	2,631,196
Net Position (Deficit)		
Net investment in capital assets	695,459	716,668
Restricted for specific purposes	380,916	262,681
Unrestricted	(636,647)	(631,893)
Total net position	$ 439,728	$ 347,456

Changes in Net Position – The District's total revenues exceeded expenses, increasing net position by $15,212 for the year ended June 30, 2020.

Property taxes and state and federal formula aid accounted for 84.2 % of total revenue for the year.

The District's expenses are predominantly related to educating and caring for students. The purely administrative activities of the District accounted for just 10.7 % of total costs.

Statement of Activities
Years ended June 30, 2020 and 2019

	2020	2019
Revenues		
Program revenues		
Charges for service	$ 77,376	$ 112,816
Operating grants and contributions	290,075	106,394
General		
Property taxes	573,129	574,177
Aids and payments from state and other	1,796,395	1,784,212
Unrestricted investment earnings	33,572	16,348
Miscellaneous revenues	43,367	49,093
Total revenues	2,813,914	2,643,040
Expenses		
District and school administration	204,097	204,004
District support services	94,922	83,299
Regular instruction	1,384,384	831,911
Vocational instruction	67,926	69,241
Exceptional instruction	300,236	300,835
Community education and services	62,308	87,213
Instructional support services	10,698	12,547
Pupil support services	389,898	319,330
Site, buildings and equipment	254,270	313,222
Fiscal and other fixed-cost programs	29,963	26,813
Total expenses	2,798,702	2,248,415
Change in Net Position	15,212	394,625
Net Position (Deficit) - Beginning, as Adjusted July 1, 2019	424,516	(47,169)
Net Position - End	$ 439,728	$ 347,456

General Fund

The General Fund includes the primary operations of the District in providing educational services to students from pre-k/Special Education through grade 12 including pupil transportation activities and capital outlay projects.

The following schedule presents a summary of General Fund Revenues.

	Year Ended June 30, 2020	Year Ended June 30, 2019	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local property taxes	$ 547,721	$ 545,271	$ 2,450	0.4%
Other local sources	97,906	73,352	24,554	33.5%
State sources	1,912,588	1,758,815	153,773	8.7%
Federal sources	61,913	35,988	25,925	72.0%
Sales and other conversions	684	1,635	(951)	-58.2%
Total General Fund revenues	$ 2,620,812	$ 2,415,061	$ 205,751	8.5%

Total General Fund revenue increased by $205,751 or 8.5 % from the previous year. Basic general education revenue is determined by a state per student funding formula and consists of an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change on revenue.

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30, 2020	Year Ended June 30, 2019	Amount of Increase	Percent Increase
Salaries and employee benefits	$ 1,598,223	$ 1,540,920	$ 57,303	3.7%
Purchased services	567,663	583,143	(15,480)	-2.7%
Supplies, materials and equipment	202,408	144,485	57,923	40.1%
Capital expenditures	19,970	120,268	(100,298)	-83.4%
Other expenditures	47,996	104,025	(56,029)	-53.9%
Total General Fund expenditures	$ 2,436,260	$ 2,492,841	$ (56,581)	-2.3%

Total General Fund expenditures decreased $56,581 or 2.3 % from the previous year. The decrease is due to staff changes, master level increases in salary, and general increase in pay by steps and lanes. There were fewer purchased service expenses related to Special Education students being transferred to other districts. Capital expenditures decreased due to the telephone system project started during 2019. The other expenditures decrease relates to the special funding situation related to GASB 68.

General Fund Budgetary Highlights

The District's final general fund budget results compared to actual dollar figures are:

- Actual revenues were $106,699 more than budget.
- Actual expenditures were $130,671 less than budget.

Non-Major Funds

The Food Service Fund has a positive fund balance of $34,453 at the end of fiscal year 2020. Revenues exceeded expenditures by $5,228 for the year. The Community Service Fund has a positive fund balance of $169,349 at the end of fiscal year 2020. Revenues exceeded expenditures by $15,139 for the year.

Capital Asset and Debt Administration

As described in Note 5, at the end of 2020, the District had invested $1,896,162 in a broad range of capital assets, including school buildings, athletic facilities, computer, music, administrative, and audio-visual equipment. Total depreciation expense for the year was $64,889.

Capital Assets
June 30, 2020 and 2019

	2020	2019
Land	$ 1,100	$ 1,100
Construction in process	-	67,077
Site improvements	175,499	175,499
Building	1,359,651	1,359,651
Equipment	359,912	247,554
Accumulated depreciation	(1,191,473)	(1,126,584)
Total capital assets	$ 704,689	$ 724,297

Long-Term Liabilities

At year-end, The District had $1,390,133 in net pension liability and $80,726 in OPEB obligations.

Factors Bearing on the District's Future

The District is dependent on the State of Minnesota for its revenue authority. The District will need to continue making careful budget decision, including considering additional budget adjustments. Making budget decisions is not easy for anyone in the District, but the importance of making good decisions is likely to continue because of less-than-appropriate funding from the State Legislature. Continued trends (and experience) validate that Legislative revenue increases are not sufficient to meet instruction program needs and increased costs that school districts face due to inflation.

With the onset of the COVID-19 Pandemic in March 2020, the District anticipates revenue shortfalls and some reduction in expenditures due to the temporary closing of facilities and lack of public program income during the quarantine period. The District continues to provide educational opportunities to students. The District has maintained strong reserve balances which will help bridge financial gaps in revenue projections. During FY 2021, the District received federal grant funding related to the global COVID-19 pandemic under the Elementary and Secondary School Emergency Relief Fund (ESSER) grant, the Governor's Emergency Education Relief Fund (GEER) grant, and the Coronavirus Relief Fund (CRF) grant. All grants will be used to cover COVID-19 expenditures of the district. This global pandemic has created unprecedented challenges for Federal, State and Local Government operations, creating uncertainty in the outcome of the 2021 budget.

Contacting the District's Financial Management

This financial report is designed to provide our 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. If you have questions about this report or need additional financial information, contact the Superintendent's Office, Independent School District 771, 311 West 1st Street, Chokio, Minnesota 56221.

Assets	
Cash, cash equivalents, and investments	$ 2,034,836
Receivables	
Current property taxes	216,060
Delinquent property taxes	2,201
Due from other governmental units	185,406
Inventory	2,165
	2,440,668
Capital assets	
Land	1,100
Land improvements	175,499
Buildings	1,359,651
Equipment	359,912
Less accumulated depreciation	(1,191,473)
Total capital assets, net of depreciation	704,689
Deferred Outflows of Resources	
Pension plans	1,251,858
Total assets and deferred outflows of resources	4,397,215
Liabilities	
Accounts payable	30,928
Salaries payable	198,321
Unearned revenue	4,543
Due to other governmental units	40,966
Long-term liabilities	
Due within one year - compensated absences	9,230
Due in more than one year - OPEB obligation	80,726
Due in more than one year - net pension liability	1,390,133
Total liabilities	1,754,847
Deferred Inflows of Resources	
Unavailable revenue-property taxes	467,989
Pension plans	1,718,304
OPEB obligation	16,347
Total deferred inflows of resources	2,202,640
Net Position (Deficit)	
Net investment in capital assets	695,459
Restricted for specific purposes	380,916
Unrestricted	(636,647)
Total net position	$ 439,728

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities				
Administration	$ 204,097	$ 13,032	$ -	$ (191,065)
District support services	94,922	-	23,929	(70,993)
Regular instruction	1,384,384	-	175,129	(1,209,255)
Vocational instruction	67,926	-	-	(67,926)
Special education instruction	300,236	-	3,885	(296,351)
Community education and services	62,308	19,634	21,893	(20,781)
Instructional support services	10,698	-	65,239	54,541
Pupil support services	389,898	44,710	-	(345,188)
Sites and buildings	254,270	-	-	(254,270)
Fiscal and other fixed-cost programs	29,963	-	-	(29,963)
Total governmental activities	$ 2,798,702	$ 77,376	$ 290,075	(2,431,251)
General revenues				
Property taxes, levied for general purposes				546,780
Property taxes, levied for community education and services				26,349
Aids and payments from the state				1,786,926
County apportionment				9,469
Unrestricted investment earnings				33,572
Miscellaneous revenues				43,367
Total general revenues				2,446,463
Changes in net position				15,212
Net position - beginning, as adjusted (Note 10)				424,516
Net position - ending				$ 439,728

Governmental Funds
Balance Sheet
June 30, 2020

	General	Other Governmental Funds	Totals
Assets			
Cash, cash equivalents, and investments	$ 1,827,125	$ 207,711	$ 2,034,836
Receivables			
Current property taxes	203,837	12,223	216,060
Delinquent property taxes	2,093	108	2,201
Due from other governmental units	184,492	914	185,406
Inventory	-	2,165	2,165
Total assets	$ 2,217,547	$ 223,121	$ 2,440,668
Liabilities			
Accounts payable	$ 30,928	$ -	$ 30,928
Salaries payable	195,674	2,647	198,321
Unearned revenue	-	4,543	4,543
Due to other governmental units	40,966	-	40,966
Total liabilities	267,568	7,190	274,758
Deferred Inflows of Resources			
Unavailable revenue-property taxes	442,922	27,268	470,190
Fund Balance			
Nonspendable	-	2,165	2,165
Restricted	152,714	228,202	380,916
Unassigned	1,354,343	(41,704)	1,312,639
Total fund balance	1,507,057	188,663	1,695,720
Total liabilities, deferred inflows of resources, and fund balances	$ 2,217,547	$ 223,121	$ 2,440,668

Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2020

Total Fund Balance - Governmental Funds	$ 1,695,720
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the funds.	704,689
Total OPEB obligation is not recognized in the funds.	(80,726)
Delinquent property taxes are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	2,201
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.	(482,793)
Long-term liabilities, including net pension liability, and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(1,399,363)
Total Net Position - Governmental Activities	$ 439,728

	General	Other Governmental Funds	Totals
Revenues			
Local property tax levies	$ 547,721	$ 26,349	$ 574,070
Other local and county sources	97,906	20,283	118,189
State sources	1,912,588	38,567	1,951,155
Federal sources	61,913	65,239	127,152
Sales and other conversion of assets	684	44,710	45,394
Total revenues	2,620,812	195,148	2,815,960
Expenditures			
Administration	202,496	-	202,496
District support services	84,065	-	84,065
Regular instruction	1,230,282	-	1,230,282
Special education instruction	368,162	-	368,162
Community education and service	-	62,915	62,915
Instructional support services	10,698	-	10,698
Pupil support services	277,101	111,866	388,967
Sites and buildings	246,890	-	246,890
Fiscal and other fixed cost programs	16,566	-	16,566
Total expenditures	2,436,260	174,781	2,611,041
Net Change in Fund Balance	184,552	20,367	204,919
Fund Balance, Beginning of Year, as adjusted (Note 10)	1,322,505	168,296	1,490,801
Fund Balance, End of Year	$ 1,507,057	$ 188,663	$ 1,695,720

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2020

Net Change in Fund Balances - Total Governmental Funds	$ 204,919
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay in the current period.	(19,608)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(941)
In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.	(1,601)
In the statement of activities OPEB obligation is measured by the amounts earned during the year. In the governmental funds, however, expenditures for this item is measured by the amount of financial resources used.	(10,857)
In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.	(156,700)
Change in Net Position of Governmental Activities	$ 15,212

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual

Year Ended June 30, 2020

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Local Property Tax Levies	$ 547,340	$ 547,340	$ 547,721	$ 381
Other Local and County Sources	48,689	28,308	97,906	69,598
State Sources	1,850,822	1,873,090	1,912,588	39,498
Federal Sources	36,690	65,375	61,913	(3,462)
Sales and Other Conversion of Assets	500	-	684	684
Total revenues	2,484,041	2,514,113	2,620,812	106,699
Expenditures				
Administration	332,403	215,752	202,496	13,256
District Support Services	82,100	69,600	84,065	(14,465)
Regular Instruction	1,208,584	1,214,739	1,230,282	(15,543)
Special Education Instruction	371,408	371,674	368,162	3,512
Instructional Support Services	16,400	16,400	10,698	5,702
Pupil Support Services	271,058	349,250	277,101	72,149
Sites and Buildings	256,119	304,416	246,890	57,526
Fiscal and Other Fixed Cost Programs	27,059	25,100	16,566	8,534
Total expenditures	2,565,131	2,566,931	2,436,260	130,671
Net Change in Fund Balance	$ (81,090)	$ (52,818)	184,552	$ 237,370
Fund Balance, Beginning of Year, As Adjusted (Note 10)			1,322,505	
Fund Balance, End of Year			$ 1,507,057	

Note 1 - Summary of Significant Accounting Policies

Organization

Independent School District No. 771, Chokio-Alberta Area Public Schools (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

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

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

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

District-Wide Financial Statement Presentation

The district-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary fund. The fiduciary fund is only reported in the Statement of Fiduciary Net Position at the fund financial statement level. Generally, the effect of interfund activity has been removed from the district-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported as general revenues.

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 the related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory “tax shift” described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Fund Financial Statement Presentation

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

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

<u>Revenue Recognition</u> – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to Minnesota Statutes. Federal revenue is recorded in the year in which the related expenditure is made. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Recording of Expenditures – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, severance and healthcare benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are included within the applicable functional areas.

Description of Funds

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

Major Governmental Fund

General Fund – The general fund is the general operating fund of the District. All financial resources of the general government that are not required to be reported in another fund are accounted for in the general fund.

Nonmajor Governmental Funds

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

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

Other Significant Accounting Policies

Budgeting

An operating budget is adopted by July 1 of each fiscal year for all governmental funds on the same modified accrual basis used to reflect actual revenues and expenditures. The superintendent is authorized to transfer budget amounts within line items; however, supplemental appropriations that amend total appropriations of any fund require a board resolution. Reported budgeted amounts are as originally adopted or as amended by board resolution. Unencumbered appropriations lapse at year-end.

Cash and Investments

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

The District considers certificates of deposit with a maturity of greater than three months to be investments.

Short-term, highly liquid debt instruments (including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

Receivables

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

Inventories

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

Property Taxes

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

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

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county general remits taxes to the District at periodic intervals as they are collected. A portion of the property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund financial statements because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

Capital Assets

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

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 3 to 50 years.

Capital assets not being depreciated include land.

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

Compensated Absences Payable

Substantially all District employees are allowed to accrue sick leave at varying amounts each year and accumulate within specified limits. Employees are compensated for unused sick leave upon retirement after they have qualified for retirement. Twelve month employees are allowed to accrue vacation leave at varying amounts each year and accumulate over time. Employees are compensated for unused vacation leave upon termination of their employment with the District.

Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and 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 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 Note 8.

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.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District has two items that qualify for reporting in this category. They are the contributions made to pension plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense reported in the district-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category. The District reports unavailable revenues from property taxes on the district-wide statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is changes in the net pension liability not included in pension expense reported in the district-wide statement of net position.

Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in fiscal year 2020.

Net Position

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

Fund Balance

The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

- Restricted fund balances represent a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

- Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which is the School Board through an ordinance or resolution.

- Assigned fund balance represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed.

- Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

According to the District's fund balance policy, the District's goal shall be to maintain an unassigned fund balance of not less than 33 percent of the annual budget.

If resources from more than one fund balance classification could be spent, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

Estimates

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

Note 2 - Deposits and Investments

Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the District's School Board. All such depositories are members of the Federal Reserve System.

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

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

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

At June 30, 2020, all deposits were insured or collateralized by securities held by the District's agent in the District's name.

Credit Risk – Investments

Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, certain repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. The District's investments on June 30, 2020 consisted of certificates of deposits totaling $400,100.

The following table presents the District's deposit and investment balances at June 30, 2020

Deposits	1,634,736
Certificates of Deposit	400,100
	$ 2,034,836

The PMA Financial Network, Inc. fund is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool's share.

Note 3 - Due from other Governmental Units

Amounts receivable from other governments as of June 30, 2020, include:

Fund	State
Major fund	
General	$ 184,492
Nonmajor funds	914
	$ 185,406

Note 4 - Capital Assets

Capital asset activity for the year ended June 30, 2020 is a follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020
Capital assets not being depreciated				
Land	$ 1,100	$ -	$ -	$ 1,100
Construction in Progress	67,077	45,280	(112,357)	-
Total capital assets not being depreciated	68,177	45,280	(112,357)	1,100
Capital assets being depreciated				
Site improvements	175,499	-	-	175,499
Buildings	1,359,651	-	-	1,359,651
Equipment	247,554	112,358	-	359,912
Total capital assets being depreciated	1,782,704	112,358	-	1,895,062
Less accumulated depreciation for				
Site improvements	66,122	8,110	-	74,232
Buildings	956,231	31,165	-	987,396
Equipment	104,231	25,614	-	129,845
Total accumulated depreciation	1,126,584	64,889	-	1,191,473
Net capital assets, depreciated	656,120	47,469	-	703,589
Total capital assets, net	$ 724,297	$ 92,749	$ (112,357)	$ 704,689

Depreciation expense for the year ended June 30, 2020 was charged to the following functions/programs:

Pupil support services	$ 53,591
Sites and buildings	11,298
Total depreciation expense	$ 64,889

Note 5 - Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2020 are as follows:

	Balance July 1, 2019	Additions	Deletions	Balance June 30, 2020	Due Within One Year
Compensated absences	$ 7,629	$ 8,502	$ 6,901	$ 9,230	$ 9,230

Compensated Absences – This amount consists of vested sick leave and vacation accrual paid out of the general fund as discussed in Note 1.

Note 6 - Other Postemployment Benefits

A. Plan Descriptions

All employees are allowed upon meeting the eligibility requirements under Minn. Stat. 471.61 subd, 2b, to participate in the District's health insurance plan after retirement. This plan covers active and retired employees who have reached age 55, with teachers needing at least 3 years of service and all other district employees needing 5 years of service. Benefit provisions are established through negotiations between the District and the union representing District employees and are renegotiated at the end of each contract period. A separately issued report is not available.

B. Benefits Provided

The contract groups have access to other post-retirement benefits of blended medical premiums of $400 for single and $1,028 for family coverage. The implicit rate subsidy is only until Medicare eligibility. There are no subsidized post-employment medical, dental, or life insurance benefits.

C. Employees Covered by Benefit Terms

At the valuation date of July 1, 2019, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	1
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	32
	33

D. Total OPEB Liability

The District's total OPEB liability of $80,726 was measured as of June 30, 2020, and was determined by an actuarial valuation as of July 1, 2019.

E. Actuarial Assumptions

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

Inflation	2.50 percent	
Salary increases	3.00 percent	
Discount rate	3.10 percent	
Healthcare cost trend rates	6.50 percent as of July 1,, 2019, grading to 5% over 6 years	
Retiree plan participation	Future retirees electing coverage: -Pre-65 subsidy not available	 40%
Percent of married retirees electing spouse coverage	10%	

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 Pub-2010 Public Retirement Plans Headcount-Weighted Mortality Tables (General, Teachers) with MP-2019 Generational Improvement Scale.

The actuarial assumptions used in the July 1, 2019 valuation were based on the results of an actuarial experience study as of July 1, 2019.

F. Changes in the Total OPEB Liability

Balances at June 30, 2019	$ 86,216
Changes from the Prior Year	
Service Cost	10,398
Interest Cost	3,277
Assumption changes	(5,544)
Differences between Expected and Actual Experience	(13,139)
Benefit Payments	(482)
Total Changes	(5,490)
Balances at June 30, 2020	$ 80,726

G. Sensitivity of the Total OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower and 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount rate	2.10%	3.10%	4.10%
Total OPEB Liability	$ 87,058	$ 80,726	$ 74,614

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 1 percentage point lower and 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease in Healthcare Trend Rate	Selected Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
Total OPEB Liability	$ 69,015	$ 80,726	$ 94,882
Medical trend rate	5.50% decreasing to 4% over 6 years	6.50% decreasing to 5% over 6 years	7.50% decreasing to 6% over 6 years

H. OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

For the year ended June 30, 2020, the District recognized OPEB expense of $11,339. At June 30, 2020, the District reported deferred inflows of resources related to OPEB from the following source:

	Deferred Inflows of Resources
Liability gains	$ 11,496
Assumption changes	4,851
	$ 16,347

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

Years Ended June 30,	Pension Expense Amount
2021	$ (2,336)
2022	(2,336)
2023	(2,336)
2024	(2,336)
2025	(2,336)
2026	(2,336)
Thereafter	(2,331)

Note 7 - Defined Benefit Pension Plans

Substantially all employees of the District are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by the Public Employees' Retirement Association (PERA) or the Teachers' Retirement Association (TRA), all of which are administered on a state-wide basis. Disclosures relating to these plans are as follows:

Public Employees Retirement Association (PERA)

A. Plan Descriptions

The District participates in the following cost-sharing multiple employer defined benefit pension plans administered by the Public Employees Retirement Association of Minnesota (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.

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

B. Benefits Provided

PERA provides retirement, disability and death benefits. Benefits 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.

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

Annuities, disability benefits, and survivor benefits are increased effective every January 1. Beginning January 1, 2019, the postretirement increase will be equal to 50 percent of the cost-of-living adjustment (COLA) announced by the SSA, with a minimum increase of at least 1 percent and a maximum of 1.5 percent. Recipients that have been receiving the annuity or benefit for at least a full year as of the June 30 before the effective date of the increase will receive the full increase. For recipients receiving the annuity or benefit for at least one month but less than a full year as of the June 30 before the effective date of the increase will receive a reduced prorated increase. For members retiring on January 1, 2024, or later, the increase will be delayed until normal retirement age (age 65 if hired prior to July 1, 1989, or age 66 for individuals hired on or after July 1, 1989).

C. Contribution Rate

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2020 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2020, were $20,615 . The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

At June 30, 2020, the District reported a liability of $204,565 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a 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 $6,333 . The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2018 through June 30, 2019, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0037% at the end of the measurement period and 0.0036% for the beginning of the period.

District's proportionate share of net pension liability	$ 204,565
State of Minnesota's proportionate share of the net pension liability associated with the District	6,333
Total	$ 210,898

For the year ended June 30, 2020, the District recognized pension expense of $19,458 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional $474 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 the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 5,525	$ -
Changes in actuarial assumptions	-	15,521
Net collective difference between projected and actual investment earnings	-	20,770
Changes in proportion	13,443	-
Contributions paid to PERA subsequent to the measurement date	20,615	-
Total	$ 39,583	$ 36,291

The $20,615 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 deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2021	$ (2,299)
2022	(12,762)
2023	(2,592)
2024	330

E. 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% per year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants for all plans 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 the General Employees Plan.

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

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

Changes in Actuarial Assumptions:
The morality 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 Allocations	Long-Term Expected Real Rate of Return
Domestic Stocks	35.5%	5.10%
International Stocks	17.5%	5.30%
Bonds (Fixed Income)	20.0%	0.75%
Alternative Assets (Private Markets)	25.0%	5.90%
Cash	2.0%	0.00%
	100%	

F. 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.

G. Pension Liability Sensitivity

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

Sensitivity Analysis
Net Pension Liability (Asset) at Different Discount Rates

	General Employees Fund		
1% Lower	6.50%	$	336,293
Current Discount Rate	7.50%	$	204,565
1% Higher	8.50%	$	95,797

H. Pension Plan Fiduciary Net Position

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

Teachers Retirement Association (TRA)

A. Plan Descriptions

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

Educators employed in Minnesota's public elementary and secondary school, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those teachers 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 through the Define Contibution Plan (DCR) administered by the State of Minnesota.

B. Benefits Provided

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

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

Tier I Benefits

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

With these provisions:

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

or

Tier II Benefits

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

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

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

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

C. Contribution Rate

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ending June 30, 2018, June 30, 2019, and June 30, 2020 were:

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

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

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

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

D. 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% after June 30, 2028
Projected salary increase	2.85 to 8.85% for 10 years 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 assumptions	
Pre-retirement:	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability:	RP-2014 disabled retiree mortality table, without adjustment.

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

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

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

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

Changes in actuarial assumptions since the 2018 valuation

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

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50 %. There was no change since the prior measurement dat. . 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).

F. Net Pension Liability

At June 30, 2020, the District reported a liability of $1,185,568 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's proportionate share was 0.0186% at the end of the measurement period and 0.0184% 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	$ 1,185,568
State's proportionate share of the net pension liability associated with the district	$ 104,681

For the year ended June 30, 2020, the District recognized pension expense of $103,185. It also recognized $7,957 as an increase to pension expense for the support provided by direct aid.

At June 30, 2020, the District reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 142	$ 28,424
Difference between projected and actual investment earnings	-	100,892
Changes in actuarial assumptions	905,636	1,552,697
Change in proportion and differences between contributions made and District's proportionate share of contributions	218,494	-
District's contributions to TRA subsequent to the measurement date	88,003	-
Total	$ 1,212,275	$ 1,682,013

$88,003 was reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021.

Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2021	$ 97,560
2022	29,508
2023	(381,074)
2024	(303,631)
2025	(104)

G. Net Pension Liability

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50 % as well as the liability measured using one percent lower and one percent higher:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
TRA discount rate	6.50%	7.50%	8.50%
District's proportionate share of the TRA net pension liability	$ 1,890,085	$ 1,185,568	$ 604,704

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.

H. Pension Plan Fiduciary Net Position

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

I. I. 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.

Note 8 - Flexible Benefit Plan

The District has a flexible benefit plan which is classified as a "cafeteria plan" (the Plan) under section 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the Plan for healthcare and dependent care benefits.

Before the beginning of the Plan year, which is from September 1 to August 31, each participant designates a total amount of pre-tax dollars to be contributed to the Plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the medical reimbursement portion of the Plan, whether or not such contributions have been made.

Payment of insurance premiums (health, dental, life, and disability) is made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund and special revenue funds.

Amounts withheld for medical reimbursement and dependent care are paid by the District to an outside administrator upon an employee submitting a request for reimbursement. Payments are made by the outside administrator to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the employee.

All property of the Plan and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the plan are equal to those of general creditors of the District in an amount equal to eligible healthcare and dependent care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Note 9 - Operating lease

The District entered into an operating lease for copy machines and printers. Total operating lease expense for the year ended June 30, 2020 was $8,899 . Future minimum lease payments are as follows:

2021	$ 8,197
2022	8,197
2023	8,197
2024	2,732
	$ 27,323

Note 10 - Adoption of New Standard

As of July 1, 2019, the District adopted GASB Statement No. 84, Fiduciary Activities. Due to the new standard the District's student activity accounts will now be held in and accounted for in the General Fund. Student activity accounts were previously accounted for in the agency fund. Scholarship funds where the District has administrative oversight will also be held and accounted for in the General Fund. Scholarship funds were previously accounted for in the private purpose trust fund. The following table describes the effects of the implementation of GASB 84 on beginning net position/fund balance.

	Governmental Activities	General Fund
Net Position/Fund Balance - June 30, 2019, as previously reported	$ 347,456	$ 1,245,445
Adjustment of student activity funds from an agency fund to the General Fund	39,183	39,183
Adjustment of scholarship trust funds from a fiduciary fund to the General Fund	37,877	37,877
Net Position/Fund Balance - July 1, 2019, as restated	$ 424,516	$ 1,322,505

Note 11 - Fund Balance

Certain portions of fund balances are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties.

The following is a summary of fund balances as of June 30, 2020:

	General Fund	Nonmajor Other Governmental Funds	Total
Fund balances			
Nonspendable			
Inventory	$ -	$ 2,165	$ 2,165
Restricted			
Student activities	41,164	-	41,164
Scholarships	35,777	-	35,777
Staff development	12,790	-	12,790
Long term facility maintenance	62,983	-	62,983
ECFE	-	139,720	139,720
School Readiness	-	55,780	55,780
Food service	-	32,288	32,288
Community Service	-	414	414
Total restricted	152,714	228,202	380,916
Unassigned	1,354,343	(41,704)	1,312,639
Total fund balance	$ 1,507,057	$ 188,663	$ 1,695,720

The UFARS fund balance reporting standards are slightly different than the reporting standards under GASB 54 *Fund Balance Reporting and Governmental Fund Type Definitions.* Below is a reconciliation between the fund balance reporting under GASB 54 and UFARS reporting standards:

	GASB Balance	Reconciling Items	UFARS Balance
Fund balances			
Nonspendable			
Inventory	$ 2,165	$ -	$ 2,165
Restricted			
Student activities	41,164	-	41,164
Scholarships	35,777	-	35,777
Staff development	12,790	-	12,790
Long term facility maintenance	62,983	-	62,983
ECFE	139,720	-	139,720
Community Education	-	(41,704)	(41,704)
School Readiness	55,780	-	55,780
Community Service	414	-	414
Food service	32,288	-	32,288
Total restricted	380,916	(41,704)	339,212
Unassigned	1,312,639	41,704	1,354,343
Total fund balance	$ 1,695,720	$ -	$ 1,695,720

Note 12 - Commitments and Contingencies

Federal Revenue

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

Note 13 - Issued But Non-effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. The first statement issued but not yet implemented that will significantly affect the District is statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This statement will be implemented at the District in the year ended June 30, 2022.

The second statement issued but not yet implemented that will significantly affect the District is Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period. The statement will be implemented at the District in the year ended June 30, 2022.

The third statement issued but not yet implemented that will significantly affect the District is *Statement No. 91, Conduit Debt Obligations.* The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required noted disclosures. The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognized assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations. This statement will be implemented at the District in the year ended June 30, 2023.

The final statement issued but not yet implemented that will affect the District is Statement No. 96, Subscription-Based Information Technology Arrangements. The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). The requirements of this Statement will improve financial reporting by establishing a definition for SBITAs and providing uniform guidance for accounting and financial reporting for transactions that meet that definition. That definition and uniform guidance will result in greater consistency in practice. Establishing the capitalization criteria for implementation costs also will reduce diversity and improve comparability in financial reporting by governments. This Statement also will enhance the relevance and reliability of a government's financial statements by requiring a government to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs. This Statement will be implemented at the District in the year ended June 30, 2023.

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

Note 14 - Subsequent Events

The District has evaluated subsequent events through November 5, 2020, the date which the financial statements were available to be issued. The District received federal grant funding related to the global COVID-19 pandemic. $13,852 was received under the Elementary and Secondary School Emergency Relief Fund (ESSER) grant, $1,872 was received under the Governor's Emergency Education Relief Fund (GEER) grant, and $38,836 was received as part of the Coronavirus Relief Fund (CRF). All grants will be used to cover COVID-19 expenditures of the district.

Required Supplementary Information
June 30, 2020

Independent School District No. 771
Chokio-Alberta Area Public Schools

Schedule of Changes in the District’s Total OPEB Liability and Related Ratios, Last 10 Fiscal Years*

	2020	2019	2018
Service cost	$ 10,398	$ 9,681	$ 9,399
Interest	3,277	2,961	2,783
Assumption changes	(5,544)	-	-
Differences between expected and actual	(13,139)	-	-
Benefit payments	(482)	(7,619)	(6,805)
Net change in total OPEB liability	(5,490)	5,023	5,377
Total OPEB liability - beginning	86,216	81,193	75,816
Total OPEB liability - ending	$ 80,726	$ 86,216	$ 81,193
Covered-employee payroll	1,298,958	1,129,382	1,096,488
District's total OPEB liability as a percentage of covered-employee payroll	6.21%	7.63%	7.40%

*GASB Statement No. 75 require ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

There are no assets accumulated in an irrevocable trust to pay plan benefits.

Schedule of Employer's Share of Net Pension Liability
Last 10 Fiscal Years *

Pension Plan	Measurement Date	Employer's Proportionate Share (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b)	Total (a+b)	Employer's Covered Payroll (d)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/d)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	6/30/2014	0.0029%	$ 136,227	N/A	$ 136,227	$ 149,957	90.8%	78.8%
PERA	6/30/2015	0.0027%	$ 139,928	N/A	$ 139,928	$ 156,489	89.4%	78.2%
PERA	6/30/2016	0.0032%	$ 259,824	$ 3,350	$ 263,174	$ 196,772	132.0%	68.9%
PERA	6/30/2017	0.0035%	$ 223,438	$ 2,840	$ 226,278	$ 227,938	98.0%	75.9%
PERA	6/30/2018	0.0036%	$ 199,713	$ 6,519	$ 206,232	$ 239,744	83.3%	79.5%
PERA	6/30/2019	0.0037%	$ 204,565	$ 6,333	$ 210,898	$ 258,750	79.1%	80.2%
TRA	6/30/2014	0.0160%	$ 737,268	$ 51,788	$ 789,056	$ 745,478	98.9%	81.5%
TRA	6/30/2015	0.0157%	$ 971,200	$ 118,953	$ 1,090,153	$ 804,064	120.8%	76.8%
TRA	6/30/2016	0.0169%	$ 4,031,053	$ 118,953	$ 4,150,006	$ 894,941	450.4%	44.9%
TRA	6/30/2017	0.0182%	$ 3,633,050	$ 351,911	$ 3,984,961	$ 993,458	365.7%	51.6%
TRA	6/30/2018	0.0184%	$ 1,155,692	$ 108,426	$ 1,264,118	$ 1,024,531	112.8%	58.3%
TRA	6/30/2019	0.0186%	$ 1,185,568	$ 104,681	$ 1,290,249	$ 1,075,765	110.2%	78.1%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Schedule of Employer's Contributions
Last 10 Fiscal Years *

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (c)	Contributions as a Percentage of Covered Payroll (b/c)
PERA	6/30/2015	$ 11,737	$ 11,737	$ -	$ 156,489	7.5%
PERA	6/30/2016	$ 14,758	$ 14,758	$ -	$ 196,772	7.5%
PERA	6/30/2017	$ 17,094	$ 17,094	$ -	$ 227,938	7.5%
PERA	6/30/2018	$ 17,981	$ 17,981	$ -	$ 239,744	7.5%
PERA	6/30/2019	$ 19,406	$ 19,406	$ -	$ 258,750	7.5%
PERA	6/30/2020	$ 20,615	$ 20,615	$ -	$ 274,868	7.5%
TRA	6/30/2015	$ 60,323	$ 60,323	$ -	$ 804,064	7.5%
TRA	6/30/2016	$ 67,124	$ 67,124	$ -	$ 894,941	7.5%
TRA	6/30/2017	$ 74,543	$ 74,543	$ -	$ 993,458	7.5%
TRA	6/30/2018	$ 76,862	$ 76,862	$ -	$ 1,024,531	7.5%
TRA	6/30/2019	$ 82,314	$ 82,314	$ -	$ 1,075,765	7.7%
TRA	6/30/2020	$ 88,004	$ 88,004	$ -	$ 1,115,851	7.9%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

PERA
2019 Changes
Changes in Actuarial Assumptions
- The morality 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.

2018 Changes
Changes in Actuarial Assumptions
- The morality 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.

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

2017 Changes
Changes in Actuarial Assumptions
- The combined service annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA load are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.
- The assumed postretirement benefit increase rate was changed for 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Provisions

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

2016 Changes:

Changes in Actuarial Assumptions

- The assumed postretirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study 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.

Changes in Plan Provisions

- There have been no changes since the prior valuation.

2015 Changes:

Changes in Actuarial Assumptions

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

Changes in Plan Provisions:

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increase the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of $6.0 million, which meets the special funding situation definition, was due September 2015.

TRA

2019 Changes

Changes in Actuarial Assumptions

- 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.

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six 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.

2017 Changes

Changes in Actuarial Assumptions

- The discount rate was decreased to 5.12% from 4.66%.
- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.

- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

2016 Changes

Changes in Actuarial Assumptions

- The discount rate was decreased to 4.66% from 8.0%.
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Augmentation in the early retirement reduction factors is phased out o Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes

Changes of benefit terms:

- The DTRFA was merged into TRA on June 30, 2015.

Change of assumptions:

- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%. Details, if necessary, can be obtained from the TRA CAFR.

PERA's CAFR may be obtained on the PERA's website at www.mnpera.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.

Additional financial and actuarial information can be found in TRA's GASB 67-68 report. Both reports can be obtained at https://minnesotatra.org/wp-content/uploads/2019/01/2018-MN-TRA-GASB-67-68-Reportscombined.pdf.

Combining and Individual Fund Schedules
June 30, 2020

Independent School District No. 771
Chokio-Alberta Area Public Schools

General Fund
Schedule of Changes in UFARS Fund Balances
Year Ended June 30, 2020

	Fund Balance Beginning of Year (As Adjusted)	Net Change in Fund Balance	Fund Balance End of Year
Restricted for student activities	$ 39,183	$ 1,981	$ 41,164
Restricted for scholarships	37,877	(2,100)	35,777
Restricted for staff development	36,022	(23,232)	12,790
Restricted for long term facility maintenance	27,530	35,453	62,983
Unassigned	1,181,893	172,450	1,354,343
	$ 1,322,505	$ 184,552	$ 1,507,057

Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2020

	Food Service	Community Service	Totals
Assets			
Cash	$ 37,915	$ 169,796	$ 207,711
Receivables			
Current property taxes	-	12,223	12,223
Delinquent property taxes	-	108	108
Due from other governmental units	-	914	914
Inventory	2,165	-	2,165
Total assets	$ 40,080	$ 183,041	$ 223,121
Liabilities			
Unearned revenue	$ 4,543	$ -	$ 4,543
Salaries payable	1,084	1,563	2,647
Total liabilities	5,627	1,563	7,190
Deferred Inflows of Resources			
Unavailable revenue-property taxes	-	27,268	27,268
Fund Balance			
Nonspendable	2,165	-	2,165
Restricted	32,288	195,914	228,202
Unassigned	-	(41,704)	(41,704)
Total fund balance	34,453	154,210	188,663
Total liabilities, deferred inflows of resources and fund balance	$ 40,080	$ 183,041	$ 223,121

Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2020

	Food Service	Community Service	Totals
Revenues			
Local property tax levies	$ -	$ 26,349	$ 26,349
Other local and county sources	340	19,943	20,283
State sources	6,805	31,762	38,567
Federal sources	65,239	-	65,239
Sales and other conversion of assets	44,710	-	44,710
Total revenues	117,094	78,054	195,148
Expenditures			
Community education and service	-	62,915	62,915
Pupil support services	111,866	-	111,866
Total expenditures	111,866	62,915	174,781
Net Change in Fund Balance	5,228	15,139	20,367
Fund Balance, Beginning of Year	29,225	139,071	168,296
Fund Balance, End of Year	$ 34,453	$ 154,210	$ 188,663

Other Supplementary Information
June 30, 2020

Independent School District No. 771
Chokio-Alberta Area Public Schools

Fiscal Compliance Report - 6/30/2020

Help Logoff

District: CHOKIO-ALBERTA (771-1)

Back Print

01 GENERAL FUND

	Audit	UFARS	Audit - UFARS
Total Revenue	$2,620,812	$2,620,813	($1)
Total Expenditures	$2,436,260	$2,436,263	($3)
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.01 Student Activities	$41,164	$41,164	$0
4.02 Scholarships	$35,777	$35,777	$0
4.03 Staff Development	$12,790	$12,790	$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	$0	$0
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	$62,983	$62,983	$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	$0	$0	$0
Assigned:			
4.62 Assigned Fund Balance	$0	$0	$0
Unassigned:			
4.22 Unassigned Fund Balance	$1,354,343	$1,354,342	$1

02 FOOD SERVICES

	Audit	UFARS	Audit - UFARS
Total Revenue	$117,094	$117,094	$0
Total Expenditures	$111,866	$111,865	$1
Non Spendable:			
4.60 Non Spendable Fund Balance	$2,165	$2,165	$0
Restricted / Reserved:			
4.52 OPEB Liab Not In Trust	$0	$0	$0
4.74 EIDL Loan	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$32,288	$32,288	$0
Unassigned:			
4.63 Unassigned Fund Balancee	$0	$0	$0

04 COMMUNITY SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$78,054	$78,053	$1
Total Expenditures	$62,915	$62,915	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.26 $25 Taconite	$0	$0	$0
4.31 Community Education	($41,704)	($41,704)	$0
4.32 E.C.F.E	$139,720	$139,720	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.44 School Readiness	$55,780	$55,780	$0
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	$414	$414	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

06 BUILDING CONSTRUCTION

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
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	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

07 DEBT SERVICE

	Audit	UFARS	Audit - UFARS
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$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	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

08 TRUST

	Audit	UFARS	Audit - UFARS
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
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

18 CUSTODIAL

	Audit	UFARS	Audit - UFARS
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

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

25 OPEB REVOCABLE TRUST

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

45 OPEB IRREVOCABLE TRUST

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

47 OPEB DEBT SERVICE

	Audit	UFARS	Audit - UFARS
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

Additional Reports
June 30, 2020

Independent School District No. 771
Chokio-Alberta Area Public Schools

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*

The School Board of
Independent School District No. 771
Chokio-Alberta Area Public Schools
Chokio, 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, the major fund, and the aggregate remaining fund information of Independent School District No. 771, Chokio, MN, 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 November 5, 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 the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of audit findings as items items 2020-001, 2020-002, and 2020-003 to be material weaknesses.

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

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

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

Eide Bailly LLP

Fargo, North Dakota
November 5, 2020

EideBailly
CPAs & BUSINESS ADVISORS

Report on *Minnesota Legal Compliance*

The School Board of
Independent School District No. 771
Chokio-Alberta Area Public Schools
Chokio, 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, the major fund, and the aggregate remaining fund information of Independent School District No. 771, Chokio, MN, 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 November 5, 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, miscellaneous provisions, and uniform financial accounting and reporting standards sections of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, except as described in the accompanying schedule of audit findings as item 2020-004. 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 District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs and the District's Corrective Action Plan, which is contained in a separate document. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Eide Bailly LLP

Fargo, North Dakota
November 5, 2020

Section I – Financial Statement Findings

2020-001 **Segregation of Duties**
Material Weakness

Criteria – A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping and reconciliation functions.

Condition – The District has a lack of segregation of duties in certain areas due to a limited staff.

Cause – There is a limited amount of office employees involved in the internal control process.

Effect – Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation – While we recognize that your staff may not be large enough to permit complete segregation of duties in all material respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

Views of Responsible Officials – There is no disagreement with the audit finding.

2020-002 **Preparation of Financial Statements**
Material Weakness

Criteria – A good system of internal accounting control contemplates an adequate system for internally preparing the District's financial statements.

Condition – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the financial statements and accompanying notes to the financial statements.

Cause – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Effect – The disclosures in the financial statements could be incomplete.

Recommendation – This circumstance is not unusual in a District of your size. 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 or other considerations.

Views of Responsible Officials – There is no disagreement with the audit finding.

2020-003 **Significant Journal Entries**
Material Weakness

Criteria – A good system of internal accounting control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition – During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls, and therefore could have resulted in a material misstatement of the District's financial statements.

Cause – The District does not have an internal control system designed to identify all necessary adjustments.

Effect – This deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation – A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Views of Responsible Officials – There is no disagreement with the audit finding.

Section II – MN Legal Compliance Findings

2020-004 Inactive Student Activity Accounts
Uniform Financial Accounting and Reporting Standards Finding

Criteria – A good system of internal accounting control contemplates an adequate system for compliance with the MAFA guidelines requiring that the funds of an activity that has been inactive for one fiscal year must be disposed of as described on the student activity purpose form unless the advisor has submitted a plan to the building principal indicating why the activity has been inactive and why it should not be terminated.

Condition – During the course of our engagement, we noted that the Class of 2022 and Spanish Club had no activity during fiscal year 2020 and no plans has been submitted to the building principal.

Cause – The District does not have an internal control system designed to review student activity funds and ensure that funds related to inactive student activities are properly disposed of in accordance with MAFA guidelines.

Effect – This deficiency could result in misuse of student activity funds.

Recommendation – The District should periodically review the activities recorded within the student activity funds to ensure that balances relating to inactive activities are properly disposed of in accordance with the student activity purpose form.

Views of Responsible Officials – There is no disagreement with the audit finding.