

**INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2020**

THIS PAGE IS LEFT BLANK  
INTENTIONALLY

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

TABLE OF CONTENTS

	<u>Page</u>
<b>BOARD OF EDUCATION AND ADMINISTRATION</b>	1
<b>INDEPENDENT AUDITORS REPORT</b>	2
<b>MANAGEMENTS DISCUSSION AND ANALYSIS</b>	5
<b>BASIC FINANCIAL STATEMENTS</b>	
District-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds	17
Reconciliation of the Balance Sheet to the Statement of Net Position - Governmental Funds	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Governmental Funds	20
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual:	
General Fund	21
Statement of Fiduciary Net Position	22
Statement of Changes in Fiduciary Net Position	23
Notes to Basic Financial Statements	25
<b>REQUIRED SUPPLEMENTAL INFORMATION SECTION</b>	
Schedule of District's Proportionate Share of Net Pension Liability – Public Employee Retirement Association	58
Schedule of District's Contributions – Public Employee Retirement Association	58
Schedule of District's Proportionate Share of Net Pension Liability – Teachers Retirement Association	59
Schedule of District's Contributions – Teachers Retirement Association	59
Schedule of Changes in the District's Net OPEB Liability and Related Ratios	60
Schedule of District's Contribution	61
Schedule of Investment Returns	61
Notes to the Required Supplemental Information	62
<b>SUPPLEMENTAL INFORMATION SECTION</b>	
Nonmajor Funds	
Combining Balance Sheet	66
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	67
Debt Service Funds	
Combining Balance Sheet	68
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	69
General Fund	
Balance Sheet	70
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	71
Food Service Fund	
Balance Sheet	72
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	73
Community Service Fund	
Balance Sheet	74
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	75
Uniform Financial Accounting and Reporting Standards Compliance Table	76
<b>OTHER REQUIRED REPORTS:</b>	
Report on Minnesota Legal Compliance	78
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	79
Schedule of Findings	81

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

BOARD OF EDUCATION

<u>Name</u>	<u>Term on Board Expires</u>	<u>Position</u>
Steven Eklund	January, 2023	Chairperson
Mike Thompson	January, 2021	Vice-Chairperson
Allison Londgren	January, 2023	Secretary
Anthony Cuda	January, 2021	Treasurer
Angie Flowers	January, 2021	Director
Darrin Davis	January, 2023	Director
David Shockman	January, 2021	Director

ADMINISTRATION

Ken Gagner	Superintendent
Judy Patzoldt	Business Manager



# Burkhardt & Burkhardt, Ltd.

Certified Public Accountants

Website: [www.bnbcpas.com](http://www.bnbcpas.com)

***Annandale Office:***

35 Oak Ave. N, P.O. Box N

Annandale, MN 55302

P: 320.274.1040

F: 320.274.2260

***Experienced...*** Over 40 years combined experience

***Affordable...*** Exceptional value for a reasonable price

***Friendly...*** Family owned and run since 1990

***Mankato Office:***

430 S. Broad St., Ste. 100

Mankato, MN 56001

P: 507.387.1338

F: 507.387.5199

## INDEPENDENT AUDITOR'S REPORT

Members of the School Board  
Independent School District No. 314  
Braham, Minnesota

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 314, Braham, Minnesota, (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Independent School District No. 314, Braham, Minnesota, 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.

THIS PAGE IS LEFT BLANK  
INTENTIONALLY

***Emphasis of Matter***

As discussed in Note 11 to the financial statements, the District has adopted the provisions of the Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*.

***Other Matters***

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Prior Year Comparative Information***

We have previously audited the District's 2019 financial statements, and we expressed an unmodified audit opinions on the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information, in our report dated October 18, 2019. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the audited financial statements from which it has been derived.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2020 on our consideration of the Independent School District No. 314, Braham, Minnesota'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 District's internal control over financial reporting and compliance.



Burkhardt & Burkhardt, Ltd.  
Mankato, Minnesota  
October 19, 2020

## MANAGEMENT'S DISCUSSION AND ANALYSIS



INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020

This section of Independent School District No. 314 – Braham Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2020. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999.

**FINANCIAL HIGHLIGHTS**

Key financial highlights for the 2019-20 fiscal year include the following:

- Liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources on June 30, 2020 by \$3,871,553 (net position). The District's total net position increased by \$618,791 during the fiscal year ended June 30, 2020.
- On June 30, 2020, the District's governmental funds reported total fund balances of \$1,649,415. Of this amount, \$1,033,155 (unassigned fund balance) may be used to meet the general District's spending requirements. The unassigned fund balance represents 12.4% of total General Fund expenditures.
- The general fund, debt service and community service balances increased \$436,858, \$31,362 and \$44,455, respectively while the food service fund balance decreased \$1,411.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

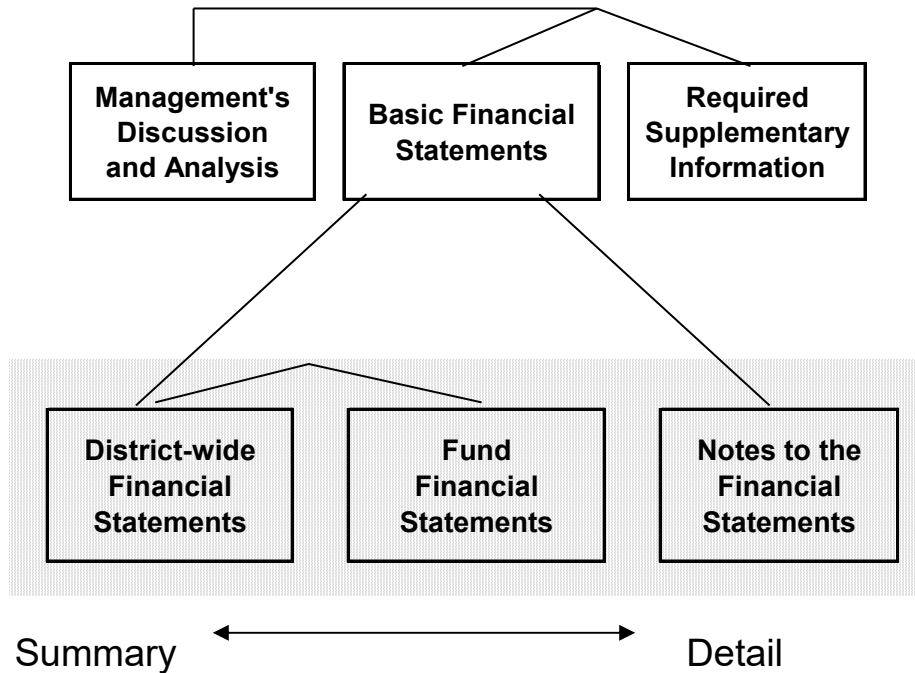
This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components:

- 1) District-wide financial statements, providing information for the District as a whole.
- 2) Fund financial statements, providing detailed information for the District's significant funds.
- 3) Notes to the financial statements, providing additional information that is essential to understanding the District-wide and fund statements.

The financial statements are followed by budget to actual comparisons for the general fund and the major special revenue funds. The diagram on the following page shows how the various parts of this annual report are arranged and related to one another.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020

**OVERVIEW OF THE FINANCIAL STATEMENTS - Continued**



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, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

**District-wide Statements**

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

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected state aids and earned but not used vacation leave).

In the District-wide financial statements, the District's activities are shown in one category, governmental activities. Most of the District's base 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.

The District-wide financial statements can be found on pages 15-16 of this report.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020

**OVERVIEW OF THE FINANCIAL STATEMENTS - Continued**

**Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governmental units, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has two kinds of funds, governmental and fiduciary.

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

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, food service, community service, building and construction, and debt service funds.

The District adopts an annual appropriated budget for its general fund and special revenue funds. Budgetary comparison statements have been provided for the general fund and the special revenue funds to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 17-21 of this report.

*Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs.

The basic fiduciary fund financial statements can be found on pages 22-23 of this report.

*Notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found on pages 25-56 of this report.

*Required Supplementary Information.* This report presents certain required supplementary information regarding the District's annual pension cost and schedules related to the District's post-employment retirement benefits (OPEB).

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020

**DISTRICT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a governmental unit's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources by \$3,871,553 at the close of the most recent fiscal year. \$4,372,967 of this amount represents net investment in capital assets

The District uses these capital assets to provide District services; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Net Position**

The District's combined net position was \$(3,871,553) on June 30, 2020. (See details in the table below.) This is up from \$(4,490,344) on June 30, 2019, an increase of \$618,791.

	<u>2020</u>	<u>2019</u>	<i>Increase (Decrease)</i>
<i>Assets</i>			
Current and other assets	\$ 4,553,144	\$ 3,931,504	\$ 621,640
Capital assets	11,990,338	12,171,297	(180,959)
	<u>16,543,482</u>	<u>16,102,801</u>	<u>440,681</u>
<i>Deferred Outflows of Resources</i>			
Pension plan deferments	3,486,284	5,829,257	(2,342,973)
Other post employment benefits deferments	170,482	180,977	(10,495)
Deferred refunding debits	6,676	8,901	(2,225)
	<u>3,663,442</u>	<u>6,019,135</u>	<u>(2,355,693)</u>
<i>Liabilities</i>			
Current liabilities	910,323	941,896	(31,573)
Long-term liabilities	13,873,948	14,886,850	(1,012,902)
	<u>14,784,271</u>	<u>15,828,746</u>	<u>(1,044,475)</u>
<i>Deferred Inflows of Resources</i>			
Unavailable revenue	2,029,215	1,954,331	74,884
Pension plan deferments	7,251,704	8,811,828	(1,560,124)
Other post employment benefits deferments	13,287	17,375	(4,088)
	<u>9,294,206</u>	<u>10,783,534</u>	<u>(1,489,328)</u>
<b>Excess of total assets and deferred outflows of resources over total liabilities and deferred inflows of resources</b>	<b><u>\$ (3,871,553)</u></b>	<b><u>\$ (4,490,344)</u></b>	<b><u>\$ 618,791</u></b>
<i>Net Position</i>			
Net Investment in			
Capital Assets	\$ 4,372,967	\$ 3,843,002	\$ 529,965
Unrestricted	(8,244,520)	(8,333,346)	88,826
<b>Total net position</b>	<b><u>\$ (3,871,553)</u></b>	<b><u>\$ (4,490,344)</u></b>	<b><u>\$ 618,791</u></b>

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020

**DISTRICT-WIDE FINANCIAL ANALYSIS - Continued**

**Change in Net Position**

A summary of the revenues and expenses is presented in the table below.

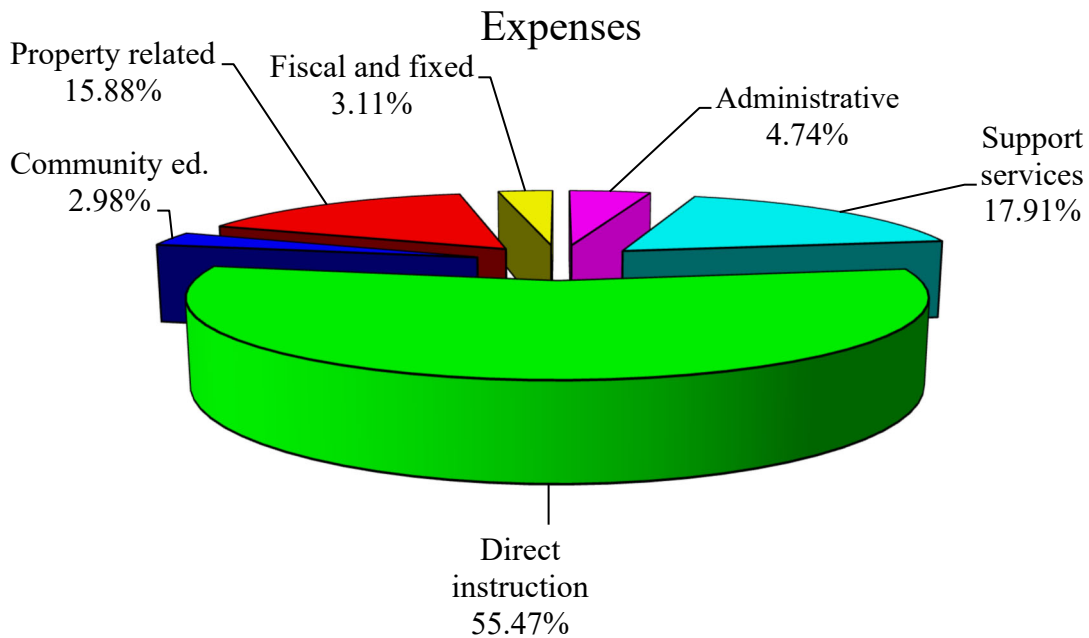
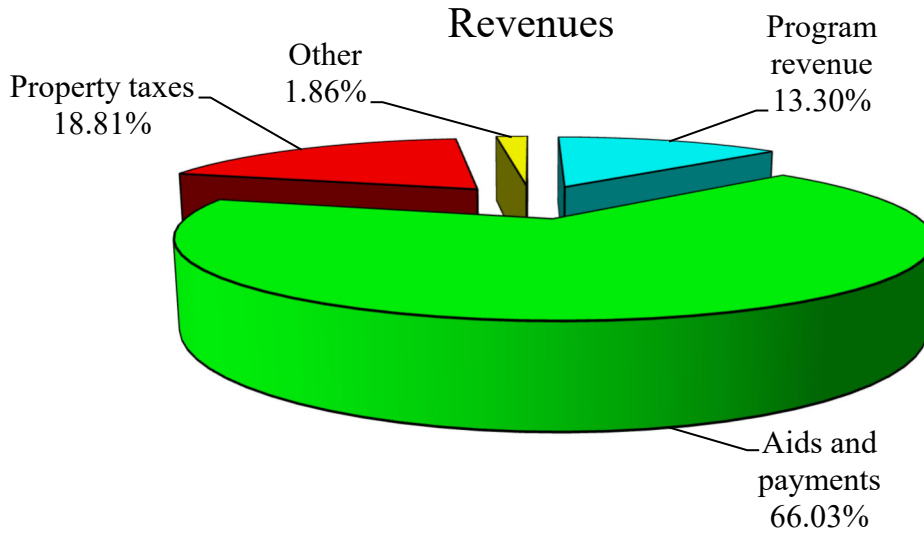
	<u>2020</u>	<u>2019</u>	<i>Increase (Decrease)</i>
<i>Revenues</i>			
Program revenues			
Charges for services	\$ 346,129	\$ 383,408	\$ (37,279)
Operating grants and contributions	896,278	885,883	10,395
Capital grants and contributions	171,235	171,113	122
General revenues			
Property taxes	1,999,073	1,516,941	482,132
Aids and payments from state and other	7,016,925	6,518,721	498,204
Other sources	197,208	477,761	(280,553)
	<u>10,626,848</u>	<u>9,953,827</u>	<u>673,021</u>
<i>Expenses</i>			
Administration	465,823	283,402	182,421
District support services	451,564	268,604	182,960
Regular instruction	4,104,008	2,464,978	1,639,030
Vocational instruction	182,296	114,086	68,210
Special education instruction	1,264,762	781,975	482,787
Community education and services	298,649	165,662	132,987
Instructional support services	146,141	52,368	93,773
Pupil support services	1,194,477	1,011,278	183,199
Site, buildings and equipment	1,259,900	1,037,502	222,398
Fiscal and other fixed-cost programs	45,037	42,113	2,924
Depreciation - unallocated	329,448	329,544	(96)
Interest on long-term debt	265,952	412,603	(146,651)
	<u>10,008,057</u>	<u>6,964,115</u>	<u>3,043,942</u>
Change in net position	618,791	2,989,712	(2,370,921)
Net Position - beginning (as previously stated)		(7,556,457)	7,556,457
Prior period adjustment (see note 11)		76,401	(76,401)
Net Position - beginning (as restated)	<u>(4,490,344)</u>	<u>(7,480,056)</u>	<u>7,480,056</u>
<b>Net position - ending</b>	<b><u>\$ (3,871,553)</u></b>	<b><u>\$ (4,490,344)</u></b>	<b><u>\$ 618,791</u></b>

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020

**DISTRICT-WIDE FINANCIAL ANALYSIS - Continued**

Below are specific graphs that provide comparisons of the governmental activities' direct program revenues with their expenditures. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.



INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020

**DISTRICT-WIDE FINANCIAL ANALYSIS - Continued**

The net cost of governmental activities is their total costs less program revenues applicable to each category. The table below shows the net costs of these services.

	<u>2020</u>	<u>2019</u>	<i>Increase (Decrease)</i>
District and school administration	\$ 465,823	\$ 283,402	\$ 182,421
District support services	451,564	268,604	182,960
Regular instruction	3,814,646	2,170,011	1,644,635
Vocational instruction	166,949	100,294	66,655
Special education instruction	634,706	203,307	431,399
Community education and services	223,243	66,100	157,143
Instructional support services	146,141	52,368	93,773
Pupil support services	823,836	565,443	258,393
Site, buildings and equipment	1,227,070	1,029,922	197,148
Fiscal and other fixed cost programs	45,037	42,113	2,924
Depreciation - unallocated	329,448	329,544	(96)
Interest on long-term debt	265,952	412,603	(146,651)
<b>Total</b>	<b><u>\$ 8,594,415</u></b>	<b><u>\$ 5,523,711</u></b>	<b><u>\$ 3,070,704</u></b>

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS  
(FUND FINANCIAL STATEMENTS)**

**Fund Balance**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$1,649,415. This was up from \$1,138,151 at the end of the prior year, an increase of \$511,264. To understand the changes from one year to the next, one needs to look at each individual fund balance. The major changes will be discussed here. The general fund unassigned fund balance increased \$436,858 from the previous year. This increase was due to revenue from state sources and property taxes increasing along with other financing source from a capital lease issuance. Additionally, the revised budget was made in anticipation of state aid increases in the next couple of years and stabilizing enrollment. The debt service fund also saw an increase in fund balance over the previous year, up \$31,362 from the previous year to \$183,274. This increase is due increased in property tax collections from the prior year and revenue from state sources. The other funds did not have significant changes.

**Revenues and Expenditures**

Revenues and other financing sources of the District's governmental funds totaled \$10,749,527 while total expenditures and other financing uses were \$10,238,263. Summaries of the revenues and other financing sources and expenditures and other financing uses reported on the governmental fund financial statements appear in the tables on the following page.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS  
(FUND FINANCIAL STATEMENTS) - Continued**

**Revenues and Other Financing Sources**

	<u>2020</u>	<u>2019</u>	<i>Increase (Decrease)</i>
General fund	\$ 8,915,809	\$ 8,067,113	\$ 848,696
Food service fund	470,093	459,732	10,361
Community service fund	317,254	249,398	67,856
Building and construction fund	-	153	(153)
Debt service fund	1,046,371	4,445,891	(3,399,520)
<b>Totals</b>	<b><u>\$ 10,749,527</u></b>	<b><u>\$ 13,222,287</u></b>	<b><u>\$ (2,472,760)</u></b>

**Expenditures and Other Financing Uses**

	<u>2020</u>	<u>2019</u>	<i>Increase (Decrease)</i>
General fund	\$ 8,478,951	\$ 7,686,515	\$ 792,436
Food service fund	471,504	467,346	4,158
Community service fund	272,799	258,518	14,281
Building and construction fund	-	23,902	(23,902)
Debt service fund	1,015,009	4,514,725	(3,499,716)
<b>Totals</b>	<b><u>\$ 10,238,263</u></b>	<b><u>\$ 12,951,006</u></b>	<b><u>\$ (2,712,743)</u></b>

**General Fund Budgetary Highlights**

The original budget was approved in June 2019 using the best-forecasted data at the time. The budget was updated in January 2020 as the result of the following factors: Special Ed changes, changes in staff and ADM, and levy changes.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

Note 3 to the financial statements presents an analysis of capital asset transactions occurring during the year ended June 30, 2020. Additions totaling \$691,440 consisted mostly of a roof project, safe school project upgrades, Chromebook capital lease and various other equipment.

**Long-Term Debt**

At year-end, the District had \$13,873,948 of long-term debt. This consisted of bonded indebtedness of \$7,630,000, unamortized bond premium/discount of \$118,735, special assessments payable of \$86,010, capital leases of \$459,302, severance payable of \$144,038, vacation payable of \$8,386, pension liabilities of \$4,609,250, and a net OPEB liability of \$818,227.

During the fiscal year ended June 30, 2009, the District entered into an agreement with a construction manager for improvements to the mechanical, electrical, ventilation, and temperature control systems that would provide an energy savings, thereby reducing the costs of operation. The capital lease listed above is the debt that is remaining to be paid on this project. The total cost of the project will be recovered in 15 years due to increased efficiencies and utility savings.

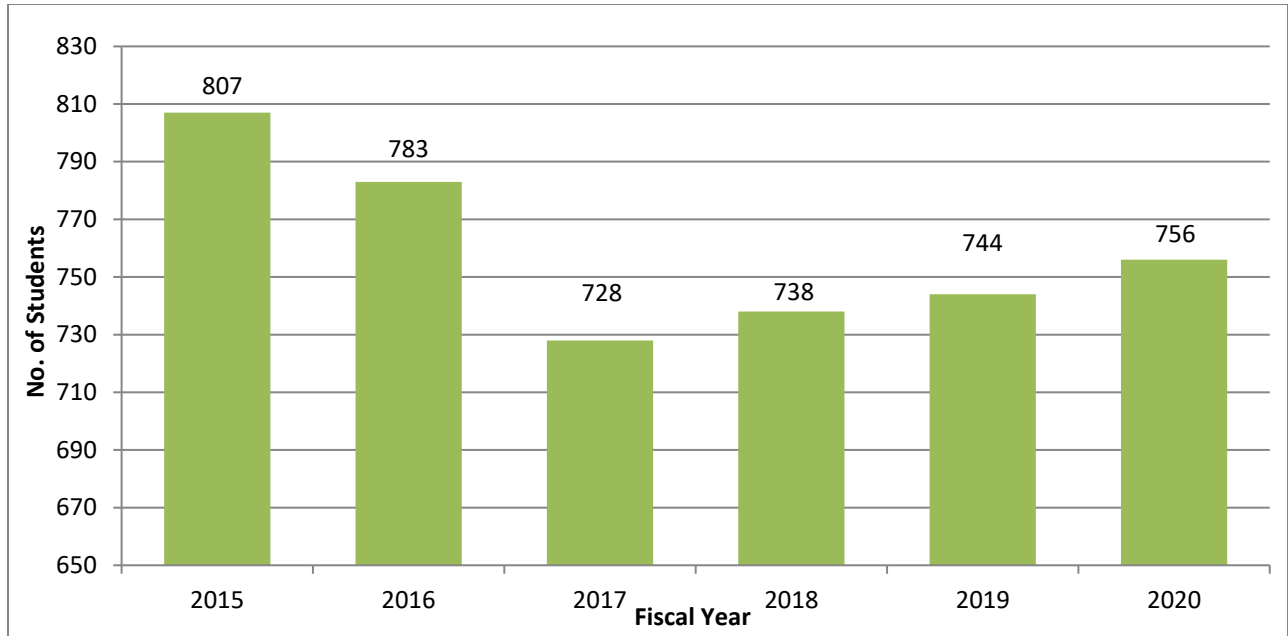


INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2020

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

Enrollment has seen a slow increase over the last four years after seeing a sharp decrease five to six years' prior in ADM (average daily membership). The District counts on enrollment that drives ADM for its financial future. Since Minnesota school districts are paid based on pupil units served, a decline in enrollment results in less revenue being received for operations while increases result in more revenue for operations. The District's ADM for the current and past five years are illustrated below. The Enrollment-Table below presents this information.



The political environment at the state level could have a significant effect on future finances. The state legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive. With projected budget shortfalls in the state's budget schools will need to consider raising their levies to keep revenues from falling.

Labor contracts, which are in effect for a two-year period, have been re-negotiated for the two-year period beginning July 1, 2019. The current contract saw no substantive changes for the prior agreement.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers 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 any questions about this report or would like additional information, contact Judy Patzoldt, Business Manager, Braham ISD #314, 531 Elmhurst Ave S, Braham, Minnesota, 55006.

## BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

STATEMENT OF NET POSITION  
June 30, 2020

	<u>Governmental Activities</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	
<b>Assets:</b>	
Cash and Investments	\$ 1,988,718
Receivables:	
Due from Minnesota Department of Education	926,641
Accounts	25,150
Property Taxes	1,161,178
Due from Federal through State	210,634
Due from Other Governments	123,606
Inventory	32,082
Prepaid Items	85,135
Capital Assets:	
Assets Not Being Depreciated	310,600
Other Capital Assets, Net of Depreciation	11,679,738
Total Assets	<u>16,543,482</u>
<b>Deferred Outflows of Resources:</b>	
Pension Plan Deferments	3,486,284
Other Post Employment Benefits Plan Deferments	170,482
Deferred Refunding Debits	6,676
Total Deferred Outflows of Resources	<u>3,663,442</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u><u>\$ 20,206,924</u></u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	
<b>Liabilities:</b>	
Accrued Expenses	\$ 876,194
Due to Other Governments	21,924
Unearned Revenue	12,205
Noncurrent Liabilities:	
Due Within One Year	880,759
Due in More Than One Year	12,993,189
Total Liabilities	<u>14,784,271</u>
<b>Deferred Inflows of Resources:</b>	
Property Taxes Levied For Subsequent Year	2,029,215
Pension Plan Deferments	7,251,704
Other Post Employment Benefits Plan Deferments	13,287
Total Deferred Inflows of Resources	<u>9,294,206</u>
<b>Net Position:</b>	
Net Investment in Capital Assets	4,372,967
Unrestricted	<u>(8,244,520)</u>
Total Net Position	<u>(3,871,553)</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<u><u>\$ 20,206,924</u></u>

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

STATEMENT OF ACTIVITIES  
For The Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES:</b>					
District and School Administration	\$ 465,823	\$ 0	\$ 0	\$ 0	\$ (465,823)
District Support Services	451,564	0	0	0	(451,564)
Regular Instruction	4,104,008	86,451	37,822	165,089	(3,814,646)
Vocational Instruction	182,296	0	9,201	6,146	(166,949)
Special Education Instruction	1,264,762	2,908	627,148	0	(634,706)
Community Education and Services	298,649	54,978	20,428	0	(223,243)
Instructional Support Services	146,141	0	0	0	(146,141)
Pupil Support Services	1,194,477	170,685	199,956	0	(823,836)
Site, Buildings, and Equipment	1,259,900	31,107	1,723	0	(1,227,070)
Fiscal and Other Fixed Costs	45,037	0	0	0	(45,037)
Unallocated Depreciation	329,448	0	0	0	(329,448)
Interest on Long-term Debt	265,952	0	0	0	(265,952)
Total Governmental Activities	<u>\$ 10,008,057</u>	<u>\$ 346,129</u>	<u>\$ 896,278</u>	<u>\$ 171,235</u>	<u>(8,594,415)</u>

General Revenues:

Taxes:

Property Taxes Levied for General Purposes	1,139,223
Property Taxes Levied for Specific Purposes	859,850
Aids and Payments from the State	6,922,521
Aids and Payments from Local Sources	94,404
Other General Revenues	183,390
Unrestricted Interest Earnings	13,818
Total General Revenues	<u>9,213,206</u>

Change in Net Position 618,791

Net Position - Beginning, as Previously Stated (4,566,744)

Prior Period Adjustment (See Note 11) 76,401

Net Position - Beginning, as Restated (4,490,344)

Net Position - Ending \$ (3,871,553)

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2020

	General	Debt Service	Nonmajor	Total Governmental Funds
<b>ASSETS</b>				
Cash and Investments	\$ 1,346,232	\$ 574,558	\$ 67,928	\$ 1,988,718
Accounts Receivable	18,022	0	7,128	25,150
Property Taxes Receivable	635,613	493,620	31,945	1,161,178
Due from Minnesota Department of Education	893,182	23,911	9,548	926,641
Due from Federal Through State	210,634	0	0	210,634
Due from Other Minnesota School Districts	105,055	0	0	105,055
Due from Other Governmental Unit	18,551	0	0	18,551
Inventory	0	0	32,082	32,082
Prepaid Items	85,135	0	0	85,135
<b>TOTAL ASSETS</b>	<b><u>\$ 3,312,424</u></b>	<b><u>\$ 1,092,089</u></b>	<b><u>\$ 148,631</u></b>	<b><u>\$ 4,553,144</u></b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>				
<b>Liabilities:</b>				
Salaries and Benefits Payable	\$ 692,832	\$ 0	\$ 37,157	\$ 729,991
Accounts Payable	37,834	0	640	38,474
Due from Other Governments	891	0	0	891
Unearned Revenue	20,701	0	18,832	39,533
Due to Other Minnesota School Districts	21,924	0	0	21,924
Total Liabilities	<u>774,182</u>	<u>0</u>	<u>56,629</u>	<u>830,811</u>
<b>Deferred Inflows of Resources:</b>				
Unavailable Revenue - Delinquent Taxes	20,761	21,631	1,311	43,703
Property Taxes Levied for Subsequent Year	1,084,449	887,184	57,582	2,029,215
Total Deferred Inflows of Resources	<u>1,105,210</u>	<u>908,815</u>	<u>58,893</u>	<u>2,072,918</u>
<b>Fund Balance:</b>				
Nonspendable	85,135	0	32,082	117,217
Restricted	313,451	183,274	2,358	499,083
Unassigned	1,034,446	0	(1,331)	1,033,115
Total Fund Balance	<u>1,433,032</u>	<u>183,274</u>	<u>33,109</u>	<u>1,649,415</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b><u>\$ 3,312,424</u></b>	<b><u>\$ 1,092,089</u></b>	<b><u>\$ 148,631</u></b>	<b><u>\$ 4,553,144</u></b>

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
GOVERNMENTAL FUNDS  
June 30, 2020

Total Fund Balance - Governmental Funds \$ 1,649,415

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of capital assets	22,560,956
Less: Accumulated depreciation	(10,570,618)

Long-term liabilities, including compensated absences and severance benefits payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Bonds payable	(7,630,000)
Unamortized premiums/discounts	(118,735)
Obligations under capital leases	(459,302)
Special assessments payable	(86,010)
Severance benefits payable	(144,038)
Deferred refunding debit	6,676
Compensated absences payable	(8,386)
Unearned revenue	(12,205)

Long-term receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred inflows of resources in the funds.

Delinquent property taxes	83,236
---------------------------	--------

Net pension liabilities and net other post employment benefits (OPEB) liabilities are not recognized under the current financial resources measurement focus and, therefore, has no effect on fund balance

Net pension liability - Teacher's Retirement Association	(3,614,070)
Net pension liability - General Employees Retirement Fund	(995,180)
Net OPEB liability	(818,227)

Deferred inflows and outflows of resources related to net pension and net OPEB liabilities are not recognized under the current financial resources measurement focus and, therefore, has no effect on fund balance

Deferred outflow of resources related to pensions and OPEB	3,656,766
Deferred inflows of resources related to pensions and OPEB	(7,264,991)

Governmental funds do not report a liability for accrued interest payable until due and payable.

(106,840)

Total Net Position - Governmental Activities \$ (3,871,553)

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2020

	General	Debt Service	Nonmajor	Total Governmental Funds
<b>Revenue:</b>				
Local Property Taxes	\$ 1,134,897	\$ 807,044	\$ 53,847	\$ 1,995,788
Other Local and County Revenue	273,143	34	91,475	364,652
Revenue From State Sources	7,178,636	239,293	96,907	7,514,836
Revenue From Federal Sources	229,971	0	266,519	496,490
Sales and Other Conversions of Assets	804	0	179,741	180,545
Total Revenue	<u>8,817,451</u>	<u>1,046,371</u>	<u>688,489</u>	<u>10,552,311</u>
<b>Expenditures:</b>				
Current:				
District and School Administration	421,127	0	0	421,127
District Support Services	447,806	0	0	447,806
Regular Instruction	3,737,865	0	0	3,737,865
Vocational Instruction	170,222	0	0	170,222
Special Education Instruction	1,150,382	0	0	1,150,382
Community Education and Services	0	0	272,799	272,799
Instructional Support Services	138,784	0	0	138,784
Pupil Support Services	680,059	0	471,504	1,151,563
Site, Buildings, and Equipment	826,575	0	0	826,575
Other Fiscal Expenditures	45,037	0	0	45,037
Total Current Expenditures	<u>7,617,857</u>	<u>0</u>	<u>744,303</u>	<u>8,362,160</u>
Capital Outlay:				
General Government	588,555	0	0	588,555
Debt Service:				
Principal	144,621	700,000	0	844,621
Interest	29,060	315,009	0	344,069
Total Expenditures	<u>8,380,093</u>	<u>1,015,009</u>	<u>744,303</u>	<u>10,139,405</u>
Excess of Revenues Over (Under) Expenditures	437,358	31,362	(55,814)	412,906
<b>Other Financing Sources (Uses):</b>				
Issuance of Capital Lease	60,358	0	0	60,358
Sale of Capital Assets	38,000	0	0	38,000
Transfers In	0	0	98,858	98,858
Transfers Out	(98,858)	0	0	(98,858)
Total Other Financing Sources (Uses)	<u>(500)</u>	<u>0</u>	<u>98,858</u>	<u>98,358</u>
Change in Fund Balance	<u>436,858</u>	<u>31,362</u>	<u>43,044</u>	<u>511,264</u>
Fund Balance - Beginning, as Previously Stated	919,773	151,912	(9,935)	1,061,750
Prior Period Adjustment	<u>76,401</u>	<u>0</u>	<u>0</u>	<u>76,401</u>
Fund Balance - Beginning, as Restated	996,174	151,912	(9,935)	1,138,151
Fund Balance - Ending	<u>\$ 1,433,032</u>	<u>\$ 183,274</u>	<u>\$ 33,109</u>	<u>\$ 1,649,415</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2020

Net Change in Fund Balance - Governmental Funds	\$	511,264
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay		601,245
Book value of disposed assets		1,388
Depreciation expense		(783,593)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of discounts, premiums and similar items when the debt is first issued, whereas, these amounts are amortized in the Statement of Activities.</p>		
Principal repayments and capital lease retirement		844,621
Amortization of debt premiums/discounts		41,663
Issuance of capital lease		(60,358)
<p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrued, regardless of when it is due.</p>		
		36,454
<p>Pension and OPEB expense in the Statement of Activities is recognized as the change in net pension and net OPEB liabilities, including the amortization of layered deferred inflows and deferred outflows of resources of the current and prior periods, this does not require the use of current financial resources, and therefore is not reported in the government funds.</p>		
Pension expense		(615,662)
OPEB expense		7,281
<p>Certain revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Delinquent taxes		3,284
Unearned revenue		27,328
<p>Postemployment benefits payable in the Statement of Activities differs from the amount reported in the governmental funds because this benefit is recognized as an expenditure in the funds when due. In the Statement of Activities, postemployment benefits payable is recognized when accrued.</p>		
Compensated absences		253
Severance		3,623
		6,923
Change in Net Position - Governmental Activities	\$	618,791

The Notes to the Financial Statements are an Integral Part of this Statement.



INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual Amount	Over (Under) Budget
<b>Revenue:</b>				
Local Property Taxes	\$ 1,012,508	\$ 1,115,489	\$ 1,134,897	\$ 19,408
Other Local and County Revenue	255,295	333,329	273,143	(60,186)
Revenue From State Sources	6,841,349	6,944,879	7,178,636	233,757
Revenue From Federal Sources	268,280	264,757	229,971	(34,786)
Sales and Other Conversion of Assets	700	600	804	204
Total Revenue	8,378,132	8,659,054	8,817,451	158,397
<b>Expenditures:</b>				
Current:				
District and School Administration	475,877	482,761	421,127	(61,634)
District Support Service	377,900	378,326	447,806	69,480
Regular Instruction	3,967,140	3,808,429	3,737,865	(70,564)
Vocational Instruction	177,265	181,461	170,222	(11,239)
Special Education Instruction	1,358,708	1,229,304	1,150,382	(78,922)
Instructional Support Services	111,617	119,707	138,784	19,077
Pupil Support Services	707,750	734,389	680,059	(54,330)
Sites, Buildings, and Equipment	784,371	895,940	826,575	(69,365)
Other Fiscal Expenditures	45,274	51,650	45,037	(6,613)
Total Current Expenditures	8,005,902	7,881,967	7,617,857	(264,110)
Capital Outlay:				
General Government	192,201	480,192	588,555	108,363
Debt Service:				
Principal	124,363	124,363	144,621	20,258
Interest	25,312	25,312	29,060	3,748
Total Expenditures	8,347,778	8,511,834	8,380,093	(131,741)
Excess of Revenue Over (Under) Expenditures	30,354	147,220	437,358	290,138
<b>Other Financing Sources (Uses):</b>				
Issuance of Capital Lease	0	0	60,358	(60,358)
Sale of Capital Assets	0	25,557	38,000	(38,000)
Transfers Out	0	0	(98,858)	98,858
Total Other Financing Sources (Uses)	0	25,557	(500)	500
Change in Fund Balance	\$ 30,354	\$ 172,777	436,858	\$ 290,638
Fund Balance - Beginning, as Previously Stated			919,773	
Prior Period Adjustment			76,401	
Fund Balance - Beginning, as Restated			996,174	
Fund Balance - Ending			\$ 1,433,032	

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

STATEMENT OF FIDUCIARY NET POSITION  
June 30, 2020

	<u>Private Purpose Trust</u>	<u>Other Post- Employment Benefit Trust</u>
<b>Assets:</b>		
Cash and Investments	\$ 656,711	\$ 0
Cash and Investment held by Trustee	0	210,356
Interest Receivable	5,731	0
Total Assets	<u>\$ 662,442</u>	<u>\$ 210,356</u>
<b>Net Position</b>		
Restricted for Private Purposes/OPEB Beneficiaries	<u>\$ 662,442</u>	<u>\$ 210,356</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
For the Year Ended June 30, 2020

	Private Purpose Trust	Other Post- Employment Benefit Trust
<b>Additions:</b>		
Net Increase (Decrease) in Fair Value of Investments	\$ 0	\$ 3,987
Implicit Subsidy Benefit Contribution	0	97,304
Interest Income	10,248	48
Total Additions	10,248	101,339
<b>Deductions:</b>		
Administrative Expense	0	250
Scholarships	21,948	0
Implicit Subsidy Benefit Payment	0	97,304
Total Deductions	21,948	97,554
<b>Change in Net Position</b>	<b>(11,700)</b>	<b>3,785</b>
Net Position - Beginning (As Previously Stated)	701,326	206,571
Prior Period Adjustment (See Note 11)	(27,184)	0
Net Position - Beginning (As Restated)	674,142	206,571
Net Position - Ending	\$ 662,442	\$ 210,356

The Notes to the Financial Statements are an Integral Part of this Statement.

## NOTES TO BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**A. Organization**

Independent School District No. 314 (the District) is an instrumentality of the state of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**B. Reporting Entity**

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

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

**C. Government-Wide Financial Statement Presentation**

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position at the fund financial statement level. Generally, the effect of material interfund activity has been removed from the government-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 and an allocation of indirect administrative and support service expenses. 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. Other internally directed revenues are reported as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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. Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

The Fiduciary Funds are presented in the fiduciary fund financial statements by type (custodial and trust funds). Since, by definition, these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. Fund Financial Statement Presentation**

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust, private-purpose trust, and custodial funds. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

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

**1. Revenue Recognition**

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

**2. Recording of Expenditures**

Expenditures are generally recorded when a liability is incurred, except for long-term debt, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in the governmental funds. In the General Fund, capital expenditures are included within the applicable functional areas.

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

**Description of Funds**

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

**Major Governmental Funds**

**General Fund** – The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The District maintains separate accounts within the General Fund for secondary education, secondary resale activities, special education, special education resale activities, district support services, capital expenditures, and costs to be reimbursed by others.

**Debt Service Fund** – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation debt principal, interest, and related costs. The regular debt service account is used for all general obligation debt service except for the financial activities of the other post-employment benefits (OPEB) debt service account. The OPEB debt service account is used for the 2018B taxable refunding OPEB bond issue.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Nonmajor Governmental Funds**

**Food Service Special Revenue Fund** – The Food Service Special Revenue Fund is primarily used to account for the District's child nutrition program.

**Community Service Fund** – This Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs or other similar services. Community Service revenues are restricted for use in those activities permitted by state statute.

**Fiduciary Funds**

**Private-Purpose Trust Fund** – The Private-Purpose Trust Fund is used to account for resources held in trust to be used by various third parties to award scholarships to former students.

**Post-Employment Benefits Trust Fund** – The Post-Employment Benefits Trust Fund is used to administer resources received and held by the District as the trustee for others. The Post-Employment Benefits Trust Fund includes assets held in trust to fund post-employment benefits of eligible employees.

**E. Budgetary Information**

Each June, the School Board adopts an annual budget for the following fiscal year for all governmental funds. The budget for each fund is prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. During the fiscal year ended June 30, 2020, no fund had expenditures in excess of appropriations.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by Board action. Revisions to budgeted amounts must be approved by the Board.

Total fund expenditures in excess of the budget require approval of the Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

At the end of each fiscal year, if the General Fund has a net unassigned deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota school districts which excludes certain restricted balances specified in Minnesota Statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of the Department of Education.

**F. Cash and Investments**

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

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. In the Post-Employment Benefits Trust Fund, this represents assets contributed to an irrevocable trust established to finance the District's liability for post-employment insurance benefits. Interest earned on these investments is allocated directly to these accounts.

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

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

**Level 1** – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

**Level 2** – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

**Level 3** – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the District's recurring fair value measurements as of June 30, 2020.

**G. Receivables**

All receivables are shown net of any allowance for uncollectible accounts to value its receivables. However, the District considers all its current receivables to be collectible. The only receivables not expected to be fully collected within one year are property taxes receivable.

**H. Inventories**

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

**I. Prepaid Items**

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



INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**J. Property Taxes**

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

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes \$71,271 of the property tax levy collectible in 2020 as revenue to the District in fiscal year 2019-2020. The remaining portion of the taxes collectible in 2020 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

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

Taxes, 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 reported as a deferred inflow of resources (unavailable revenue) in the fund financial statements because it is not known to be available to finance the operations of the District. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year beginning July 1, 2020, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

**K. Capital Assets**

Capital assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$5,000 for equipment and vehicles and \$25,000 for building and improvements and an estimated useful life in excess of two years. 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 government-wide financial statement but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 20 years for equipment.

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 part of the cost of buildings or other improvable property.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**L. Long-Term Obligations**

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

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

**M. Compensated Absences**

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

**N. Severance**

The District provides lump sum severance benefits to eligible employees in accordance with provisions in certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. Severance benefits are calculated by converting a portion of an eligible employee's unused accumulated sick leave. No individual can receive severance benefits in excess of one year's salary.

Severance benefits payable are recorded as a liability in the government-wide financial statements as they are earned and it becomes probable they will vest at some point in the future. Severance benefits payable are accrued in the governmental fund financial statements as the liability matures due to employee termination.

**O. Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the ISD #314 Retiree Benefits Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost. Postemployment healthcare expenditures have been funded through a contribution to an irrevocable trust and are being funded through a pay as you go method under which contributions to the plan are generally made at the same time and amount as retiree benefits and expenses become due.

**P. State-Wide Pension Plans**

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

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

**Q. Deferred Inflows/Outflows of Resources**

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred outflows of resources related to pensions reported in the government-wide Statement of Net Position. This deferred outflow results from differences between expected and actual experience, changes of assumptions, differences between projected and actual earnings on pension plan investments, and from contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

In addition to liabilities, statements of financial position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items which qualify for reporting in this category.

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

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

The third item, deferred inflows of resources related to pensions, is reported in the government-wide Statement of Net Position. This deferred inflow results from differences between expected and actual experience, changes of assumptions, and differences between projected and actual earnings on pension plan investments. These amounts are deferred and amortized as required under pension standards.

**R. Net Position**

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

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

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

**S. Fund Balance Classifications**

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

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

When both restricted and unrestricted resources are available for use, it is the District’s policy to first use restricted resources, then use unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use, it is the District’s policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

**T. Risk Management**

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

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

**U. Use of Estimates**

The preparation of financial statement 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. Estimates also affect the reported amounts of revenue and expenditures/expense during the reporting period. Actual results could differ from those estimates.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**V. Summarized Comparative Data**

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2019, from which the summarized information was derived.

Note 2 DEPOSITS AND INVESTMENTS

**A. Deposits**

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

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

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

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes:

- Treasury bills, notes, and bonds;
- Issues of U.S. government agencies;
- General obligations rated "A" or better; revenue obligations rated "AA" or better;
- Irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit.

Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The District's deposit policies do not further limit depository choices.

At year-end, the carrying amount of the District's deposits was \$1,988,718, while the balance on the bank records was \$2,649,170. On June 30, 2020, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District's agent in the District's name.

**B. Investments**

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

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

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 2 DEPOSITS AND INVESTMENTS (Continued)

**Credit Risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District’s investments to the following:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better;
- General obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System;
- Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories;
- Repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers.

For assets held in the Post-Employment Benefits Trust Fund, the investment options available to the District are expanded to include the investment types specified in Minnesota Statute § 356A.06, Subd. 7. The District’s investment policies do not further restrict investing in specific financial instruments.

**Concentration Risk** – This is the risk associated with investing a significant portion of the District’s investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District’s investment policies do not address concentration risk. On June 30, 2020, the District’s investment portfolio includes the following percentages of specific issuers:

Negotiable certificates of deposit:

Community Bank	9.6%
----------------	------

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

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 2 DEPOSITS AND INVESTMENTS (Continued)

The following table presents the District's deposits and investments at year-end:

Deposit/Investments	Credit Risk		Fair Value	Interest Risk -		Total
	Rating	Agency	Measurements Using	Maturity Less Than 1	Duration in Years 1 to 5	
Negotiable certificates of deposit	N/R	N/R	Level 1	\$ 207,354	\$ -	\$ 207,354
Investment pools/mutual funds						
Minnesota School District						
Liquid Asset Fund	AAAm	S&P	NAV	N/A	N/A	1,869,737
MNTrust Investment Shares Portfolio	AAAm	S&P	Level 1	N/A	N/A	3,002
Total investments						<u>2,080,093</u>
Deposits						<u>775,692</u>
<b>Total deposits and investments</b>						<b><u>\$ 2,855,785</u></b>

NAV - Investments measured at the net asset value

N/A - Not applicable

N/R - Not rated

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

Statement of Net Position:

Cash and investments \$ 1,988,718

Statement of Fiduciary Net Position:

Cash and investments - Private Purpose Trust Fund 656,711

Cash and investments - Post-Employment Benefits Trust Fund 210,356

**Total deposits and investments** **\$ 2,855,785**

The Minnesota School District Liquid Asset Fund (MSDLAF) and the MNTrust Investment Shares Portfolio are regulated by Minnesota Statutes and are external investment pools not registered with the Securities Exchange Commission (SEC). The District's investment in the MSDLAF is measured at the net asset value (NAV) per share provided by the pool, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The NAV method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the investments. For MSDLAF investments valued at the NAV, there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice for the Liquid Class; the redemption notice period is 14 days for the MAX Class.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 3 CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 310,600	\$ -	\$ -	\$ 310,600
Construction in process	82,755	-	(82,755)	-
<b>Total capital assets not being depreciated</b>	<u>393,355</u>	<u>-</u>	<u>(82,755)</u>	<u>310,600</u>
Capital assets being depreciated				
Land improvements	7,027,592	3,856	-	7,031,448
Buildings	12,897,473	456,522	-	13,353,995
Machinery and equipment	1,656,960	231,062	(23,108)	1,864,914
<b>Total capital assets being depreciated</b>	<u>21,582,024</u>	<u>691,440</u>	<u>(23,108)</u>	<u>22,250,356</u>
Less accumulated depreciation for				
Land improvements	(2,047,036)	(344,091)	-	(2,391,127)
Buildings	(6,587,598)	(356,145)	-	(6,943,743)
Machinery and equipment	(1,169,447)	(83,357)	17,056	(1,235,748)
<b>Total accumulated depreciation</b>	<u>(9,804,081)</u>	<u>(783,593)</u>	<u>17,056</u>	<u>(10,570,618)</u>
<b>Total capital assets being depreciated, net</b>	<u>11,777,943</u>	<u>(92,153)</u>	<u>(88,807)</u>	<u>11,679,738</u>
<b>Capital assets, net</b>	<u><b>\$12,171,298</b></u>	<u><b>\$ (92,153)</b></u>	<u><b>\$ (88,807)</b></u>	<u><b>\$11,990,338</b></u>

Depreciation expense was charged to the following governmental functions:

Administration	\$ 2,557
District support	1,355
Regular instruction	38,013
Vocational support	1,788
Special Education	1,041
Community education	251
Instructional support	-
Pupil support	12,030
Site, buildings and equipment	397,110
Unallocated	329,448
<b>Total depreciation expense</b>	<u><b>\$ 783,593</b></u>



INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 4 LONG-TERM LIABILITIES

**A. Components of Long-Term Liabilities**

The District currently has the following long-term obligations outstanding:

Issue	Issue Date	Interest Rate	Face/ Par Value	Final Maturity	Principal Outstanding
General obligation bonds					
2015 School building	7/23/2015	2.25-3.50%	\$ 4,950,000	2/1/2036	\$ 4,950,000
2018A Facilities Refunding Bonds	11/7/2018	4.00	2,595,000	2/1/2024	2,010,000
2018A GO Taxable Refunding OPEB Bonds	11/7/2018	3.00-3.55	785,000	2/1/2025	<u>670,000</u>
Total general obligation bonds payable					7,630,000
Unamortized premium/discount					118,735
Special assessments payable					86,010
Capital leases payable					459,302
Net pension liability - Teacher's Retirement Association					3,614,070
Net pension liability - General Employees Retirement Fund					995,180
Net OPEB liability					818,227
Severance benefits payable					144,038
Compensated absences payable					<u>8,386</u>
<b>Total long-term obligations</b>					<b><u>\$ 13,873,948</u></b>

**B. Descriptions of Long-Term Liabilities**

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

**Capital Leases Payable** – The District has purchased various assets through capitalized lease-purchase agreements. Annual principal and interest on these leases will be paid from the General Fund.

Asset Leased	Asset Value Capitalized	Interest Rate	Lease Date	Final Maturity	Principal Outstanding
Sun Trust Equipment Lease	\$ 1,020,126	5.20%	2/12/2009	2/15/2025	\$ 411,647
American Capital Lease	60,358	4.80%	8/1/2019	8/1/2020	39,263
First Western Bank and Trust	<u>14,008</u>	4.90%	10/17/2018	10/17/2022	<u>8,392</u>
<b>\$ 1,094,492</b>					<b><u>\$ 459,302</u></b>

Amortization of assets capitalized through these lease agreements is included in depreciation expense in the government-wide financial statements. The amount charged to depreciation for the year ended June 30, 2020 was \$81,534.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 4 LONG-TERM LIABILITIES (Continued)

The assets acquired through these capital leases are reported as follows:

Asset	Amount
Building Improvements	\$ 1,020,126
Equipment	153,015
Less accumulated depreciation	(512,202)
<b>Total</b>	<b>\$ 660,939</b>

**Net Pension Liability – PERA and TRA** – The District offers a number of benefits to its employees, including pensions. The details of these benefit liabilities are discussed elsewhere in these notes. The amounts reported as long-term debt represent the District’s proportionate share of the obligations of their respective plans. Such benefits are financed primarily from the General Fund and special revenue funds.

**Severance Benefits Payable** – Severance benefits payable consist of early retirement incentive pay or convertible sick leave benefits payable to employees upon retirement. Severance benefits are paid by the General Fund and special revenue funds. Annual payments to retire the severance benefits liability have not been determined and will depend on actual employee turnover.

**Severance Pay Non-Certified Staff** – Severance pay shall be paid to all employees who have provided 20 years of uninterrupted service to the District. Payment shall be at 50% of unused sick leave at the hourly rate in effect the year prior to the year of severance. Payment shall be in two equal installments with the first payment made in January immediately following the date of severance.

**Severance Pay Certified Staff** – Certified District employees are not eligible for severance benefits.

**Compensated Absences Payable** – Under the terms of union contracts, certain employees accrue vacation at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation and related benefits upon termination. Compensated absence benefits are paid by the General Fund and special revenue funds. Annual payments to retire this liability have not been determined and will depend on actual employee utilization and turnover.

**Special Assessment Payable** – The City of Braham completed a street reconstruction project and has levied special assessments to the District of \$137,374, payable over 11 years. Annual payments are \$16,601 with the final payment due in 2027. As of June 30, 2020 the remaining principal balance of the special assessment was \$86,010.

**Non-exchange financial guaranteed obligations** - The District has non-exchange financial guaranteed obligations outstanding during the year on its general obligation bonds. The state of Minnesota through their department of education (MDE) has guaranteed to make all required payments that the District is unable to make. The District is required to repay MDE with interest for any payments MDE makes pursuant to the guarantees. As of June 30, 2020, the District has made all required debt service payments on the guaranteed debt. On June 30, 2020, the outstanding principal amount of the guaranteed debt was \$7,630,000.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 4 LONG-TERM LIABILITIES (Continued)

**C. Changes in Long-Term Liabilities**

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 8,330,000	\$ -	\$ (700,000)	\$ 7,630,000	\$ 760,000
Discount/Premium	162,623	-	(43,888)	118,735	-
Total bonds payable	<u>8,492,623</u>	<u>-</u>	<u>(743,888)</u>	<u>7,748,735</u>	<u>760,000</u>
Capital leases payable	523,306	60,358	(124,362)	459,302	100,172
Special assessments payable	106,269	-	(20,259)	86,010	12,201
Severance benefits payable	147,662	-	(3,624)	144,038	-
Compensated absences payable	8,639	23,777	(24,030)	8,386	8,386
Net OPEB liability	831,915	96,080	(109,768)	818,227	-
Net pension liability - TRA	3,705,752	1,457,726	(1,549,408)	3,614,070	-
Net pension liability - GERP	1,070,685	468,759	(544,264)	995,180	-
<b>Total long-term liabilities</b>	<b><u>\$ 14,886,851</u></b>	<b><u>\$ 2,106,700</u></b>	<b><u>\$ (3,119,603)</u></b>	<b><u>\$ 13,873,948</u></b>	<b><u>\$ 880,759</u></b>

**D. Minimum Debt Payments**

Minimum annual principal and interest to maturity for general obligation bonds and other long-term debt outstanding as follows:

Year Ending June 30	General Obligation Bonds			Capital Leases		
	Principal	Interest	Total	Principal	Interest	Total
2021	\$ 760,000	\$ 256,415	\$ 1,016,415	\$ 100,172	\$ 22,239	\$ 122,411
2022	785,000	227,078	1,012,078	105,533	26,003	131,536
2023	810,000	196,588	1,006,588	90,071	11,494	101,565
2024	180,000	164,998	344,998	91,629	6,736	98,365
2025	365,000	158,473	523,473	71,896	1,877	73,773
2026-2030	1,675,000	664,426	2,339,426	-	-	-
2031-2035	2,110,000	380,127	2,490,127	-	-	-
2036-2037	945,000	49,875	994,875	-	-	-
<b>Total</b>	<b><u>\$ 7,630,000</u></b>	<b><u>\$ 2,097,980</u></b>	<b><u>\$ 9,727,980</u></b>	<b><u>\$ 459,302</u></b>	<b><u>\$ 68,349</u></b>	<b><u>\$ 527,650</u></b>

Year Ending June 30	Special Assessments Payable		
	Principal	Interest	Total
2021	\$ 12,201	\$ 3,005	\$ 15,206
2022	12,644	2,561	15,205
2023	13,103	2,102	15,205
2024	13,579	1,626	15,205
2025	14,072	1,133	15,205
2026-2027	20,411	735	21,146
<b>Total</b>	<b><u>\$ 86,010</u></b>	<b><u>\$ 11,162</u></b>	<b><u>\$ 97,172</u></b>

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 5 FUND BALANCES

The Uniform Financial Accounting and Reporting Standards (UFARS) fund balance reporting standards are slightly different than the reporting standards under GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Below is a reconciliation between the fund balances following GASB standards and UFARS reporting standards:

A. **Classifications**

	GASB Balance	Reconciling Transfer	UFARS Balance
Nonspendable:			
Inventory	\$ 32,082	\$ -	\$ 32,082
Prepaid items	85,135	-	85,135
Total nonspendable	117,217	-	117,217
Restricted:			
Extra curricular	60,096	-	60,096
Scholarships	41,313	-	41,313
Staff development	13,524	-	13,524
Operating capital	432	-	432
Safe school	21,943	-	21,943
Long-term facilities maintenance	60,000	-	60,000
Medical assistance	116,143	-	116,143
Food service	-	(1,331)	(1,331)
Community education	12,296	-	12,296
ECFE	(68,685)	-	(68,685)
School readiness	50,101	-	50,101
Community education programs	8,646	-	8,646
Debt service	183,274	-	183,274
Total restricted	499,083	(1,331)	497,752
Unassigned	1,033,115	1,331	1,034,446
<b>Total fund balance</b>	<b>\$ 1,649,415</b>	<b>\$ -</b>	<b>\$ 1,649,415</b>

B. **Minimum Unassigned Fund Balance Policy**

The School Board has formally adopted a fund balance policy regarding the minimum unassigned fund balance for the General Fund. The policy establishes a minimum unassigned General Fund balance of not less than 10% or more than 30% of the annual budget. On June 30, 2020, the unassigned fund balance (excluding restricted account deficits) was 12.85 percent of fiscal 2020 budgeted expenditures.

C. **Deficit Fund Equity**

As of June 30, 2020, the Food Service Fund had a deficit fund equity of \$1,331. The fund deficit will be eliminated with future receipts.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 6 DEFINED BENEFIT PENSION PLANS – STATEWIDE

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

**A. Plan Descriptions**

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

**1. General Employees Retirement Fund (GERF)**

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

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

**2. Teachers Retirement Association (TRA)**

The 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 employed by St. Paul schools or Minnesota State Colleges and Universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through the Define Contribution Plan (DCR) administered by the State of Minnesota.

**B. Benefits Provided**

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

- PERA – Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.
- TRA – Post-retirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.2 percent. After the TRA funded ratio exceeds 90.0 percent for two consecutive years, the annual post-retirement benefit will increase to 2.7 percent.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

**1. GERF Benefits**

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% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. 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.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

**2. TRA Benefits**

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

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

**Tier I Benefits**

Tier I	Step Rate Formula	Percentage
Basic	First 10 years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First 10 years if service years are up to July 1, 2006	1.2% per year
	First 10 years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are up to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% 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) Three percent per year early retirement reduction factor for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

**Tier II Benefits**

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

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

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

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

**C. Contributions**

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

**1. GERF Contributions**

Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in fiscal year 2020. The District was required to contribute 7.50% for Coordinated Plan members in fiscal year 2020. The District's contributions to the GERF for the year ended June 30, 2020, were \$97,221. The District contributions were equal to the required contributions as set by state statute.

**2. TRA Contributions**

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

	Year Ended June 30,			
	2019		2020	
	Employee	Employer	Employee	Employer
Basic Plan	11.0%	11.92%	11.0%	12.13%
Coordinated Plan	7.50%	7.92%	7.50%	8.13%

The District's contributions to the TRA for the year ended June 30, 2020 were \$269,031. The District's contributions were equal to the required contributions for each year as set by state statutes.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

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

Employer contributions reported in the TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 403,300,000
Add (deduct) employer contributions not related to future contribution efforts	(688,000)
Deduct the TRA's contributions not included in allocation	<u>(486,000)</u>
Total employer contributions	402,126,000
Total non-employer contributions	<u>35,588,000</u>
Total contributions reported in Schedule of Employer and Non-Employer Pension Allocations	<u><u>\$ 437,714,000</u></u>

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

**D. Pension Costs**

**1. GERF Pension Costs**

On June 30, 2020, the District reported a liability of \$995,180 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$30,999. 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 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. On June 30, 2019, the District's proportion was 0.018% which was a decrease of .0013% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the District recognized pension expense of \$35,426 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional \$2,322 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.

Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of a 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.



INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 27,258	\$ 1,398
Differences between projected and actual investment earnings	53,159	189,384
Changes in actuarial assumptions	(4,611)	88,232
Changes in proportion	10	109,789
District's contributions subsequent to the measurement date	95,221	-
Total	<u>\$ 171,037</u>	<u>\$ 388,803</u>

A total of \$95,221 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERF 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 the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2021	\$ (146,882)
2022	(119,267)
2023	(48,412)
2024	1,603
2025	-
Thereafter	-

**2. TRA Pension Costs**

On June 30, 2020, the District reported a liability of \$3,614,070 for its proportionate share of TRA's 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. On June 30, 2019, the District's proportionate share was 0.0567%, which was a decrease of 0.0023% from its proportionate share measured as of June 30, 2018.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

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:

Description	Amount
District's proportionate share of net pension liability	\$ 3,614,070
State's proportionate share of the net pension liability associated with the District	319,742

For the year ended June 30, 2020, the District recognized pension expense of \$651,088. It also recognized \$24,304 as pension expense for the support provided by direct aid.

On 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:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ (50,317)	\$ 98,964
Differences between projected and actual investment earnings	183,741	614,910
Changes in actuarial assumptions	2,912,792	5,323,952
Changes in proportion	-	825,075
District's contributions subsequent to the measurement date	269,031	-
Total	\$ 3,315,247	\$ 6,862,901

A total of \$269,031 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2021	\$ (246,575)
2022	(429,038)
2023	(1,882,416)
2024	(1,215,619)
2025	(43,065)
Thereafter	-

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.50% per year	2.50% per year
Active member payroll growth	3.25% after 26 years of service	2.85% to 8.85% for 10 years and 3.25 to 9.25%, thereafter
Investment rate of return	7.50%	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed 1.0% per year for all future years for the General Employees Plan. Cost of living benefit increases for retirees are assumed 2.0% per year for all future years for the TRA.

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 and TRA 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 for General Employee Retirement Fund occurred in 2019:

- The mortality projection scale was changed from MP-2017 to MP-2018.
- 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 following changes in actuarial assumptions for Teacher's Retirement Association occurred in 2019:

- None

The long-term expected rate of return on pension plan investments is 7.50% for GERF and 7.50% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

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

Asset Class	GERF		TRA	
	Target Allocation	Long-Term Expected Rate of Return	Target Allocation	Long-Term Expected Rate of Return
Domestic stocks	36%	5.10%	36%	5.10%
International stocks	17%	6.30%	17%	5.30%
Bonds	20%	75.00%	25%	5.90%
Fixed income	0%	0.00%	20%	0.75%
Alternative assets	25%	5.90%	0%	0.50%
Cash	2%	0.00%	2%	0.00%
Total	100%		100%	

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2019 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund and the Police and Fire 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.

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

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

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

Description	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	\$ 1,636,022	\$ 995,180	\$ 466,037
TRA discount rate	6.50%	7.50%	8.50%
District's proportionate share of the TRA net pension liability	\$ 5,761,711	\$ 3,614,070	\$ 1,843,371

**H. Pension Plan Fiduciary Net Position**

Detailed information about GERF's fiduciary's net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

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](http://www.MinnesotaTRA.org); by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-2409 or 1-800-652-9026.

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

**A. Plan Description**

The District provides post-employment benefits to certain eligible employees through its OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements.

The assets of the plan are reported in the District's financial report in the Other Post-Employment Benefits Trust Fund, administered by the District. Plan assets may be used only for the payment of benefits of the plan, in accordance with the terms of the plan. The plan does not issue a publicly available financial report.

**B. Benefits Provided**

Eligible participants and their dependents are allowed access to the health plans. Participants meeting additional requirements are eligible for a direct subsidy of the premium paid by the District as described in below.

All retirees of the District have the option under state law to continue their medical insurance coverage through the District from the time of retirement. For members of certain employee groups, the District pays for all or part of the eligible retiree's premiums for medical insurance from the time of retirement until the employee reaches the age of eligibility for Medicare or a limited number of years depending on contractual language.

Benefits paid by the District differ by bargaining unit and date of hire, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these district-paid premium benefits must pay the full district premium rate for their coverage.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

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

**C. Contributions**

Postemployment healthcare expenditures are being funded through a contribution to an irrevocable trust and are being funded through a pay as you go method under which contributions to the plan are generally made at the same time and amount as retiree benefits and expenses become due.

The implicit subsidy is provided to all retirees and dependents who elect non-Medicare medical coverage, provided the retiree has satisfied the applicable pension plan requirements and is eligible. The implicit subsidy is the difference between the actual and apparent cost of OPEB coverage. The actual cost for early retirees is usually higher than the average per person premium for the active/retiree group. Plans in which retirees pay the average active/retiree rate (the apparent cost) give rise to an implicit rate subsidy: the employer pays the difference between the actual and apparent cost.

The direct subsidies (i.e., fringe benefit amounts) amounts increased 0% from 2016 to 2017 and 2.44% from 2017 to 2018. The fringe benefit amount is assumed to increase 3% annually after 2018.

**D. Membership**

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

Active employees electing coverage	76
Active employees waiving coverage	18
Retirees electing coverage	<u>12</u>
Total	<u><u>106</u></u>

**E. Net OPEB Liability**

The components of the District’s Net OPEB liability on June 30, 2020, were as follows:

Total OPEB liability	\$ 1,028,583
Plan fiduciary net position	<u>(210,356)</u>
 District's Net OPEB liability	 <u><u>\$ 818,227</u></u>
 Plan fiduciary net position as a percentage of total OPEB liability	  20.45%

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

**F. Actuarial Assumptions**

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25 percent
Salary increases	3.50 percent, average, including inflation
Investment rate of return	2.50 percent
Healthcare cost trend rates	6.90 percent for FY2019, gradually decreasing over several decades to an ultimate rate of 4.00% in FY2076 and later years.

Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments.

The actuarial assumptions used in the June 30, 2020 valuation were based on the results of an actuarial experience study for the period July 1, 2005–April 30, 2017.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if available) and by adding expected inflation (2.25%). All results are then rounded to the nearest quarter percentage point.

The best estimates of expected future asset class returns were published in the 2017 Survey of Capital Market Assumptions produced by Horizon Actuarial Services. These expected returns, along with expected asset class standard deviations and correlation coefficients, are based on Horizon's annual survey of investment advisory firms. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market data.

The following changes in actuarial assumptions for OPEB occurred in 2020:

- The discount rate was lowered from 3.03% to 2.50%
- Long-term expected rate of return on OPEB plan assets increased from 2.50% to 2.75%
- Index rate for 20-year, tax-exempt municipal bonds decreased from 3.13% to 2.45%
- The medical trend rates were updated to exclude the Affordable Care Act's Excise Tax on high-cost health insurance plan due to its repeal.
- The fringe benefits for Teachers in 2019 and 2020 were updated from \$8,714 and \$8,914 to \$8,415 and \$8,665, respectively.

**G. Rate of Return**

For the current year ended, the annual money-weighted rate of return on investments, net of investment expense, was 2.50 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Best-estimates of geometric real and nominal rates of return for each major asset class included in the OPEB plan's asset allocation as of the measurement date are summarized in the following table:

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

Asset Class	Allocation at Measurement Date	Long-Term Expected Real Rate of Return	Long-Term Expected Nominal Rate of Return
Domestic equity	0%	3.82%	6.07%
International equity	0%	4.62%	6.87%
Fixed income	0%	1.37%	3.62%
Real estate and alternative	0%	3.58%	5.83%
Cash and equivalents	100%	45.00%	2.70%
Total	<u>100%</u>		2.71%
Reduction for assumed investment expense			0.00%
Reduction for short-term adverse deviation			0.00%
Net assumed investment return			<u>2.50%</u>

**H. Discount rate**

The discount rate used to measure the total OPEB liability was 2.50 percent. The projection of cash flows and OPEB trust assets used to determine the discount rate were based on recent employer contribution history and their stated funding policy (if any). The OPEB trust's long-term assumed investment return was used to discount projected benefit payments for as long as projected trust assets are available to fund OPEB payments. Once projected trust assets are exhausted, any remaining benefit payments after the trust fund is exhausted are discounted at the 20-year municipal bond rate. The equivalent single rate is the discount rate. The contribution and benefit payment history, as well as the funding policy have also been taken into account. The District discount rate used in the prior measurement date was 3.03 percent.



INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

**I. Changes in the Net OPEB Liability**

The following table presents the changes in net pension liability during the year:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
<b>Balance at Previous Fiscal Year 6/30/2019</b>	\$ 1,038,486	\$ 206,571	\$ 831,915
<b>Changes for the year:</b>			
Service cost	43,929	-	43,929
Interest	31,323	-	31,323
Differences between expected and actual experience	-	-	-
Changes of assumptions	20,578	-	20,578
Changes of benefit terms	(8,429)	-	(8,429)
Employer contributions	-	97,304	(97,304)
Net investment incomes	-	4,035	(4,035)
Other additions (e.g. receivables)	-	-	-
Benefit payments, including member contribution refunds	(97,304)	(97,304)	-
Administrative expense	-	(250)	250
Other deductions (e.g. payables)	-	-	-
<b>Net changes</b>	<b>(9,903)</b>	<b>3,785</b>	<b>(13,688)</b>
<b>Balance at Current Fiscal Year 6/30/2020</b>	<b>\$ 1,028,583</b>	<b>\$ 210,356</b>	<b>\$ 818,227</b>

**J. Sensitivity of the Net OPEB Liability to changes in the discount rate and healthcare cost trend rates**

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.03 percent) or 1-percentage-point higher (4.03 percent) than the current discount rate:

Description	Changes in the Discount Rate		
	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
OPEB discount rate	1.50%	2.50%	3.50%
District's Net OPEB liability	\$ 877,178	\$ 818,227	\$ 760,350

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

The following presents the net OPEB liability of the District, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.90 percent decreasing to 4.00 percent) or 1-percentage-point higher (7.90 percent decreasing to 4.00 percent) than the current healthcare cost trend rates:

Changes in Trend Rates		
1 percent decrease in rate	Current Trend Rate	1 percent increase in rate
\$ 715,151	\$ 818,227	\$ 940,160

**K. OPEB expense and deferred outflows and deferred inflows of resources related to OPEB**

For the year ended June 30, 2020, the District recognized OPEB revenue of \$7,281. On June 30, 2020, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 88,301	\$ -
Differences between projected and actual investment earnings	6,023	-
Changes in actuarial assumptions	76,158	13,287
Total	\$ 170,482	\$ 13,287

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

Year Ending June 30,	OPEB Expense Amount
2021	\$ 28,111
2022	25,972
2023	25,927
2024	28,029
2025	28,091
Thereafter	21,065

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 8 COMMITMENTS AND CONTINGENCIES

**A. Federal and State Programs**

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

**B. Contingencies**

The District has the usual and customary types of legal claims pending at year-end, mostly of a minor nature and usually covered by insurance carried for that purpose. The District's management believes that the District will not incur any material liabilities relating to these claims, and none have been accrued at year-end.

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

Note 9 JOINT VENTURE

Pursuant to an agreement authorized by state statutes, the District joined with six other Districts to establish the Rum River Special Education Cooperative (RRSEC), an entity through which the member District's may jointly and cooperatively share services that no one District could efficiently provide. One member of the School Board of each member District serves on the governing Board of the RRSEC. The operating and capital budget are charged to member Districts based on the annual assessment manual which allocates costs based on enrollment and program usage. RRSEC is an agency of seven-member school districts that have joined to provide services to students ages B-21, identified as having a disability. The RRSEC also provides resources and staff development to school staff, administrators and parents/guardians. This technical assistance helps support districts in their efforts to provide appropriate services to all children with disabilities that might otherwise be difficult for an individual school district to provide. For the year ended June 30, 2020, the cost of services provided to the District by RRSEC was \$124,605. RRSEC is separately audited from the District's complete financial statements can be obtained by contacting the RRSEC business office, Rum River Special Education Cooperative District 6079, 140 Buchanan Street North, Suite 150 Cambridge, MN 55008.

Note 10 INTERFUND BALANCES AND OPERATING TRANSFERS

Interfund transfers for the year ended June 30, 2020, consisted of the following:

<u>Transferred From</u>	<u>Transferred To</u>	
	<u>Community Service Fund</u>	<u>Total</u>
General Fund	\$ 98,858	\$ 98,858
Total	<u>\$ 98,858</u>	<u>\$ 98,858</u>

Transfers from the General fund to the Community Service fund was to clear up deficit fund balance.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2020

Note 11 CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2020, the District implemented GASB 84, *Fiduciary Activities*, which established standards of accounting and financial reporting for fiduciary activities to enhance the consistency and comparability of fiduciary activity reporting by state and local governments. The effect of this change in accounting principle resulted in an adjustment to the beginning net position on the statement of activities and the schedule of revenues, expenditures and changes in fund balance – general fund of \$76,401 to record fiduciary activities in accordance with GASB 84.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PUBLIC EMPLOYEE RETIREMENT ASSOCIATION  
Year Ended June 30, 2020

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District	Total	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2020	6/30/2019	0.0000%	\$ 995,180	\$ 30,999	\$ 1,026,179	\$ 1,373,651	74.7%	80.2%
6/30/2019	6/30/2018	0.0193%	\$ 1,070,685	\$ 35,238	\$ 1,105,923	\$ 1,273,458	86.8%	79.5%
6/30/2018	6/30/2017	0.0193%	\$ 1,232,099	\$ 15,492	\$ 1,247,591	\$ 1,296,998	96.2%	75.9%
6/30/2017	6/30/2016	0.0225%	\$ 1,826,888	\$ 23,866	\$ 1,850,754	\$ 1,394,880	132.7%	68.9%
6/30/2016	6/30/2015	0.0236%	\$ 1,223,074	\$ -	\$ 1,223,074	\$ 1,365,960	89.5%	78.2%
6/30/2015	6/30/2014	0.0246%	\$ 1,155,585	\$ -	\$ 1,155,585	\$ 1,398,206	82.6%	78.7%

SCHEDULE OF DISTRICT'S CONTRIBUTIONS  
PUBLIC EMPLOYEE RETIREMENT ASSOCIATION  
Year Ended June 30, 2020

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/2020	6/30/2019	\$ 95,510	\$ 95,510	\$ -	\$ 1,273,467	7.50%
6/30/2019	6/30/2018	\$ 97,463	\$ 97,463	\$ -	\$ 1,299,507	7.50%
6/30/2018	6/30/2017	\$ 93,248	\$ 93,248	\$ -	\$ 1,243,307	7.50%
6/30/2017	6/30/2016	\$ 104,616	\$ 104,616	\$ -	\$ 1,394,880	7.50%
6/30/2016	6/30/2015	\$ 102,447	\$ 102,447	\$ -	\$ 1,365,960	7.50%
6/30/2015	6/30/2014	\$ 93,471	\$ 93,471	\$ -	\$ 1,246,280	7.50%

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY  
TEACHERS RETIREMENT ASSOCIATION  
Year Ended June 30, 2020

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District	Total	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2020	6/30/2019	0.0567%	\$ 3,614,070	\$ 319,742	\$ 3,933,812	\$ 3,853,527	102.1%	78.2%
6/30/2019	6/30/2018	0.0590%	\$ 3,705,752	\$ 347,934	\$ 4,053,686	\$ 3,228,277	125.6%	78.1%
6/30/2018	6/30/2017	0.0629%	\$ 12,555,981	\$ 1,214,092	\$ 13,770,073	\$ 3,245,298	424.3%	51.6%
6/30/2017	6/30/2016	0.0698%	\$ 16,648,965	\$ 1,670,989	\$ 18,319,954	\$ 3,629,867	504.7%	44.9%
6/30/2016	6/30/2015	0.0706%	\$ 4,367,308	\$ 535,964	\$ 4,903,272	\$ 3,581,147	136.9%	76.8%
6/30/2015	6/30/2014	0.0787%	\$ 3,626,439	\$ 255,005	\$ 3,881,444	\$ 3,666,125	105.9%	81.5%

SCHEDULE OF DISTRICT'S CONTRIBUTIONS  
TEACHERS RETIREMENT ASSOCIATION  
Year Ended June 30, 2020

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/2020	6/30/2019	\$ 248,165	\$ 248,165	\$ -	\$ 3,308,867	7.50%
6/30/2019	6/30/2018	\$ 244,638	\$ 244,638	\$ -	\$ 3,261,840	7.50%
6/30/2018	6/30/2017	\$ 254,110	\$ 254,110	\$ -	\$ 3,388,133	7.50%
6/30/2017	6/30/2016	\$ 272,240	\$ 272,240	\$ -	\$ 3,629,867	7.50%
6/30/2016	6/30/2015	\$ 268,586	\$ 268,586	\$ -	\$ 3,581,147	7.50%
6/30/2015	6/30/2014	\$ 251,353	\$ 251,353	\$ -	\$ 3,351,373	7.50%

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

SCHEDULE OF CHANGES IN THE DISTRICT'S  
NET OPEB LIABILITY AND RELATED RATIOS  
Year Ended June 30, 2020

<b>Total OPEB Liability</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Service cost	\$ 43,929	\$ 37,588	\$ 35,551	\$ 36,893
Interest	31,323	31,452	31,851	29,238
Difference between expected and actual experience	-	119,503	-	-
Changes of assumptions	20,578	73,220	7,102	(29,640)
Changes in benefit terms	(8,429)	(10,827)	-	-
Benefit payments, including member contribution refunds	(97,304)	(101,905)	(134,780)	(166,002)
<b>Net change in total OPEB liability</b>	<b>(9,903)</b>	<b>149,031</b>	<b>(60,276)</b>	<b>(129,511)</b>
<b>Total OPEB Liability - beginning of year</b>	<b>1,038,486</b>	<b>889,455</b>	<b>949,731</b>	<b>1,079,242</b>
<b>Total OPEB Liability - end of year</b>	<b>\$ 1,028,583</b>	<b>\$ 1,038,486</b>	<b>\$ 889,455</b>	<b>\$ 949,731</b>
<b>Plan Fiduciary Net Position</b>				
Employer Contributions	\$ 97,304	\$ 101,905	\$ 59,338	\$ -
Net investment income	4,035	337	6,660	337
Other additions (e.g. receivable)	-	-	-	-
Benefit payments, including member contribution refunds	(97,304)	(101,905)	(134,780)	(166,002)
Administrative expenses	(250)	(250)	(250)	(250)
Other deductions (e.g. payables)	-	-	-	-
<b>Net change in plan fiduciary net position</b>	<b>3,785</b>	<b>87</b>	<b>(69,032)</b>	<b>(165,915)</b>
<b>Plan Fiduciary Net Position - beginning of year</b>	<b>206,571</b>	<b>206,484</b>	<b>275,516</b>	<b>441,431</b>
<b>Plan Fiduciary Net Position - end of year</b>	<b>\$ 210,356</b>	<b>\$ 206,571</b>	<b>\$ 206,484</b>	<b>\$ 275,516</b>
<b>Net OPEB (Asset) Liability - end of year</b>	<b>\$ 818,227</b>	<b>\$ 831,915</b>	<b>\$ 682,971</b>	<b>\$ 674,215</b>
<b>FNP as a percentage of the NOL</b>	<b>20.45%</b>	<b>19.89%</b>	<b>23.21%</b>	<b>29.01%</b>
<b>Covered employee payroll</b>	<b>\$ 4,440,730</b>	<b>\$ 4,181,163</b>	<b>\$ 4,250,892</b>	<b>\$ 4,322,281</b>
<b>Net OPEB Liability as a percent of covered employee payroll</b>	<b>18.43%</b>	<b>19.90%</b>	<b>16.07%</b>	<b>15.60%</b>



INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

SCHEDULE OF DISTRICT'S CONTRIBUTIONS  
OTHER POST-EMPLOYMENT BENEFITS  
Year Ended June 30, 2020

	Fiscal Year Ending June 30,				
	2020	2019	2018	2017	2016
Actuarially determined contribution (ADC)	N/A	N/A	N/A	N/A	N/A
Contributions in relation to the ADC	N/A	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	N/A	N/A	N/A	N/A	N/A
Payroll for reporting period (fiscal year)	N/A	N/A	N/A	N/A	N/A
Contributions as a percent of payroll	N/A	N/A	N/A	N/A	N/A

SCHEDULE OF INVESTMENT RETURNS  
OTHER POST-EMPLOYMENT BENEFITS  
Year Ended June 30, 2020

Fiscal Year Ending June 30,	Annual money-weighted rate of return, net investment expense
2020	1.95%
2019	0.16%
2018	2.42%
2017	0.80%
2016	N/A

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION  
June 30, 2020

Note 1 CHANGE IN PLAN PROVISIONS

**A. Public Employees Retirements Association**

2019 changes:

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

**Changes in Plan Provisions.** The employer supplemental contribution was changed prospectively, decreasing from \$31.0 million to \$21.0 million per year. The State's special funding contribution was changed prospectively, requiring \$16.0 million due per year through 2031.

2018 changes:

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

2017 changes:

**Change of Assumptions.** The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. 2) The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 changes:

**Changes in Actuarial Assumptions:** 1) the assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years. 2) The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%. 3) Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 changes:

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

**Changes in Actuarial Assumptions:** The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

**B. Teacher's Retirement Association**

2019 changes

None

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION  
June 30, 2020

Note 1 CHANGE IN PLAN PROVISIONS (Continued)

**B. Teacher's Retirement Association (continued)**

2018 changes:

**Changes in Benefit and Funding Terms:** 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. The investment return assumption was reduced from 8.5% to 7.5% and the price inflation assumption was reduced from 3.0% to 2.5%. The payroll growth assumption was reduced from 3.5% to 3.0% while the wage inflation assumption (above price inflation) was reduced from 0.75% to 0.35% for the next 10 years, and 0.75% thereafter. The total salary increase assumption was adjusted by the wage inflation change.

2017 changes:

**Changes of Benefit Terms.** The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

**Change of Assumptions.** The cost of living adjustment (COLA) was assumed to increase from 2.0 percent annually to 2.5 percent annually on July 1, 2045. The COLA was not assumed to increase to 2.5 percent, but remain to 2.0 percent for all future years. Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4 percent to 0.0 percent, the vested inactive load increased from 4.0 percent to 7.0 percent and the non-vested inactive load increased from 4.0 percent to 9.0 percent. The investment return assumption was changed from 8.00 percent to 7.50 percent. The price inflation assumption was lowered from 2.75 percent to 2.50 percent. The payroll growth assumption was lowered from 3.50 percent to 3.00 percent. The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter. The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption. Details, if necessary, can be obtained from the TRA CAFR.

2016 changes:

**Changes of benefit terms.** The Duluth Teacher's Retirement Association was merged into TRA on June 30, 2015.

**Changes 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.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION  
June 30, 2020

Note 1 CHANGE IN PLAN PROVISIONS (Continued)

**B. Teacher's Retirement Association (continued)**

2015 changes:

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from the TRA CAFR.

**C. Other Post-Employment Benefits**

2019 changes:

**Change of Assumptions.** The discount rate was lowered from 3.03% to 2.50% and the long-term expected rate of return on OPEB plan assets increased from 2.50% to 2.75%. Index rate for 20-year, tax-exempt municipal bonds decreased from 3.13% to 2.45% and the medical trend rates were updated to exclude the Affordable Care Act's Excise Tax on high-cost health insurance plan due to its repeal. The fringe benefits for Teachers in 2019 and 2020 were updated from \$8,714 and \$8,914 to \$8,415 and \$8,665, respectively.

2018 changes:

**Change of Assumptions.** The discount rate was changed from 3.47% to 3.59% based on updated expectations of long-term returns on trust assets and 20-year municipal bond rates. Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans. Medical per capita claims costs were updated to reflect recent experience. The spouse age assumption was changed from assuming husbands are the same age as wives to assuming husbands are 3 years older than wives. This assumption change had no impact on liabilities.

2017 changes:

**Change of Assumptions.** The actuarial cost method changed from using the Projected Unit Credit cost method to the Entry Age Normal level percent of pay cost method due to new GASB 74/75 accounting rules. The discount rate was changed from 3.00% to 3.47% based on updated expectations of long-term returns on trust assets and 20-year municipal bond rates. Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans. Medical per capita claims costs were updated to reflect recent experience. The spouse age assumption was changed from assuming husbands are the same age as wives to assuming husbands are 3 years older than wives. This assumption change had no impact on liabilities.

2016 changes:

**Change of Assumptions.** The discount rate was changed from 2.60% to 3.00% based on blend of expected asset class returns using historical market experience and current investment policy for the trust. Healthcare trend rates were reset to reflect updated cost increase expectations.

SUPPLEMENTARY INFORMATION SECTION

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

COMBINING BALANCE SHEET  
NONMAJOR FUNDS  
June 30, 2020

	Food Service	Community Service	Total Nonmajor Funds
<b>ASSETS</b>			
Cash and Investments	\$ 15,963	\$ 51,965	\$ 67,928
Accounts Receivable	451	6,677	7,128
Property Taxes Receivable	0	31,945	31,945
Due from Minnesota Department of Education	0	9,548	9,548
Inventory	32,082	0	32,082
<b>TOTAL ASSETS</b>	<b>\$ 48,496</b>	<b>\$ 100,135</b>	<b>\$ 148,631</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>			
<b>Liabilities:</b>			
Salaries and Benefits Payable	\$ 4,900	\$ 32,257	\$ 37,157
Accounts Payable	640	0	640
Unearned Revenue	12,205	6,627	18,832
Total Liabilities	17,745	38,884	56,629
<b>Deferred Inflows of Resources:</b>			
Unavailable Revenue - Delinquent Taxes	0	1,311	1,311
Property Taxes Levied for Subsequent Year	0	57,582	57,582
Total Deferred Inflows of Resources	0	58,893	58,893
<b>Fund Balance:</b>			
Nonspendable	32,082	0	32,082
Restricted	0	2,358	2,358
Unassigned	(1,331)	0	(1,331)
Total Fund Balance	30,751	2,358	33,109
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 48,496</b>	<b>\$ 100,135</b>	<b>\$ 148,631</b>

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - NONMAJOR FUNDS  
For the Year Ended June 30, 2020

	Food Service	Community Service	Total Nonmajor Funds
<b>Revenue:</b>			
Local Property Taxes	\$ 0	\$ 53,847	\$ 53,847
Other Local and County Revenue	0	91,475	91,475
Revenue From State Sources	23,833	73,074	96,907
Revenue From Federal Sources	266,519	0	266,519
Sales and Other Conversions of Assets	179,741	0	179,741
Total Revenue	470,093	218,396	688,489
<b>Expenditures:</b>			
Community Education and Services	0	272,799	272,799
Pupil Support Services	471,504	0	471,504
Total Expenditures	471,504	272,799	744,303
Excess of Revenues Over (Under) Expenditures	(1,411)	(54,403)	(55,814)
<b>Other Financing Sources:</b>			
Transfers In	0	98,858	98,858
Change in Fund Balance	(1,411)	44,455	43,044
Fund Balance - Beginning	32,162	(42,097)	(9,935)
Fund Balance - Ending	\$ 30,751	\$ 2,358	\$ 33,109

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

COMBINING BALANCE SHEET - DEBT SERVICE FUNDS  
June 30, 2020

	Regular Debt Service	Other Post- Employment Benefit Bonds	Totals
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 475,141	\$ 99,417	\$ 574,558
Property Taxes Receivable	411,622	81,998	493,620
Due From Minnesota Department of Revenue	23,494	417	23,911
<b>TOTAL ASSETS</b>	<b>\$ 910,257</b>	<b>\$ 181,832</b>	<b>\$ 1,092,089</b>
<b>DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>			
<b>Deferred Inflows of Resources:</b>			
Unavailable Revenue - Delinquent Property Taxes	\$ 18,104	\$ 3,527	\$ 21,631
Property Taxes Levied For Subsequent Year	739,685	147,499	887,184
Total Deferred Inflows of Resources	757,789	151,026	908,815
<b>Fund Balance:</b>			
Restricted for Debt Service	152,468	30,806	183,274
<b>TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 910,257</b>	<b>\$ 181,832</b>	<b>\$ 1,092,089</b>



INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND  
CHANGES IN FUND BALANCE - DEBT SERVICE FUNDS  
For the Year Ended June 30, 2020

	Regular Debt Service	Other Post- Employment Benefit Bonds	Totals
<b>Revenue:</b>			
Local Property Taxes	\$ 669,747	\$ 137,297	\$ 807,044
Other Local and County Revenue	28	6	34
Revenue From State Sources	235,117	4,176	239,293
Total Revenue	904,892	141,479	1,046,371
<b>Expenditures:</b>			
Principal	585,000	115,000	700,000
Interest and Other Fiscal Expenditures	282,295	32,714	315,009
Total Expenditures	867,295	147,714	1,015,009
Excess of Revenue Over (Under) Expenditures	37,597	(6,235)	31,362
Fund Balance - Beginning	114,871	37,041	151,912
Fund Balance - Ending	\$ 152,468	\$ 30,806	\$ 183,274

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

BALANCE SHEET  
GENERAL FUND

June 30, 2020

(With Comparative Amounts for June 30, 2019)

	2020	Restated 2019
<b>ASSETS</b>		
Cash and Investments	\$ 1,346,232	\$ 946,512
Accounts Receivable	18,022	25,417
Property Taxes Receivable	635,613	586,545
Due from Minnesota Department of Education	893,182	860,624
Due from Federal Through State	210,634	216,097
Due from Other Minnesota School Districts	105,055	96,108
Due from Other Governmental Unit	18,551	3,588
Prepaid Items	85,135	35,797
<b>TOTAL ASSETS</b>	<b>\$ 3,312,424</b>	<b>\$ 2,770,688</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>		
<b>Liabilities:</b>		
Salaries and Benefits Payable	\$ 692,832	\$ 680,781
Accounts Payable	37,834	25,409
Unearned Revenue	20,701	0
Due to Other Governments	891	394
Due to Other Minnesota School Districts	21,924	45,000
Total Liabilities	774,182	751,584
<b>Deferred Inflows of Resources:</b>		
Unavailable Revenue - Delinquent Taxes	20,761	16,435
Property Taxes Levied for Subsequent Year	1,084,449	1,006,495
Total Deferred Inflows of Resources	1,105,210	1,022,930
<b>Fund Balance:</b>		
Nonspendable	85,135	35,797
Restricted	313,451	434,646
Unassigned	1,034,446	525,731
Total Fund Balance	1,433,032	996,174
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 3,312,424</b>	<b>\$ 2,770,688</b>

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended June 30, 2020  
(With Comparative Amounts for the Year Ended June 30, 2019)

	2020 Original Budget	2020 Final Budget	2020 Amount	Over (Under) Budget	Restated 2019 Amount
<b>Revenue:</b>					
Local Property Taxes	\$ 1,012,508	\$ 1,115,489	\$ 1,134,897	\$ 19,408	\$ 715,044
Other Local and County Revenue	255,295	333,329	273,143	(60,186)	370,133
Revenue From State Sources	6,841,349	6,944,879	7,178,636	233,757	6,784,974
Revenue From Federal Sources	268,280	264,757	229,971	(34,786)	252,037
Sales and Other Conversion of Assets	700	600	804	204	874
Total Revenue	<u>8,378,132</u>	<u>8,659,054</u>	<u>8,817,451</u>	<u>158,397</u>	<u>8,123,062</u>
<b>Expenditures:</b>					
Current:					
District and School Administration	475,877	482,761	421,127	(61,634)	438,249
District Support Service	377,900	378,326	447,806	69,480	359,941
Regular Instruction	3,967,140	3,808,429	3,737,865	(70,564)	3,748,114
Vocational Instruction	177,265	181,461	170,222	(11,239)	173,431
Special Education Instruction	1,358,708	1,229,304	1,150,382	(78,922)	1,173,582
Instructional Support Services	111,617	119,707	138,784	19,077	71,874
Pupil Support Services	707,750	734,389	680,059	(54,330)	681,430
Sites, Buildings, and Equipment	784,371	895,940	826,575	(69,365)	777,168
Other Fiscal Expenditures	45,274	51,650	45,037	(6,613)	42,113
Total Current Expenditures	<u>8,005,902</u>	<u>7,881,967</u>	<u>7,617,857</u>	<u>(264,110)</u>	<u>7,465,902</u>
Capital Outlay:					
General Government	192,201	480,192	588,555	108,363	146,644
Debt Service:					
Principal	124,363	124,363	144,621	20,258	112,560
Interest	25,312	25,312	29,060	3,748	34,138
Total Expenditures	<u>8,347,778</u>	<u>8,511,834</u>	<u>8,380,093</u>	<u>(131,741)</u>	<u>7,759,244</u>
Excess of Revenue Over (Under) Expenditures	30,354	147,220	437,358	290,138	363,818
<b>Other Financing Sources (Uses):</b>					
Issuance of Capital Lease	0	0	60,358	(60,358)	14,008
Sale of Capital Assets	0	25,557	38,000	(38,000)	0
Transfers Out	0	0	(98,858)	98,858	0
Total Other Financing Sources (Uses)	<u>0</u>	<u>25,557</u>	<u>(500)</u>	<u>500</u>	<u>14,008</u>
Change in Fund Balance	<u>\$ 30,354</u>	<u>\$ 172,777</u>	436,858	<u>\$ 290,638</u>	<u>377,826</u>
Fund Balance - Beginning, as Previously Stated					539,176
Prior Period Adjustment					<u>79,172</u>
Fund Balance - Beginning, as Restated			<u>996,174</u>		<u>618,348</u>
Fund Balance - Ending			<u>\$ 1,433,032</u>		<u>\$ 996,174</u>

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

BALANCE SHEET  
FOOD SERVICE FUND

June 30, 2020

(With Comparative Amounts for June 30, 2019)

	2020	2019
<b>ASSETS</b>		
Cash and Investments	\$ 15,963	\$ 31,424
Accounts Receivable	451	148
Inventory	32,082	17,928
<b>TOTAL ASSETS</b>	<b>\$ 48,496</b>	<b>\$ 49,500</b>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>Liabilities:</b>		
Salaries and Benefits Payable	\$ 4,900	\$ 6,330
Accounts Payable	640	4,121
Unearned Revenue	12,205	6,887
Total Liabilities	17,745	17,338
<b>Fund Balance:</b>		
Nonspendable	32,082	17,928
Restricted	0	14,234
Unassigned	(1,331)	0
Total Fund Balance	30,751	32,162
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 48,496</b>	<b>\$ 49,500</b>

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - FOOD SERVICE FUND  
For the Year Ended June 30, 2020  
(With Comparative Amounts for the Year Ended June 30, 2019)

	<u>2020 Original Budget</u>	<u>2020 Final Budget</u>	<u>2020 Amount</u>	<u>Over (Under) Budget</u>	<u>2019 Amount</u>
<b>Revenue:</b>					
Other Local and County Revenue	\$ 0	\$ 250	\$ 0	\$ (250)	\$ 267
Revenue From State Sources	28,200	28,800	23,833	(4,967)	26,743
Revenue From Federal Sources	221,795	225,874	266,519	40,645	212,948
Sales and Other Conversion of Assets	<u>255,800</u>	<u>224,800</u>	<u>179,741</u>	<u>(45,059)</u>	<u>219,774</u>
Total Revenue	<u>505,795</u>	<u>479,724</u>	<u>470,093</u>	<u>(9,631)</u>	<u>459,732</u>
<b>Expenditures:</b>					
Pupil Support Services	<u>504,068</u>	<u>511,053</u>	<u>471,504</u>	<u>(39,549)</u>	<u>467,346</u>
Excess of Revenue Over (Under) Expenditures	<u>\$ 1,727</u>	<u>\$ (31,329)</u>	(1,411)	<u>\$ 29,918</u>	(7,614)
Fund Balance - Beginning			<u>32,162</u>		<u>39,776</u>
Fund Balance - Ending			<u>\$ 30,751</u>		<u>\$ 32,162</u>

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

BALANCE SHEET  
COMMUNITY SERVICE FUND

June 30, 2020

(With Comparative Amounts for June 30, 2019)

	2020	2019
<b>ASSETS</b>		
Cash and Investments	\$ 51,965	\$ 5,111
Accounts Receivable	6,677	0
Property Taxes Receivable	31,945	30,291
Due from Minnesota Department of Education	9,548	8,876
<b>TOTAL ASSETS</b>	<b>\$ 100,135</b>	<b>\$ 44,278</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>		
<b>Liabilities:</b>		
Salaries and Benefits Payable	\$ 32,257	\$ 29,647
Accounts Payable	0	35
Unearned Revenue	6,627	0
Total Liabilities	38,884	29,682
<b>Deferred Inflows of Resources:</b>		
Unavailable Revenue - Delinquent Taxes	1,311	1,213
Property Taxes Levied for Subsequent Year	57,582	55,480
Total Deferred Inflows of Resources	58,893	56,693
<b>Fund Balance:</b>		
Restricted	2,358	0
Unassigned	0	(42,097)
Total Fund Balance	2,358	(42,097)
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE</b>	<b>\$ 100,135</b>	<b>\$ 44,278</b>

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - COMMUNITY SERVICE FUND  
For the Year Ended June 30, 2020  
(With Comparative Amounts for the Year Ended June 30, 2019)

	<u>2020 Original Budget</u>	<u>2020 Final Budget</u>	<u>2020 Amount</u>	<u>Over (Under) Budget</u>	<u>2019 Amount</u>
<b>Revenue:</b>					
Local Property Taxes	\$ 54,088	\$ 53,843	\$ 53,847	\$ 4	\$ 52,130
Other Local and County Revenue	125,435	112,615	91,475	(21,140)	120,851
Revenue From State Sources	<u>73,651</u>	<u>71,542</u>	<u>73,074</u>	<u>1,532</u>	<u>76,417</u>
Total Revenue	<u>253,174</u>	<u>238,000</u>	<u>218,396</u>	<u>(19,604)</u>	<u>249,398</u>
<b>Expenditures:</b>					
Community Education and Services	<u>341,413</u>	<u>263,316</u>	<u>272,799</u>	<u>9,483</u>	<u>258,518</u>
Excess of Revenue Over (Under) Expenditures	(88,239)	(25,316)	(54,403)	(29,087)	(9,120)
<b>Other Financing Sources:</b>					
Transfers In	<u>0</u>	<u>0</u>	<u>98,858</u>	<u>(98,858)</u>	<u>0</u>
Change in Fund Balance	<u>\$ (88,239)</u>	<u>\$ (25,316)</u>	44,455	<u>\$ (127,945)</u>	(9,120)
Fund Balance - Beginning			<u>(42,097)</u>		<u>(32,977)</u>
Fund Balance - Ending			<u>\$ 2,358</u>		<u>\$ (42,097)</u>

INDEPENDENT SCHOOL DISTRICT NO. 314  
 BRAHAM, MINNESOTA  
 UNIFORM ACCOUNTING AND REPORTING STANDARDS  
 For the Year Ended June 30, 2020

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$8,817,451	<u>\$8,817,451</u>	\$0	Total Revenue	\$0	\$0	\$0
Total Expenditures	\$8,380,093	<u>\$8,380,093</u>	(\$0)	Total Expenditures	\$0	\$0	\$0
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$85,135	<u>\$85,135</u>	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.01 Student Activities	\$60,096	<u>\$60,096</u>	\$0	4.07 Capital Projects Levy	\$0	\$0	\$0
4.02 Scholarships	\$41,313	<u>\$41,313</u>	\$0	4.13 Project Funded by COP	\$0	\$0	\$0
4.03 Staff Development	\$13,524	<u>\$13,524</u>	\$0	4.67 LTFM	\$0	\$0	\$0
4.07 Capital Projects Levy	\$0	\$0	\$0	<i>Restricted:</i>			
4.08 Cooperative Revenue	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.13 Project Funded by COP	\$0	\$0	\$0	<i>Unassigned:</i>			
4.14 Operating Debt	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.16 Levy Reduction	\$0	\$0	\$0				
4.17 Taconite Building Maint	\$0	\$0	\$0	<b>07 DEBT SERVICE</b>			
4.24 Operating Capital	\$432	<u>\$432</u>	\$0	Total Revenue	\$904,892	<u>\$904,891</u>	\$1
4.26 \$25 Taconite	\$0	\$0	\$0	Total Expenditures	\$867,295	<u>\$867,295</u>	\$0
4.27 Disabled Accessibility	\$0	\$0	\$0	<i>Non Spendable:</i>			
4.28 Learning & Development	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.34 Area Learning Center	\$0	\$0	\$0	<i>Restricted / Reserved:</i>			
4.35 Contracted Alt. Programs	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.36 State Approved Alt. Program	\$0	\$0	\$0	4.33 Maximum Effort Loan Aid	\$0	\$0	\$0
4.38 Gifted & Talented	\$0	\$0	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.40 Teacher Development and Evaluation	\$0	\$0	\$0	4.67 LTFM	\$0	\$0	\$0
4.41 Basic Skills Programs	\$0	\$0	\$0	<i>Restricted:</i>			
4.48 Achievement and Integration	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$152,468	<u>\$152,468</u>	\$0
4.49 Safe School Crime - Crime Levy	\$21,943	<u>\$21,943</u>	\$0	<i>Unassigned:</i>			
4.51 QZAB Payments	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0				
4.53 Unfunded Sev & Retirement Levy	\$0	\$0	\$0	<b>08 TRUST</b>			
4.59 Basic Skills Extended Time	\$0	\$0	\$0	Total Revenue	\$10,248	<u>\$10,248</u>	\$0
4.67 LTFM	\$60,000	<u>\$60,000</u>	\$0	Total Expenditures	\$21,948	<u>\$21,948</u>	\$0
4.72 Medical Assistance	\$116,143	<u>\$116,143</u>	\$0	<i>Restricted / Reserved:</i>			
4.73 PPP Loan	\$0	\$0	\$0	4.01 Student Activities	\$0	\$0	\$0
4.74 EIDL Loan	\$0	\$0	\$0	4.02 Scholarships	\$0	\$0	\$0
<i>Restricted:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$662,442	<u>\$662,443</u>	(\$1)
4.64 Restricted Fund Balance	\$0	\$0	\$0				
4.75 Title VII Impact Aid	\$0	\$0	\$0	<b>18 CUSTODIAL</b>			
4.76 Payments in Lieu of Taxes	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
<i>Committed:</i>				Total Expenditures	\$0	\$0	\$0
4.18 Committed for Separation	\$0	\$0	\$0	<i>Restricted / Reserved:</i>			
4.61 Committed Fund Balance	\$0	\$0	\$0	4.01 Student Activities	\$0	\$0	\$0
<i>Assigned:</i>				4.02 Scholarships	\$0	\$0	\$0
4.62 Assigned Fund Balance	\$0	\$0	\$0	4.48 Achievement and Integration	\$0	\$0	\$0
<i>Unassigned:</i>				4.64 Restricted Fund Balance	\$0	\$0	\$0
4.22 Unassigned Fund Balance	\$1,034,446	<u>\$1,034,444</u>	\$2				
				<b>20 INTERNAL SERVICE</b>			
<b>02 FOOD SERVICES</b>				Total Revenue	\$0	\$0	\$0
Total Revenue	\$470,093	<u>\$470,093</u>	\$0	Total Expenditures	\$0	\$0	\$0
Total Expenditures	\$471,504	<u>\$471,504</u>	\$0	<i>Restricted / Reserved:</i>			
<i>Non Spendable:</i>				4.01 Student Activities	\$0	\$0	\$0
4.60 Non Spendable Fund Balance	\$32,082	<u>\$32,082</u>	\$0	4.02 Scholarships	\$0	\$0	\$0
<i>Restricted / Reserved:</i>				4.48 Achievement and Integration	\$0	\$0	\$0
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.74 EIDL Loan	\$0	\$0	\$0				
<i>Restricted:</i>				<b>25 OPEB REVOCABLE TRUST</b>			
4.64 Restricted Fund Balance	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
<i>Unassigned:</i>				Total Expenditures	\$0	\$0	\$0
4.63 Unassigned Fund Balance	(\$1,331)	<u>(\$1,332)</u>	\$1	4.22 Unassigned Fund Balance (Net Assets)	\$0	\$0	\$0
<b>04 COMMUNITY SERVICE</b>				<b>45 OPEB IRREVOCABLE TRUST</b>			
Total Revenue	\$218,396	<u>\$218,396</u>	\$0	Total Revenue	\$101,339	<u>\$101,339</u>	\$0
Total Expenditures	\$272,799	<u>\$272,799</u>	\$0	Total Expenditures	\$97,554	<u>\$97,554</u>	\$0
<i>Non Spendable:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$210,356	<u>\$210,356</u>	\$0
4.60 Non Spendable Fund Balance	\$0	\$0	\$0				
<i>Restricted / Reserved:</i>				<b>47 OPEB DEBT SERVICE</b>			
4.26 \$25 Taconite	\$0	\$0	\$0	Total Revenue	\$141,479	<u>\$141,479</u>	\$0
4.31 Community Education	\$12,296	<u>\$12,296</u>	\$0	Total Expenditures	\$147,714	<u>\$147,714</u>	\$0
4.32 E.C.F.E	(\$68,685)	<u>(\$68,685)</u>	\$0	<i>Non Spendable:</i>			
4.40 Teacher Development and Evaluation	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.44 School Readiness	\$50,101	<u>\$50,101</u>	\$0	<i>Restricted:</i>			
4.47 Adult Basic Education	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$30,806	<u>\$30,805</u>	\$1
4.73 PPP Loan	\$0	\$0	\$0	<i>Unassigned:</i>			
4.74 EIDL Loan	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
<i>Restricted:</i>							
4.64 Restricted Fund Balance	\$8,646	<u>\$8,646</u>	\$0				
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	\$0	\$0	\$0				



THIS PAGE IS LEFT BLANK  
INTENTIONALLY

## OTHER REPORTS



# Burkhardt & Burkhardt, Ltd.

Certified Public Accountants

Website: [www.bnbcpas.com](http://www.bnbcpas.com)

**Annandale Office:**

35 Oak Ave. N, P.O. Box N

Annandale, MN 55302

P: 320.274.1040

F: 320.274.2260

---

**Mankato Office:**

430 S. Broad St., Ste. 100

Mankato, MN 56001

P: 507.387.1338

F: 507.387.5199

**Experienced...** Over 40 years combined experience

**Affordable...** Exceptional value for a reasonable price

**Friendly...** Family owned and run since 1990

## MINNESOTA LEGAL COMPLIANCE

### Independent Auditor's Report

Members of the School Board  
Independent School District No. 314  
Braham, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 314, Braham, Minnesota, (the District) as of and for the year ended June 30, 2020, and the related notes to the financial statements, and have issued our report thereon dated October 19, 2020.

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. §6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts.

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 *Minnesota Legal Compliance Audit Guide for School Districts*. 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.

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.

*Burkhardt & Burkhardt, Ltd.*

Burkhardt & Burkhardt, Ltd.  
Mankato, Minnesota  
October 19, 2020

THIS PAGE IS LEFT BLANK  
INTENTIONALLY



# Burkhardt & Burkhardt, Ltd.

Certified Public Accountants

Website: [www.bnbcpas.com](http://www.bnbcpas.com)

**Annandale Office:**

35 Oak Ave. N, P.O. Box N

Annandale, MN 55302

P: 320.274.1040

F: 320.274.2260

**Experienced...** Over 40 years combined experience

**Affordable...** Exceptional value for a reasonable price

**Friendly...** Family owned and run since 1990

**Mankato Office:**

430 S. Broad St., Ste. 100

Mankato, MN 56001

P: 507.387.1338

F: 507.387.5199

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON  
AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the School Board  
Independent School District No. 314  
Braham, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 314, Braham, Minnesota (the District), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 19, 2020.

### Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2020-001 and 2020-002 that we consider to be significant deficiencies.

THIS PAGE IS LEFT BLANK  
INTENTIONALLY

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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*.

**District’s Response to Findings**

The District’s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District’s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**Purpose of this Report**

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

*Burkhardt & Burkhardt, Ltd.*

Burkhardt & Burkhardt, Ltd.  
Mankato, Minnesota  
October 19, 2020

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

SCHEDULE OF FINDINGS  
June 30, 2020

**CURRENT YEAR FINDINGS**

Significant Deficiencies

**2020-001. Preparation of financial statements and related footnotes**

- Condition:* The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. District personnel do prepare periodic financial statements and other financial information for internal use that meets the needs of management and the School Board. However, the District does not have the internal resources to prepare full-disclosure financial statements required by GAAP for external reporting. As auditors, we were requested to draft the financial statements and accompanying footnotes.
- Criteria:* Internal controls over financial reporting include those related to the actual preparation and review of the audited financial statements. In order to prepare a complete set of financial statements in conformity with GAAP, the preparer must have the necessary expertise.
- Cause:* The District does not have the resources to compile their own financial statements.
- Effect:* This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.
- Recommendation:* This control deficiency is not unusual in a small district. However, it is the responsibility of management and the School Board to decide whether to accept the degree of risk associated with this condition based on the cost of correction and other considerations.
- Response:* The District will consider putting new procedures in place to ensure that all balances are properly adjusted at year-end. The District will review all adjusting entries posted at year-end and decide if they are appropriate and complete.

Corrective Action Plan (CAP)

- a) *Actions Planned in Response to the Finding:* The District does not plan to take any action but is aware of the condition. Based on the cost of correcting this deficiency, the District has decided to accept the risk associated with this deficiency.
- b) *Official Responsible for Ensuring Corrective Action:* The Business Manager and Superintendent will review the financial statements and related footnotes and approve them.
- c) *Planned Completion Date for the Corrective Action:* The corrective action plan for this funding will be ongoing.
- d) *Explanation of Disagreement:* There is no disagreement with the audit finding.
- e) *Plan to Monitor Completion of Corrective Action:* The School Board will be monitoring this corrective action plan.



INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

SCHEDULE OF FINDINGS  
June 30, 2020

**2020-002. Segregation of Duties**

- Condition:* The District has a limited number of office personnel and accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties. An effective internal control structure provides an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.
- Criteria:* Internal controls should be in place that provides reasonable assurance that proper segregation of duties is achieved.
- Cause:* The District has a limited number of office personnel and inadequate internal controls.
- Effect:* The failure to properly segregate duties increases the risk that misstatements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
- Recommendation:* While it is recognized that the District's office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective internal control structure, it is important that the District be aware of this situation.
- Response:* The Board has already taken measures to attempt to comply even though the District is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Board has addressed this circumstance by active participation in the District's affairs. This includes approval of disbursements, regular review of financial reports, regular review of bank reconciliations and budget comparisons.

Corrective Action Plan (CAP)

- a) *Actions Planned in Response to the Finding:* The District has determined the benefit of adequately segregating duties is less than the cost. Based on this assessment, the District is accepting the risk posed by the deficiency while also evaluating mitigating controls that will help reduce the risk of material misstatement of the financial statements. Management is attempting to mitigate the associated risks by doing the following:
1. Identifying areas lacking segregation of duties and where there are higher risks of fraud occurring.
  2. Implementing limited segregation to the extent possible to reduce risks without impairing efficiency.
  3. Using the knowledge of management and the School Board to review accounting records and reports,
- b) *Official Responsible for Ensuring Corrective Action:* The Business Manager will monitor the effectiveness of the above actions and make changes as considered appropriate.
- c) *Planned Completion Date for the Corrective Action:* The corrective action plan for this finding will be ongoing.
- d) *Explanation of Disagreement:* There is no disagreement with the audit finding.
- e) *Plan to Monitor Completion of Corrective Action:* The School Board will be monitoring this corrective action plan to review the recommendations and take appropriate action.

INDEPENDENT SCHOOL DISTRICT NO. 314  
BRAHAM, MINNESOTA

SCHEDULE OF FINDINGS  
June 30, 2020

**CURRENT YEAR MINNESOTA LEGAL COMPLIANCE FINDINGS**

**None**

**STATUS OF PRIOR AUDIT FINDINGS**

The prior audit contained two findings:

**2019-001. Preparation of financial statements and related footnotes**

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

*Current status:* This condition is noted during the current year audit of the financial statements.

**2019-002. Segregation of Duties**

*Condition:* The District has a limited number of office personnel and, accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties. This finding was again noted for the current year.

*Current status:* This condition is noted during the current year audit of the financial statements.