Independent School District No. 2396
Atwater/Cosmos/Grove City, Minnesota

Financial Statements

June 30, 2019

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Independent School District No. 2396
Board of Education and Administration
June 30, 2019

Board of Education	Position	Term Expires
Michael Hendrickson	Chairperson	December 31, 2022
Megan Morrison	Vice Chairperson	December 31, 2022
Jeanna Lilleberg	Clerk	December 31, 2020
Diane Rivard	Treasurer	December 31, 2020
Paul Rasmussen	Director	December 31, 2022
Randy Kaisner	Director	December 31, 2020
Scott Stafford	Director	December 31, 2022

Administration	
Nels Onstad	Superintendent
Kathryn Haase	Business Manager

Independent Auditor's Report

To the School Board
Independent School District No. 2396
Atwater/Cosmos/Grove City, 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 Independent School District No. 2396, Atwater/Cosmos/Grove City, Minnesota, as of and for the year ended June 30, 2019, and the related notes to 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 in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2396, Atwater/Cosmos/Grove City, Minnesota, as of June 30, 2019, and the respective changes in financial position thereof, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Required Supplementary Information 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 (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The accompanying supplementary information identified in the Table of Contents 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Bergan KDV, Ltd.

St. Cloud, Minnesota
October 14, 2019

Independent School District No. 2396
Management's Discussion and Analysis

This section of ACGC Public Schools – Independent School District No. 2396's (the District's) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights discussed for fiscal year 2018-2019 include the following:

- The net position of governmental activities increased by $2,705,458 to $2,947,043.
- Overall revenues were $12,685,780, an increase of $1,377,933 compared to one year ago.
- Overall expenditures were $13,353,809, an increase of $1,405,041 compared to one year ago.
- Overall, the General Fund balance increased $301,799, the Food Service Fund balance increased $57,502 from the prior year, and the Community Service Fund balance increased $24,879.
- Enrollment decreased by 13 students from the preceding year, 827 versus 840 Average Daily Membership (ADM).

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of the following:

- Independent Auditor's Report
- Required Supplementary Information, which includes the Management Discussion and Analysis (this section)
- Basic financial statements
- Supplementary information

The basic financial statements include two kinds of statements that present different views of the District:

- **Government-Wide Financial Statements** – The government-wide financial statements, including the Statement of Net Position and Statement of Activities, are designed to provide short-term and long-term information about the District's overall financial status, using accounting methods similar to those used by private sector companies.

- **Fund Financial Statements** – The fund financial statements focus on individual parts of the District, reporting the District's operation in more detail than the government-wide financial statements. The District maintains two groups of fund financial statements:

- **Governmental Funds** Statements – Governmental funds statements review how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

- **Fiduciary Funds** Statements – Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

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

Government-Wide Statements

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

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

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

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

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

Fund Financial Statements

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

The District maintains two kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending.

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

- **Fiduciary Funds** - The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship funds. The District is responsible for ensuring that assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net position and a Statement of Changes in Fiduciary Net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position
The District's combined net position was $241,585 on June 30, 2018. Net position on June 30, 2019, was $2,947,043, a 1,120% increase from the prior year. See Table A-1.

Table A-1
Net Position

	2018	2019	Percent Change
Current and other assets	$ 6,193,173	$ 22,655,878	266%
Capital assets	10,362,871	11,616,994	12%
Total assets	$ 16,556,044	$ 34,272,872	107%
Deferred outflows of resources	$ 10,298,596	$ 7,946,465	-23%
Long-term liabilities	$ 20,403,077	$ 23,958,030	17%
Other liabilities	1,575,978	2,663,748	69%
Total liabilities	$ 21,979,055	$ 26,621,778	21%
Deferred inflows of resources	$ 4,634,000	$ 12,650,516	173%
Net position			
Net investment in capital assets	$ 9,985,024	$ 9,380,843	-6%
Restricted	753,883	1,492,332	98%
Unrestricted	(10,497,322)	(7,926,132)	24%
Total net position	$ 241,585	$ 2,947,043	1120%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Change in Net Position

Total revenues exceeded expenses for fiscal year 2019 by $2,705,458 as the District implemented a variety of instructional goals and simultaneously made necessary updates to the facilities. A summary of revenues and expenses is presented in Table A-2 below:

Table A-2
Changes in Net Position

	2018	2019	Percent Change
Revenues			
Program revenues			
Charges for services	$ 868,388	$ 879,185	1%
Operating grants and contributions	2,418,235	2,668,483	10%
Capital grants and contributions	54,476	726,368	1233%
General revenues			
Property taxes	1,707,303	1,770,074	4%
State aid formula grants	6,180,934	6,002,246	-3%
Other general revenues	39,578	11,917	-70%
Investment income	32,546	251,445	673%
Total revenues	11,301,460	12,309,718	9%
Expenses			
Administration	704,740	384,578	-45%
District support services	380,932	360,166	-5%
Elementary and secondary regular instruction	6,528,688	3,042,963	-53%
Vocational education instruction	267,459	78,365	-71%
Special education instruction	1,965,118	1,177,476	-40%
Instructional support services	370,098	305,772	-17%
Pupil support services	1,353,597	1,267,730	-6%
Sites and buildings	1,277,205	1,540,389	21%
Fiscal and other fixed cost programs	49,469	53,714	9%
Food service	445,360	450,334	1%
Community education	569,526	385,685	-32%
Unallocated depreciation	311,607	307,737	-1%
Interest and fiscal charges on long-term debt	72,801	249,351	243%
Total expenses	14,296,600	9,604,260	-33%
Change in net position	(2,995,140)	2,705,458	190%
Change in accounting principle	(1,053,375)	-	-100%
End of year net position	$ 241,585	$ 2,947,043	1120%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Change in Net Position (Continued)

The District's total revenues of $12,309,718 consisted of property taxes of $1,770,074, aids and payments from the state of $6,002,246, investment income of $251,445, and other general revenues of $11,917. Expenses totaling $9,604,260 consisted mainly of regular, vocational, and special education instruction costs of $4,298,804, district, instructional, and pupil support services of $1,933,668, site, buildings and equipment related costs of $1,540,389, fiscal and fixed cost programs of $53,714, community education and services of $385,685, food service of $450,334, interest and fiscal charges on long-term debt of $307,737, unallocated depreciation of $249,351, and administrative costs of $384,578. Pie charts for revenue and expense categories are presented in Tables A-3 and A-4.

Table A-3: Sources of Revenue

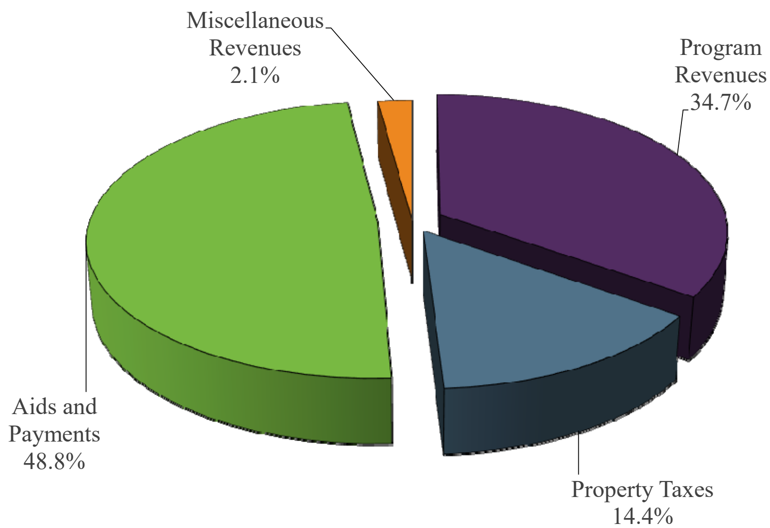
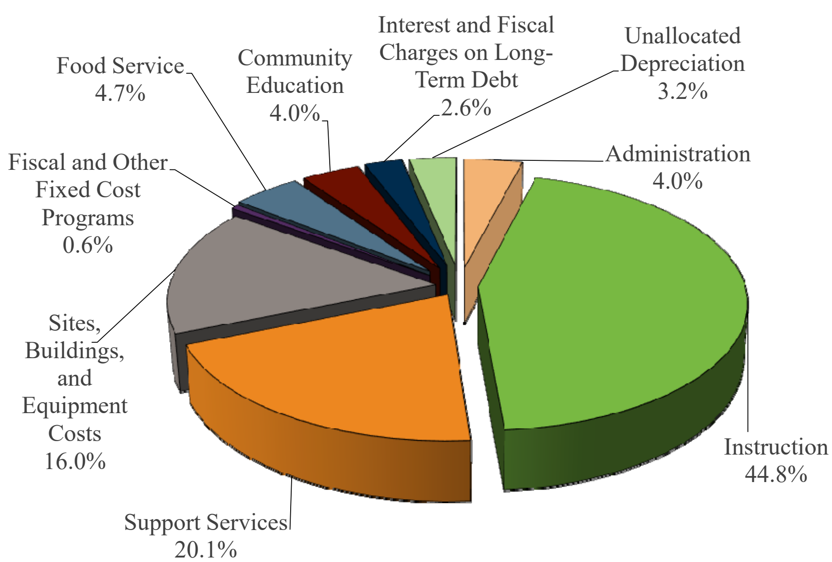


Table A-4: Expenses



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Change in Net Position (Continued)

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

Table A-5
Net Cost of Governmental Activities

	Expenses			Net Cost of Services		
	2018	2019	Percent Change	2018	2019	Percent Change
Functions/Programs						
Administration	$ 704,740	$ 384,578	-45%	$ 704,740	$ 384,578	-45%
District support services	380,932	360,166	-5%	380,932	360,166	-5%
Elementary and secondary regular instruction	6,528,688	3,042,963	-53%	5,176,417	1,668,218	-68%
Vocational education instruction	267,459	78,365	-71%	267,459	78,365	-71%
Special education instruction	1,965,118	1,177,476	-40%	972,710	34,649	-96%
Instructional support services	370,098	305,772	-17%	307,083	242,860	-21%
Pupil support services	1,353,597	1,267,730	-6%	1,349,585	1,262,674	-6%
Sites and buildings	1,277,205	1,540,389	21%	1,108,654	695,180	-37%
Fiscal and other fixed other programs	49,469	53,714	9%	49,469	53,714	9%
Food service	445,360	450,334	1%	178	(57,212)	-32242%
Community education and services	569,526	385,685	-32%	253,866	49,944	-80%
Unallocated depreciation	311,607	307,737	-1%	311,607	307,737	-1%
Interest and fiscal charges on long-term debt	72,801	249,351	243%	72,801	249,351	243%
Total governmental activities	$ 14,296,600	$ 9,604,260	-33%	$ 10,955,501	$ 5,330,224	-51%

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 $18,247,658. This represented an increase of $14,987,621 from the end of the prior year, which had a combined fund balance of $3,260,037. The net increase in fund balance occurred primarily due to the issuance of General Obligation School Building Bonds approved by the District's voters in November 2018. The Food Service fund balance increased by $57,502 from the prior year, with an ending balance of $112,600. The Community Service fund increased by $24,879 from the prior year, with an ending balance of $176,541.

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

Revenue and Expenditures

Revenues of the District's governmental funds totaled $12,685,780, while total expenditures were $13,353,809. A summary of the revenues and expenditures reported on the governmental fund financial statements appears in Table A-6 below.

Table A-6
Revenues and Expenditures - Governmental Funds
June 30, 2019

	Revenue	Expenditures	Other Financing Sources	Fund Balance Increase (Decrease)
General Fund	$ 10,623,583	$10,322,818	$ 1,034	$ 301,799
Food Service Fund	508,907	451,405	-	57,502
Community Service Fund	509,194	484,315	-	24,879
Debt Service Fund	192,236	165,821	-	26,415
Capital Projects Fund	851,860	1,929,450	15,654,616	14,577,026
Total	$ 12,685,780	$13,353,809	$ 15,655,650	$14,987,621

General Fund Budgetary Highlights

When the initial budget is prepared (a budget must be in place prior to the beginning of the fiscal year on July 1), details of student enrollment numbers, salary negotiations, staffing levels, and other significant information items are not yet known. When these items become known, the budget is normally revised to reflect them.

The District's final budget for the General Fund anticipated that expenditures would exceed revenues by $121,846. Actual results for the year show that General Fund revenues and other financing sources exceeded expenditures by $301,799.

- Actual General Fund revenues were $384,376 greater than the budget due to greater than anticipated special education aid revenue, additional general education aid due to slightly higher student counts, and increased interest revenue due to favorable interest rates on investments.
- Actual General Fund expenditures were $38,235 less than budgeted due to the cutoff of unnecessary purchases while the District has worked to stop the recent history of deficit spending.

DEBT SERVICE FUND

The Debt Service Fund exists to service the principal and interest payments on long-term debt issued by the district to construct school facilities or acquire school equipment. Annual levies provide revenue at a rate of 105% of pending debt service payments for a fiscal year. This rate is specified in statute to ensure that principal and interest payments can be made as scheduled even if there are late property tax payments or delinquencies that may arise.

The Debt Service revenues exceeded expenditures by $26,415 in 2018-19. The Debt Service fund balance as of June 30, 2019 was $99,884. This fund balance is only available for meeting future debt service obligations.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for revenues and expenditures related to the school district's long-term capital and facility projects that are funded by the sale of bonds or capital loans.

In 2018-19, the Capital Project Fund included activity related to the:
- 2017A Long Term Facility Maintenance Bond
- 2018A and 2019A General Obligation School Building Bonds

The 2017A Long Term Facility Maintenance Bond was issued by the District's school board for deferred maintenance (primarily roof replacement) at all three of the District's facilities and a fire suppression project at the Elementary School.

In November 2018, the District's voters approved a bond referendum for facility improvements at the Elementary School and Junior/Senior High School. The bonds were sold as a split issuance, resulting in the 2018A and 2019A General Obligation School Building Bonds. The District received the bond proceeds in December 2018 and February 2019.

The Capital Projects Fund Balance as of June 30, 2019 was $15,669,433.

OTHER NONMAJOR FUNDS

Revenues exceeded expenditures in the other nonmajor funds by $82,381. The Food Service Fund revenues exceeded expenditures by $57,502. The food service fund balance at June 30, 2019, was $112,600. The Community Service Fund had a fund balance of $176,541.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2019, the District had invested $24,576,005 in a broad range of capital assets, including school buildings, land, athletic facilities, computer and audio-visual equipment, and necessary capital improvements (see Table A-7). Total accumulated depreciation for the year was $12,959,011. Detailed information regarding the District's capital assets can be found in the footnotes.

Table A-7
The District's Capital Assets

	2018	2019	Percent Change
Land	$ 248,774	$ 248,774	0.0%
Construction in progress	345,899	1,262,903	265.1%
Land improvements	1,096,172	1,096,172	0.0%
Buildings	18,237,444	18,909,304	3.7%
Furniture and equipment	2,914,762	2,943,862	1.0%
Vehicles	114,990	114,990	0.0%
Less accumulated depreciation	(12,595,170)	(12,959,011)	2.9%
Total	$ 10,362,871	$ 11,616,994	12.1%

Construction Plans

The District passed a bond referendum in November 2018 for facility improvements at the Elementary School and Junior/Senior High School. Construction on these projects will begin during the 2019-20 school year and are scheduled to be completed by Fall 2020.

Long-Term Debt

At year-end, the District had $16,979,164 in general obligation bonds outstanding including bond premium. The District had capital leases payable of $3,290 for the remainder of a Chromebook lease. The District also had $312,362 in compensated absences payable at June 30, 2019. Compensated absences payable consists of unused vacation at June 30, 2019. Overall, the District's outstanding long-term liabilities increased by 901.8% in fiscal year 2019, primarily due to the issuance of voter-approved building bonds. Detailed information regarding the District's long-term liabilities can be found in the footnotes.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Table A-8
The District's Long-Term Liabilities

	2018	2019	Percent Change
Bonds payable	$ 1,405,000	$ 16,420,000	1068.7%
Bond premium	65,254	559,164	756.9%
Capital lease payable	37,975	3,290	-91.3%
Compensated absences payable	218,212	312,362	43.1%
Total	$ 1,726,441	$ 17,294,816	901.8%

FACTORS BEARING ON THE FUTURE OF THE DISTRICT

With the exception of a voter-approved operating referendum, the District is dependent on the State of Minnesota for its revenue authority.

The 2019 Omnimbus E-12 Education bill provided some changes that affected Minnesota schools positively. The basic formula was increased by 2.0% for both fiscal years 2019-20 ($6,438 per pupil unit) and 2020-21 ($6,567 per pupil unit), which results in additional aid to the District. The legislature increased the special education aid to freeze the growth in the special education cross-subsidy. It also provided one-time safe schools supplemental aid (contingent on the FY19 closing balance). The District's taxpayers will benefit from an increase in the school building bond agricultural credit. The credit will increase slowly over the next few years, from 40% for taxes payable in 2019 to 70% for taxes payable in 2023 and after.

The District will continue to budget conservatively and monitor the fiscal progress closely.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our 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 questions about this report, or would like additional financial information, contact the District Office at Independent School District No. 2396, 27250 Minnesota Highway 4, Grove City, Minnesota 56243.

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BASIC FINANCIAL STATEMENTS

Independent School District No. 2396
Statement of Net Position
June 30, 2019

	Governmental Activities
Assets	
Cash and investments	$ 19,307,947
Current property taxes receivable	1,529,528
Delinquent property taxes receivable	22,464
Accounts receivable	1,577
Interest receivable	121,786
Due from Department of Education	1,357,518
Due from Federal Government through Department of Education	53,789
Due from other Minnesota school districts	180,965
Inventory	8,449
Prepaid items	71,855
Capital assets	
Land	248,774
Construction in progress	1,262,903
Land improvements	1,096,172
Buildings and improvements	18,909,304
Furniture and equipment	2,943,862
Vehicles	114,990
Less accumulated depreciation	(12,959,011)
Total assets	34,272,872
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	7,838,462
Deferred outflows of resources related to OPEB	108,003
Total deferred outflows of resources	7,946,465
Total assets and deferred outflows of resources	$ 42,219,337
Liabilities	
Accounts payable	$ 63,993
Contracts payable	771,675
Salaries and benefits payable	767,263
Interest payable	248,621
Due to other Minnesota school districts	34,529
Due to other governmental units	30,490
Unearned revenue	9,933
Bond principal payable, including unamortized premium	
Payable within one year	640,000
Payable after one year	16,339,164
Capital lease payable	
Payable within one year	3,290
Compensated absences payable	
Payable within one year	93,954
Payable after one year	218,408
Total OPEB liability	772,741
Net pension liability	6,627,717
Total liabilities	26,621,778
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	2,707,873
Deferred inflows of resources related to pensions	9,942,643
Total deferred inflows of resources	12,650,516
Net Position	
Net investment in capital assets	9,380,843
Restricted	1,492,332
Unrestricted	(7,926,132)
Total net position	2,947,043
Total liabilities, deferred inflows of resources, and net position	$ 42,219,337

See notes to financial statements.

Independent School District No. 2396
Statement of Activities
Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities					
Administration	$ 384,578	$ -	$ -	$ -	$ (384,578)
District support services	360,166	-	-	-	(360,166)
Elementary and secondary regular instruction	3,042,963	280,089	1,094,656	-	(1,668,218)
Vocational education instruction	78,365	-	-	-	(78,365)
Special education instruction	1,177,476	38,582	1,104,245	-	(34,649)
Instructional support services	305,772	-	62,912	-	(242,860)
Pupil support services	1,267,730	-	5,056	-	(1,262,674)
Sites and buildings	1,540,389	118,841	-	726,368	(695,180)
Fiscal and other fixed cost programs	53,714	-	-	-	(53,714)
Food service	450,334	199,014	308,532	-	57,212
Community education and services	385,685	242,659	93,082	-	(49,944)
Unallocated depreciation	307,737	-	-	-	(307,737)
Interest and fiscal charges on long-term debt	249,351	-	-	-	(249,351)
Total governmental activities	$ 9,604,260	$ 879,185	$ 2,668,483	$ 726,368	(5,330,224)

General revenues	
Taxes	
Property taxes, levied for general purposes	1,476,996
Property taxes, levied for community service	158,612
Property taxes, levied for debt service	134,466
State aid-formula grants	6,002,246
Other general revenues	11,917
Investment income	251,445
Total general revenues	8,035,682
Change in net position	2,705,458
Net position - beginning	241,585
Net position - ending	$ 2,947,043

See notes to financial statements.

Independent School District No. 2396
Balance Sheet - Governmental Funds
June 30, 2019

	General	Debt Service	Capital Projects	Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	$ 2,557,617	$ 592,294	$ 15,725,323	$ 432,713	$ 19,307,947
Current property taxes receivable	659,628	774,800	-	95,100	1,529,528
Delinquent property taxes receivable	17,629	3,080	-	1,755	22,464
Accounts receivable	377	-	-	1,200	1,577
Interest receivable	-	-	121,786	-	121,786
Due from Department of Education	859,866	5,353	486,191	6,108	1,357,518
Due from Federal Government through Department of Education	53,789	-	-	-	53,789
Due from other Minnesota school districts	70,462	-	107,808	2,695	180,965
Inventory	-	-	-	8,449	8,449
Prepaid items	71,435	-	-	420	71,855
Total assets	$ 4,290,803	$ 1,375,527	$ 16,441,108	$ 548,440	$ 22,655,878
Liabilities					
Accounts payable	$ 61,892	$ -	$ -	$ 2,101	$ 63,993
Contracts payable	-	-	771,675	-	771,675
Salaries and benefits payable	722,285	-	-	44,978	767,263
Due to other Minnesota school districts	34,229	-	-	300	34,529
Due to other governmental units	30,490	-	-	-	30,490
Unearned revenue	-	-	-	9,933	9,933
Total liabilities	848,896	-	771,675	57,312	1,677,883
Deferred Inflows of Resources					
Property taxes levied for subsequent year's expenditures	1,235,078	1,272,563	-	200,232	2,707,873
Unavailable revenue - delinquent taxes	17,629	3,080	-	1,755	22,464
Total deferred inflows of resources	1,252,707	1,275,643	-	201,987	2,730,337
Fund Balances					
Nonspendable	71,435	-	-	8,869	80,304
Restricted	273,736	99,884	15,669,433	280,272	16,323,325
Committed	83,817	-	-	-	83,817
Assigned	147,865	-	-	-	147,865
Unassigned	1,612,347	-	-	-	1,612,347
Total fund balances	2,189,200	99,884	15,669,433	289,141	18,247,658
Total liabilities, deferred inflows of resources, and fund balances	$ 4,290,803	$ 1,375,527	$ 16,441,108	$ 548,440	$ 22,655,878

See notes to financial statements.

Independent School District No. 2396
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2019

Total fund balances - governmental funds	$ 18,247,658
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	24,576,005
Less accumulated depreciation	(12,959,011)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable	(16,420,000)
Capital lease payable	(3,290)
Compensated absences payable	(312,362)
Total OPEB liability	(772,741)
Net pension liability	(6,627,717)
Deferred outflows of resources and deferred inflows of resources are created as a result of differences between actual and expected contributions and earnings on plan investments as well as changes in proportion and are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	7,838,462
Deferred outflows of resources related to OPEB	108,003
Deferred inflows of resources related to pensions	(9,942,643)
Governmental funds report debt issuance premiums as an other financing source at the time of issuance. Premiums are reported as an unamortized liability in the governmental-wide financial statements.	(559,164)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, and are deferred in the funds.	22,464
Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.	(248,621)
Total net position - governmental activities	$ 2,947,043

See notes to financial statements.

Independent School District No. 2396
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2019

	General	Debt Service	Capital Projects	Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	$ 1,478,910	$ 134,964	$ -	$ 158,713	$ 1,772,587
Other local and county revenues	507,252	3,745	365,669	268,302	1,144,968
Revenue from state sources	8,310,137	53,527	486,191	124,015	8,973,870
Revenue from federal sources	325,845	-	-	268,057	593,902
Sales and other conversion of assets	1,439	-	-	199,014	200,453
Total revenues	10,623,583	192,236	851,860	1,018,101	12,685,780
Expenditures					
Current					
Administration	540,818	-	-	-	540,818
District support services	371,711	-	-	-	371,711
Elementary and secondary regular instruction	4,685,767	-	-	-	4,685,767
Vocational education instruction	167,528	-	-	-	167,528
Special education instruction	1,580,457	-	-	-	1,580,457
Instructional support services	378,682	-	-	-	378,682
Pupil support services	1,298,333	-	-	-	1,298,333
Sites and buildings	1,085,139	-	-	-	1,085,139
Fiscal and other fixed cost programs	53,714	-	-	-	53,714
Food service	-	-	-	451,405	451,405
Community education and services	-	-	-	484,315	484,315
Capital outlay					
Sites and buildings	121,194	-	1,929,450	-	2,050,644
Debt service					
Principal	34,685	120,000	-	-	154,685
Interest and fiscal charges	4,790	45,821	-	-	50,611
Total expenditures	10,322,818	165,821	1,929,450	935,720	13,353,809
Excess of revenues over (under) expenditures	300,765	26,415	(1,077,590)	82,381	(668,029)
Other Financing Sources					
Proceeds from sale of assets	1,034	-	-	-	1,034
Debt issuance	-	-	15,135,000	-	15,135,000
Premium on issuance of bonds	-	-	519,616	-	519,616
Total other financing sources	1,034	-	15,654,616	-	15,655,650
Net change in fund balances	301,799	26,415	14,577,026	82,381	14,987,621
Fund Balances					
Beginning of year	1,887,401	73,469	1,092,407	206,760	3,260,037
End of year	$ 2,189,200	$ 99,884	$ 15,669,433	$ 289,141	$ 18,247,658

See notes to financial statements.

Independent School District No. 2396
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances
to the Statement of Activities - Governmental Funds
Year Ended June 30, 2019

Net change in fund balances - total governmental funds	$	14,987,621
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital outlays		1,701,528
Depreciation expense		(447,405)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.		(94,150)
Governmental funds recognize pension contributions as expenditures at the time of payment in the funds whereas the Statement of Activities factors in differences between actual and expected contributions and earnings on plan investments as well as changes in proportion.		
Pension expense		2,221,867
OPEB liabilities are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.		37,181
Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in net position in the Statement of Activities.		154,685
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 use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		(224,446)
Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.		25,706
The issuance of long-term debt provides current financial resources to governmental funds and has no effect on net position. These amounts are reported in the governmental funds as a source of financing. These amounts are not shown as revenues in the Statement of Activities, but rather constitute long-term liabilities in the Statement of Net Position.		(15,654,616)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.		(2,513)
Change in net position - governmental activities	$	2,705,458

See notes to financial statements.

Independent School District No. 2396
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 1,482,521	$ 1,436,658	$ 1,478,910	$ 42,252
Other local and county revenues	474,305	480,860	507,252	26,392
Revenue from state sources	8,184,811	8,011,026	8,310,137	299,111
Revenue from federal sources	291,500	309,963	325,845	15,882
Sales and other conversion of assets	5,700	700	1,439	739
Total revenues	10,438,837	10,239,207	10,623,583	384,376
Expenditures				
Current				
Administration	538,137	546,242	540,818	(5,424)
District support services	346,223	370,504	371,711	1,207
Elementary and secondary regular instruction	4,793,749	4,653,515	4,685,767	32,252
Vocational education instruction	163,033	216,753	167,528	(49,225)
Special education instruction	1,579,426	1,581,100	1,580,457	(643)
Instructional support services	317,694	376,781	378,682	1,901
Pupil support services	1,179,950	1,291,079	1,298,333	7,254
Sites and buildings	1,181,714	1,102,187	1,085,139	(17,048)
Fiscal and other fixed cost programs	49,500	52,648	53,714	1,066
Capital outlay				
Elementary and secondary regular instruction	44,150	-	-	-
Vocational education instruction	3,275	-	-	-
Instructional support services	32,000	3,290	-	(3,290)
Sites and buildings	139,206	127,479	121,194	(6,285)
Debt service				
Principal	-	39,475	34,685	(4,790)
Interest and fiscal charges	-	-	4,790	4,790
Total expenditures	10,368,057	10,361,053	10,322,818	(38,235)
Excess of revenues over (under) expenditures	70,780	(121,846)	300,765	422,611
Other Financing Sources				
Proceeds from sale of capital assets	-	-	1,034	1,034
Net change in fund balances	$ 70,780	$ (121,846)	301,799	$ 423,645
Fund Balances				
Beginning of year			1,887,401	
End of year			$ 2,189,200	

See notes to financial statements.

Independent School District No. 2396
Statement of Fiduciary Net Position
June 30, 2019

	Private Purpose Trust Fund
Assets	
Current	
Cash and investments	$ 392,647
Net Position	
Held in trust for scholarships	$ 392,647

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2019

	Private Purpose Trust Fund
Additions	
Contributions	$ 1,500
Investment income	11,412
Gain on market value of investments	2,272
Total additions	15,184
Deductions	
Scholarships	10,806
Change in net position	4,378
Net Position	
Beginning of year	388,269
End of year	$ 392,647

See notes to financial statements.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a seven member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

The student activity accounts of the District are under the School Board's control. The activity of the student activity accounts is accounted for in the General Fund.

B. Basic Financial Statement Information

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the fund financial statement level.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

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

The Private Purpose Trust Fund is presented in the fiduciary fund financial statements. 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, this Fund is not incorporated into the government-wide statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 manner listed below and on the following page.

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. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures in the Debt Service Fund, compensated absences, and claims and judgments are recognized when payment is due.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures (Continued)

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned, with the exception that restricted, committed, or assigned fund balance spending may be deferred and unassigned resources spent first if fund balances need to be preserved to facilitate future expenditure plans.

Description of Funds:

Major Funds:

General Fund – This fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bond and state loan principal, interest, and related costs.

Capital Projects Fund – This fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

Nonmajor Funds:

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures. Local, state, and federal revenues are received in this fund to specifically support the Food Service Program.

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood, and family education, or other similar services. The District receipts property tax and local and state revenues in this Fund that were received for these specific purposes.

Fiduciary Fund:

Private Purpose Trust Fund – The Scholarship Trust Fund is used to account for resources received and held by the District in a trustee capacity to be used in making scholarship awards.

D. Cash and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments (Continued)

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

Cash and investments at June 30, 2019, were comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF) including certificates of deposit and government securities and shares in the Minnesota Trust (MNTrust) Term Series. MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value.

Minnesota Statutes require all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days.

In accordance with GASB Statement No. 79, the various MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF or MNTrust. Investments in the MSDLAF MAX must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions. MSDLAF+ Term investments have a maturity of 60 days to one year and early withdrawal may result in substantial early redemption penalties. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

E. Property Tax Receivable

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represents uncollected taxes for the past six years, and is deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2018, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2019. The remaining portion of the levy will be recognized when measurable and available.

G. Inventory

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

I. Property Taxes

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Meeker and Kandiyohi Counties are the collecting agencies for the levy and remit the collections to the District three times a year. The tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

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

J. Capital Assets

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000, an estimated useful life in excess of five years, and all computer equipment. Such 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 its acquisition value at the date of donation.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

Capital assets are depreciated using the straight-line, half-year convention 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 purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 15 years for equipment.

Capital assets not being depreciated include land and construction in progress, if any. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has two items that qualify for reporting in this category. Deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years. Deferred outflows of resources related to OPEB is recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Financial Position and fund financial statements 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 a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items which qualify for reporting in this category. The first 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 second item is property taxes levied for subsequent years, which represent 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 third item is deferred inflows of resources related to pensions and is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

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 Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-Term Obligations (Continued)

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

M. Compensated Absences

District employees earn vacation leave at various rates based on their classification. Vacation must be used prior to June 30 of each year. Upon voluntary termination of employment, certain noncertified staff are entitled to payment for any unused vacation days accrued.

District regular employees are entitled to sick leave at various rates based on their classification.

Employees are not compensated for unused sick leave upon termination of employment, unless taken in conjunction with severance pay as described in Note 1.N. sick leave pay is shown as an expenditure in the year paid.

N. Severance Benefits

At the time of retirement, each qualifying teacher who has been with the District for ten years shall receive $40 per day for accumulated sick leave to be paid to the employee's health care savings plan. The maximum number of sick leave days that may be accrued is 140. Therefore, the maximum payout per employee is $5,600.

Educational support staff and noncertified employees who have been with the District for ten years are paid $20 or $40 a day to a maximum of $2,800 or $5,600, respectively, based on 140 days of accumulated sick leave.

Full-time administrators who have completed at least 15 years of full-time administration and are employed with the District for at least ten years are eligible to receive severance pay. Administrators will be paid in cash for sick leave balances up to 140 days at $100 per day, not to exceed $14,000. Administrators will also receive $20 per day for accumulated sick leave upon their termination with a maximum of $2,800.

O. Post Employment Severance and Health Benefits

Full-time teachers hired prior to July 1, 2001, who have completed at least 15 years of full-time teaching and are employed with the District for at least 15 years and are positioned on the BA+10 teaching lane or higher, shall be eligible for severance pay. Teachers will be paid one payment to a health care savings plan not to exceed $18,500. There are different rates of pay based on whether the teacher has been with the District for 15 or 20 years or more. Beginning July 1, 2002, tenured teachers who are regularly employed are eligible to participate in a 403(b) matching contribution plan. Yearly contributions made by the District to an individual's 403(b) plan will be deducted from the payout mentioned above with any balance remaining due to the eligible teacher upon retirement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Post Employment Severance and Health Benefits (Continued)
Teachers and administrators will also receive an additional one-time payment of $2,500 to the employee's health care savings plan from the District at the time of retirement.

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

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

Q. Risk Management
The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2019.

R. Fund Equity
In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in these funds can be spent.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include inventory and prepaid items.

- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.

- Committed Fund Balances – These are amounts comprised of unrestricted funds used for a specific purpose pursuant to constraints imposed by formal action of the School Board and that remain binding unless removed by the School Board by subsequent formal action.

- Assigned Fund Balances – The School Board delegates the Superintendent and Business Manager the power to assign balances for specific purposes.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Fund Equity (Continued)

- Unassigned Fund Balances – These are amounts that have not been restricted, committed, or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

- Minimum Fund Balance Policy – the District will strive to maintain a minimum General Fund balance of 20% of the annual budget.

S. Net Position

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

T. Use of Estimates

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

U. Budgetary Information

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

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not required for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
4. Budgets for the General, Special Revenue, and Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

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.

Custodial Credit Risk – Deposits: As of June 30, 2019, the District's bank balances were not exposed to custodial credit risk because they were fully insured through FDIC or collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

As of June 30, 2019, the District had the following deposits:

Deposits	$ 413,427
Certificates of deposit	38,608
Total deposits	$ 452,035

B. Investments

As of June 30, 2019, the District had the following investments:

	Fair Value	1 Year or Less	1-2 Years	3-5 Years	6-10 Years	S&P Ratings
MSDLAF	$ 1,680,460	$ 1,680,460	$ -	$ -	$ -	AAAm
MSDMAX	5,190,571	5,190,571	-	-	-	AAAm
MSDLAF - TERM	9,160,000	9,160,000	-	-	-	AAAm
MSDLAF - CD	2,868,000	1,197,000	1,671,000	-	-	AAAm
Negotiable certificates of deposit	330,170	90,144	156,004	84,022	-	NR
Money markets	17,033	17,033	-	-	-	NR
Total investments	$ 19,246,234	$ 17,335,208	$ 1,827,004	$ 84,022	$ -	

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy requires their investments be rated "A" or better for any security which is a federal obligation of any state or local government and "AA" or better for any security which is a revenue obligation of any state or local government as required by *Minnesota Statutes* 118A.04. As of June 30, 2019, the District's investments were rated as shown in the table above.

Custodial Credit Risk – Deposits: For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* 118.03 for an amount exceeding Federal Deposit Insurance Corporation (FDIC), SAIF, BIF, or FCUA coverage.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk: This is the risk that market value of securities will fall due to the changes in market interest rates. The District's investment policy states the District should manage their interest rates in a manner to attain a market rate of return through various economic and budgetary cycles and taking into account constraints on risk and cash flow requirements.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's policy states the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. The District's investments were not exposed to concentration of credit risk as none of their investments exceeded 5% of their total investments.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy requires the District's investments be held in third-party safekeeping by an institution or securities broker-dealer defined in *Minnesota Statutes* 118A.06. The District will receive a safekeeping receipt with information pertinent to identifying the securities held with the third party agent.

The District has the following recurring fair value measurements as of June 30, 2019:

$18,899,031 are in money market mutual funds and local government investment pools and are quoted at net asset value (NAV).

- $347,203 of $347,203 are valued using a quoted market prices (Level 1 inputs)

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	$ 452,035
Petty cash	2,325
Investments	19,246,234
Total deposits and investments	$ 19,700,594

Deposits and investments are presented in the June 30, 2019 basic financial statements as follows:

Statement of Net Position	
Cash and investments	$ 19,307,947
Statement of Fiduciary Net Position	
Cash and investments	392,647
Total	$ 19,700,594

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 248,774	$ -	$ -	$ 248,774
Construction in progress	345,899	1,637,618	720,614	1,262,903
Total capital assets not Being depreciated	594,673	1,637,618	720,614	1,511,677
Capital assets being depreciated				
Improvements other than buildings	1,096,172	-	-	1,096,172
Buildings and improvements	18,237,444	750,312	78,452	18,909,304
Furniture and equipment	2,914,762	34,212	5,112	2,943,862
Vehicles	114,990	-		114,990
Total capital assets being depreciated	22,363,368	784,524	83,564	23,064,328
Less accumulated depreciation for				
Improvements other than buildings	779,070	20,735	-	799,805
Buildings and improvements	9,457,066	340,888	78,452	9,719,502
Furniture and equipment	2,267,408	76,886	5,112	2,339,182
Vehicles	91,626	8,896	-	100,522
Total accumulated depreciation	12,595,170	447,405	83,564	12,959,011
Total capital assets being depreciated, net	9,768,198	337,119	-	10,105,317
Governmental activities, capital assets, net	$ 10,362,871	$ 1,974,737	$ 720,614	$ 11,616,994

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of $447,405 for the year ended June 30, 2019, was charged to the following governmental functions:

Elementary and secondary regular instruction	$ 23,000
Instructional support services	380
Pupil support services	8,946
Sites and buildings	105,054
Food service	2,214
Community education and services	74
Unallocated	307,737
Total depreciation expense	$ 447,405

NOTE 4 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within
Long-term liabilities						
G.O. bonds						
2017 long term facilities maintenance bonds	10/19/17	2.00%-3.00%	$ 1,405,000	02/01/28	$ 1,285,000	$ 130,000
2018A school building bonds	12/27/18	3.00%-3.50%	9,910,000	02/01/39	9,910,000	300,000
2019A school building bonds	02/21/19	3.00%-5.00%	5,225,000	02/01/32	5,225,000	210,000
Total G.O. bonds					16,420,000	640,000
Unamortized bond premium					559,164	-
Capital lease payable					3,290	3,290
Compensated absences					312,362	93,954
Total long-term liabilities					$ 17,294,816	$ 737,244

The long-term liabilities listed above were issued to finance acquisition of capital assets and to show the projected compensated absences due. Capital leases are liquidated from the General Fund. Other long-term liabilities, such as compensated absences, are also typically liquidated through the General Fund.

NOTE 4 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds

Minimum annual principal and interest payments required to retire bond and loan liabilities:

Year Ending June 30,	G.O. Bonds Principal	G.O. Bonds Interest	G.O. Bonds Total
2020	$ 640,000	$ 577,093	$ 1,217,093
2021	615,000	536,568	1,151,568
2022	645,000	514,592	1,159,592
2023	705,000	491,193	1,196,193
2024	730,000	464,242	1,194,242
2025-2029	3,980,000	1,875,975	5,855,975
2030-2034	4,185,000	1,223,531	5,408,531
2035-2039	4,920,000	515,015	5,435,015
Total	$ 16,420,000	$ 6,198,209	$ 22,618,209

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	$ 1,405,000	$ 15,135,000	$ 120,000	$ 16,420,000
Unamortized premium	65,254	519,616	25,706	559,164
Capital lease payable	37,975	-	34,685	3,290
Compensated absences payable	218,212	188,104	93,954	312,362
Total long-term liabilities	$ 1,726,441	$ 15,842,720	$ 274,345	$ 17,294,816

D. Capital Lease Obligations

The District entered into a lease purchase agreement on June 28, 2016 with PCM Financial Services for Chromebooks. The capital lease obligation totaled $118,425. The capital lease agreement includes annual principal and interest payments of $3,290 to $40,008 through June 30, 2020.

NOTE 4 – LONG-TERM DEBT (CONTINUED)

D. Capital Lease Obligations (Continued)

The future minimum lease obligations and the net present value of these minimum lease payments are listed below.

Year Ending June 30,		
2020	$	3,290
Total minimum lease payments		3,290
Less amount representing interest		-
Present value of minimum lease payments	$	3,290

NOTE 5 – FUND BALANCES/NET POSITION

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

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balance

Fund balances are classified as follows to reflect the limitations and restrictions of the respective funds.

	General Fund	Debt Service	Capital Projects	Nonmajor Funds	Total
Nonspendable					
Inventory	$ -	$ -	$ -	$ 8,449	$ 8,449
Prepaid items	71,435	-	-	420	71,855
Total nonspendable	71,435	-	-	8,869	80,304
Restricted/reserved for					
Staff Development	113,780	-	-	-	113,780
Operating Capital	122,784	-	-	-	122,784
Gifted and Talented	33,204	-	-	-	33,204
Teacher Development and Evaluation	20,249	-	-	-	20,249
Achievement and Integration	7,971	-	-	-	7,971
Safe Schools Levy	29,198	-	-	-	29,198
Long-Term Facilities Maintenance	(63,199)	-	767,860	-	704,661
Basic Skills Extended Time	9,749	-	-	-	9,749
Community Education	-	-	-	135,306	135,306
Early Childhood and Family Education	-	-	-	24,153	24,153
School Readiness	-	-	-	11,323	11,323
Community Service	-	-	-	5,759	5,759
Food Service	-	-	-	103,731	103,731
Debt Service	-	99,884	-	-	99,884
Capital Projects	-	-	14,901,573	-	14,901,573
Total Restricted/reserved	273,736	99,884	15,669,433	280,272	16,323,325
Committed for					
Separation/retirement benefits	83,817	-	-	-	83,817
Assigned for					
Student activities	147,865	-	-	-	147,865
Unassigned	1,612,347	-	-	-	1,612,347
Total fund balance	$ 2,189,200	$ 99,884	$ 15,669,433	$ 289,141	$ 18,247,658

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balance (Continued)

Nonspendable for Inventory – This balance represents a portion of the fund balance that is not available since the amounts have already been spent on inventory.

Nonspendable for Prepaid Items – This balance represents a portion of the fund balance that is not available since the amounts have already been spent by the District on expenses for the next year.

Restricted/Reserved for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were restricted/reserved for staff development related to Finance Code 316. Expenditures for staff development must equal at least 2% of the basic general education revenue, unless legal stipulations are met (*Minnesota Statutes* 122A.61, subd. 1).

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted/Reserved for Gifted and Talented – The part of General Education Aid revenue for the gifted and talented program that is unspent at year end must be restricted in this Balance Sheet account.

Restricted/Reserved for Teacher Development and Evaluation – This balance represents resources available for teacher development and evaluation uses listed in *Minnesota Statutes* 122A.40, subd. 8 or 122A.41, subd. 5.

Restricted/Reserved for Achievement and Integration Revenue – This balance represents unspent resources available from the achievement and integration program.

Restricted/Reserved for Safe Schools Levy – The unspent resources available from the safe schools levy must be restricted in this account for future use.

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* 123B.595, subd. 12).

Restricted/Reserved for Basic Skills Extended Time – This balance represents resources available for the basic skills extended time uses listed in *Minnesota Statutes* 126C.15, subd. 1.

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education and extended day programs.

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balance (Continued)

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes* 124D.16).

Restricted for Community Service – This balance represents the positive fund balance of the Community Service Fund.

Restricted/Reserved for Food Service – This balance represents the positive fund balance of the Food Service Fund.

Restricted/Reserved for Debt Service – This balance represents the positive fund balance of the Debt Service Fund.

Restricted/Reserved for Capital Projects – This balance represents the remaining funds available from the school building bonds to be used for the approved capital projects.

Committed for Separation/Retirement Benefits – This balance represents an amount set aside by the School Board for retirement benefits.

Assigned for Student Activities – This balance represents the balance of the student activity accounts that are under School Board control as of June 30, 2019.

B. Net Position

Restricted net position is comprised of the total positive General Fund restricted fund balance plus the positive fund balances of the Food Service, Community Service, and Debt Service Funds.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans. Total pension expense for the year ended June 30, 2019, was $(2,075,104). The components of pension expense are noted in the following plan summaries.

The General Fund typically liquidates the liability related to the pensions.

Teachers Retirement Association

A. Plan Description

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers Retirement Association (Continued)

A. Plan Description (Continued)

Educators employed in Minnesota's public elementary and secondary schools, charter schools and certain educational institutions maintained by the state are required to be TRA members (except those teachers employed by the cities of Duluth and St. Paul Public Schools or Minnesota State Colleges and Universities. Educators first hired by Minnesota State may elect either TRA coverage or coverage through Minnesota State's Individual Retirement Account Plan (IRAP) within one year of eligible employment.

B. Benefits Provided

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

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

Tier I Benefits

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

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits

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

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

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

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

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2017, June 30, 2018, and June 30, 2019, were:

	June 30, 2017		June 30, 2018		June 30, 2019	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.0%	11.5%	11.0%	11.5%	11.0%	11.71%
Coordinated	7.5%	7.5%	7.5%	7.5%	7.5%	7.71%

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers Retirement Association (Continued)

C. Contribution Rate (Continued)
The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in Schedule of Employer and Non-Employer Pension Allocations. Amounts are reported in thousands.

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$	378,728
Deduct Employer contributions not related to future contribution efforts		522
Deduct TRA's contributions not included in allocation		(471)
Total employer contributions		378,779
Total non-employer contributions		35,588
Total contributions reported in *Schedule of Employer and Non-Employer Allocations*	$	414,367

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers Retirement Association (Continued)

D. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Valuation date	July 1, 2018
Experience study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% for ten years and 3.25% thereafter
Projected salary increase	2.85% to 8.85% for ten years and 3.25% to 9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually
Mortality Assumption	
Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers Retirement Association (Continued)

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

Asset Class	Allocations as of June 30, 2018	Final Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	33 %	36 %	5.10 %
International stocks	16	17	5.30
Private markets	25	25	5.90
Fixed income	16	20	0.75
Treasuries	8	0	0.50
Unallocated cash	2	2	0.00
Total	100 %	100 %	

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

Changes in actuarial assumptions since the 2017 valuation:

- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

E. Discount Rate

The discount rate used to measure the total pension liability was 7.5%. This is an increase from the discount rate at the prior measurement date of 5.12%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2018 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

F. Net Pension Liability

On June 30, 2019, the District reported a liability of $5,307,391 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District's proportionate share was 0.0845% at the end of the measurement period and 0.0832% for the beginning of the year.

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

District's proportionate share of net pension liability	$ 5,307,391
State's proportionate share of the net pension liability associated with the District	498,435

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers Retirement Association (Continued)

F. Net Pension Liability (Continued)

For the year ended June 30, 2019, the District recognized pension expense of ($2,159,896). It recognized ($347,875) as an increase to pension expense for the support provided by direct aid.

At June 30, 2019, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 57,058	$ 105,571
Net difference between projected and actual earnings on plan investments	-	420,289
Changes of assumptions	6,672,665	9,020,678
Changes in proportion	419,257	8,915
Contributions to TRA subsequent to the measurement date	358,499	-
Total	$ 7,507,479	$ 9,555,453

$358,499 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 net pension liability in the year ended June 30, 2019.

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

Year Ended June 30,	Pension Expense Amount
2020	$ 567,503
2021	345,133
2022	18,041
2023	(1,946,053)
2024	(1,391,097)
Total	$ (2,406,473)

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers Retirement Association (Continued)

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.5% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower (6.5%) and 1 percent higher (8.5%) than the current rate.

District proportionate share of NPL		
1% decrease (6.50%)	Current (7.50%)	1% increase (8.50%)
$ 8,422,808	$ 5,307,391	$ 2,737,192

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

H. Pension Plan Fiduciary Net Position

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

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Plan

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

B. Benefits Provided

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

General Employees Plan 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 annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years of service and 1.7% for each additional year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%. 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.

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2019. The District's contributions to the General Employees Fund for the year ended June 30, 2019, were $126,031. The District's contributions were equal to the required contributions as set by state statute.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2019, the District reported a liability of $1,320,326 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $43,343. The net pension liability was measured as of June 30, 2018, 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, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the District's proportionate share was 0.0238% at the end of the measurement period and 0.0241% for the beginning of the period.

District's proportionate share of net pension liability	$ 1,320,326
State of Minnesota's proportionate share of the net pension liability associated with the District	43,343
Total	$ 1,363,669

For the year ended June 30, 2019, the District recognized pension expense of $84,792 for its proportionate share of the General Employees Plan's pension expense. The District recognized an additional $10,108 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.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

At June 30, 2019, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 35,367	$ 41,097
Changes in actuarial assumptions	134,603	149,633
Difference between projected and actual investments earnings	-	129,320
Change in proportion	34,982	67,140
Contributions paid to PERA subsequent to the measurement date	126,031	-
Total	$ 330,983	$ 387,190

$126,031 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2020	$ 57,190
2021	(99,138)
2022	(112,733)
2023	(27,557)
Total	$ (182,238)

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

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

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions occurred in 2018:

Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 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.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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 using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

Asset Class	Final Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	36 %	5.10 %
International stocks	17	5.30
Bonds	20	0.75
Alternative assets	25	5.90
Cash	2	0.00
Total	100 %	

F. Discount Rates

The discount rate used to measure the total pension liability in 2018 was 7.5%. 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 was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	$ 2,145,699	$ 1,320,326	$ 639,005

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

H. Pension Plan Fiduciary Net Position
Detailed information about the General Employees Fund's fiduciary net position is available in a separately-issued PERA financial report that includes the financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description
The District's defined benefit OPEB plan provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical coverage and dental coverage. Medical coverage is administered by Blue Cross Blue Shield. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees. No assets are accumulated in a trust.

B. Benefits Provided
Teachers who apply for early retirement shall remain eligible to receive certain health insurance benefits until the end of the school year in which the teacher becomes Medicare eligible. Full vesting of such amounts occurs upon attaining 56 years of age. Benefits are partially or fully paid on behalf of certain retired District employees meeting age and service requirements.

In addition, the District provides certain classes of employees retiring at age 55 with 10-25 years of service a contribution to a Minnesota State Retirement System Health Care Savings Plan account in the amount of $20,000 to $30,000 less total contributions made to the account prior to retirement. Teachers and administrators will also receive an additional one-time payment of $2,500 to the employee's health care savings plan.

The General Fund, Food Service Fund, and Community Service Fund typically liquidate the liability related to OPEB.

C. Contributions
Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Blue Cross Blue Shield. The required contributions are based on projected pay-as-you-go financing requirements. For fiscal year 2019, the District contributed $108,003 to the plan.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Members

As of July 1, 2017, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	4
Active employees	96
Total	100

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of July 1, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
Discount Rate	3.40%
Salary Increases	3.00%
Inflation	2.50%
Healthcare cost trend increases	6.5% as of July 1, 2017 grading to 5.00% over 6 years
Mortality Assumption	RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of the Teacher Retirement Association of Minnesota actuarial experience study for the period July 1, 2008 through June 30, 2014.

The discount rate used to measure the total OPEB liability was 3.4% using the 20-year municipal bond yield.

F. Total OPEB Liability

The District's total OPEB liability of $772,741 was measured as of July 1, 2018, and was determined by an actuarial valuation as of July 1, 2017.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Total OPEB Liability (Continued)

Changes in the total OPEB liability are as follows:

	Total OPEB Liability
Balances at July 1, 2018	$ 794,301
Changes for the year	
Service cost	43,881
Interest cost	26,941
Benefit payments	(92,382)
Net changes	(21,560)
Balances at June 30, 2019	$ 772,741

Changes of assumptions and other inputs reflect a change in the discount rate from 4.50% in 2014 to 3.40% in 2017.

G. OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.40% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

Total OPEB Liability		
1% decrease (2.40%)	Current (3.40%)	1% increase (4.40%)
$ 811,961	$ 772,741	$ 734,647

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

Total OPEB Liability		
1% decrease (5.5% decreasing to 4.0%)	Current (6.5% decreasing to 5.0%)	1% increase (7.5% decreasing to 6.0%)
$ 718,743	$ 772,741	$ 836,635

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

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

For the year ended June 30, 2019, the District recognized OPEB expense of $37,181. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ -
Differences between expected and actual economic experience	-	-
Changes of assumptions	-	-
Subsequent Contributions	108,003	-
Total	$ 108,003	$ -

$108,003 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020.

NOTE 8 – COMMITMENTS

As of June 30, 2019, the District had outstanding commitments totaling $6,312,301 for the Cosmos remodel project and voter-approved bond projects.

NOTE 9 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 84, Fiduciary Activities establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will be effective for the year ending June 30, 2020.

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending June 30, 2021.

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REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 2396
Schedule of Changes in Total OPEB Liability
and Related Ratios

	June 30, 2018	June 30, 2019
Total OPEB Liability		
Service cost	$ 42,603	$ 43,881
Interest cost	27,398	26,941
Benefit payments	(77,201)	(92,382)
Net change in total OPEB liability	(7,200)	(21,560)
Beginning of year	801,501	794,301
End of year	$ 794,301	$ 772,741
Covered payroll	$ 5,015,609	$ 5,166,077
Total OPEB liability as a percentage of covered payroll	15.84%	14.96%

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

Independent School District No. 2396
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability - General Employees Fund Retirement Fund
Last Ten Years

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0234%	$ 1,099,215	$ -	$ 1,099,215	$ 1,228,676	89.5%	78.8%
2016	0.0227%	1,176,432	-	1,176,432	1,321,453	89.0%	78.2%
2017	0.0254%	2,062,354	26,902	2,089,256	1,573,347	131.1%	68.9%
2018	0.0241%	1,538,528	19,311	1,557,839	1,549,827	99.3%	75.9%
2019	0.0238%	1,320,326	43,343	1,363,669	1,601,947	82.4%	79.5%

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

Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability - TRA Retirement Fund
Last Ten Years

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0853%	$ 3,930,563	$ 276,508	$ 4,207,071	$ 3,894,359	100.9%	81.5%
2016	0.0813%	5,029,209	617,068	5,646,277	4,172,093	120.5%	76.8%
2017	0.0823%	19,630,514	1,971,245	21,601,759	4,282,040	458.4%	44.9%
2018	0.0832%	16,608,229	1,604,713	18,212,942	4,479,080	370.8%	51.6%
2019	0.0845%	5,307,391	498,435	5,805,826	4,666,240	113.7%	78.1%

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

Independent School District No. 2396
Schedule of District Contributions
General Employees Fund Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 89,079	$ 89,079	$ -	$ 1,228,676	7.25%
2015	99,109	99,109	-	1,321,453	7.50%
2016	118,001	118,001	-	1,573,347	7.50%
2017	116,237	116,237	-	1,549,827	7.50%
2018	120,146	120,146	-	1,601,947	7.50%
2019	126,031	126,031	-	1,680,413	7.50%

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

Schedule of District Contributions
TRA Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 272,605	$ 272,605	$ -	$ 3,894,359	7.00%
2015	312,907	312,907	-	4,172,093	7.50%
2016	321,153	321,153	-	4,282,040	7.50%
2017	335,931	335,931	-	4,479,080	7.50%
2018	349,968	349,968	-	4,666,240	7.50%
2019	358,499	358,499	-	4,649,792	7.71%

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

TRA Retirement Fund

2018 Changes
Changes in Actuarial Assumptions
- The discount rate was increased to 7.5% from 5.12%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

2017 Changes
Changes in Actuarial Assumptions
- The discount rate was increased to 5.12% from 4.66%.
- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

TRA Retirement Fund (Continued)

2016 Changes
Changes in Actuarial Assumptions

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

2015 Changes
Changes of Benefit Terms

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

Changes in Actuarial 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%.

Independent School District No. 2396
Notes to the Required Supplementary Information

General Employees Fund

2018 Changes
Changes in Actuarial Assumptions:

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 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.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes
Changes in Actuarial Assumptions

- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

2016 Changes
Changes in Actuarial Assumptions

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

General Employees Fund (Continued)

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.

Post Employment Health Care Plan

2018 Changes

There were no benefit changes and not assumption changes.

2017 Changes

Plan Changes

- The Building and Grounds Maintenance Supervisor no longer has a post employment GSAB 75 subsidy.
- The lump sum payment to a Health Care Savings Plan for teachers hired before July 2, 2001 was increased from $11,000 to $20,000 for teachers with 15 years of service and from $18,500 to $30,000 for teachers with 20 years of service. This lump sum payment is offset by accumulated District contributions to the 403(b) Plan. The maximum match also increased from $18,500 to $30,000.

Assumption Changes

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2000 Combined Healthy Mortality Tables projected to 2014 with Scale BB to the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.
- The discount rate was changed from 4.50% to 3.40%.
- The withdrawal table for all employees and retirement table for only employees eligible to retire with Rule of 90 were also updated.
- The percentage of future retirees, no eligible for a subsidized benefit, who are assumed to continue on one of the District's medical plans post employment was reduced from 60% to 50% for all employees except education assistants and those covered under the MSEA contract.

Method Changes

- The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.

SUPPLEMENTARY INFORMATION

Independent School District No. 2396
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2019

	Special Revenue Funds		Total
	Food Service	Community Service	Nonmajor Funds
Assets			
Cash and investments	$ 127,404	$ 305,309	$ 432,713
Current property taxes receivable	-	95,100	95,100
Delinquent property taxes receivable	-	1,755	1,755
Accounts receivable	1,200	-	1,200
Due from Department of Education	-	6,108	6,108
Due from other Minnesota school districts	2,695	-	2,695
Inventory	8,449	-	8,449
Prepaid items	420	-	420
Total assets	$ 140,168	$ 408,272	$ 548,440
Liabilities			
Accounts payable	$ -	$ 2,101	$ 2,101
Salaries and benefits payable	17,635	27,343	44,978
Due to other Minnesota school districts	-	300	300
Unearned revenue	9,933	-	9,933
Total liabilities	27,568	29,744	57,312
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	200,232	200,232
Unavailable revenue - delinquent taxes	-	1,755	1,755
Total deferred inflows of resources	-	201,987	201,987
Fund Balances			
Nonspendable	8,869	-	8,869
Restricted	103,731	176,541	280,272
Total fund balances	112,600	176,541	289,141
Total liabilities, deferred inflows of resources, and fund balances	$ 140,168	$ 408,272	$ 548,440

Independent School District No. 2396
Combining Statement of Revenues, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2019

	Special Revenue Funds		Total
	Food Service	Community Service	Nonmajor Funds
Revenues			
Local property taxes	$ -	$ 158,713	$ 158,713
Other local and county revenues	7,871	260,431	268,302
Revenue from state sources	33,965	90,050	124,015
Revenue from federal sources	268,057	-	268,057
Sales and other conversion of assets	199,014	-	199,014
Total revenues	508,907	509,194	1,018,101
Expenditures			
Current			
Food service	451,405	-	451,405
Community education and services	-	484,315	484,315
Total expenditures	451,405	484,315	935,720
Net change in fund balances	57,502	24,879	82,381
Fund Balances			
Beginning of year	55,098	151,662	206,760
End of year	$ 112,600	$ 176,541	$ 289,141

Independent School District No. 2396
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2019

	Audit	UFARS	Audit UFARS
01 General Fund			
Total revenue	$ 10,623,583	$ 10,623,582	$ 1
Total expenditures	10,322,818	10,322,817	1
Nonspendable:			
460 Nonspendable fund balance	71,435	71,435	-
Restricted/reserved:			
403 Staff Development	113,780	113,780	-
406 Health and Safety	-	-	-
407 Capital Projects Levy	-	-	-
408 Cooperative Programs	-	-	-
413 Building Projects Funded by COP/LP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
424 Operating Capital	122,784	122,784	-
426 $25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alternative Programs	-	-	-
436 State Approved Alternative Program	-	-	-
438 Gifted and Talented	33,204	33,204	-
440 Teacher Development and Evaluation	20,249	20,249	-
441 Basic Skills Programs	-	-	-
445 Career Technical Programs	-	-	-
448 Achievement and Integration	7,971	7,971	-
449 Safe Schools Levy	29,198	29,198	-
450 Transition for Pre-Kindergarten	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-
453 Unfunded Severance and Retirement Levy	-	-	-
459 Basic Skills Extended Time	9,749	9,749	-
467 Long-term Facilities Maintenance	(63,199)	(63,199)	-
472 Medical Assistance	-	-	-
475 Title VII - Impact Aid	-	-	-
476 Payments in Lieu of Taxes	-	-	-
Restricted:			
464 Restricted fund balance	-	-	-
Committed:			
418 Committed for separation/ retirement benefits	83,817	83,817	-
461 Committed	-	-	-
Assigned:			
462 Assigned fund balance	147,865	147,865	-
Unassigned:			
422 Unassigned fund balance	1,612,347	1,612,346	1
02 Food Services Fund			
Total revenue	$ 508,907	$ 508,907	$ -
Total expenditures	451,405	451,406	(1)
Nonspendable:			
460 Nonspendable fund balance	8,869	8,869	-
Restricted/reserved:			
452 OPEB liabilities not held in trust	-	-	-
Restricted:			
464 Restricted fund balance	103,731	103,730	1
Unassigned:			
463 Unassigned fund balance	-	-	-
04 Community Service Fund			
Total revenue	$ 509,194	$ 509,195	$ (1)
Total expenditures	484,315	484,315	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
426 $25 Taconite	-	-	-
431 Community Education	135,306	135,306	-
432 ECFE	24,153	24,153	-
440 Teacher Development and Evaluation			
444 School Readiness	11,323	11,323	-
447 Adult Basic Education	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-
Restricted:			
464 Restricted fund balance	5,759	5,759	-
Unassigned:			
463 Unassigned fund balance	-	-	-

	Audit	UFARS	Audit UFARS
06 Building Construction Fund			
Total revenue	$ 851,860	$ 851,860	$ -
Total expenditures	1,929,450	1,929,449	1
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
407 Capital Projects Levy	-	-	-
413 Building Projects Funded by COP/LP	-	-	-
467 LTFM	767,860	767,860	-
Restricted:			
464 Restricted fund balance	14,901,573	14,901,574	(1)
Unassigned:			
463 Unassigned fund balance	-	-	-
07 Debt Service Fund			
Total revenue	$ 192,236	$ 192,236	$ -
Total expenditures	165,821	165,821	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
425 Bond refunding	-	-	-
433 Maximum effort loan aid	-	-	-
451 QZAB payments	-	-	-
Restricted:			
464 Restricted fund balance	99,884	99,883	1
Unassigned:			
463 Unassigned fund balance	-	-	-
08 Trust Fund			
Total revenue	$ 15,184	$ 15,185	$ (1)
Total expenditures	10,806	10,806	-
Unassigned:			
422 Net position	392,647	392,648	(1)
20 Internal Service Fund			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Net position	-	-	-
25 OPEB Revocable Trust			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Net position	-	-	-
45 OPEB Irrevocable Trust			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Net position	-	-	-
47 OPEB Debt Service			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted:			
464 Restricted fund balance	-	-	-
Unassigned:			
463 Unassigned fund balance	-	-	-

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*

Independent Auditor's Report

To the School Board
Independent School District No. 2396
Atwater/Cosmos/Grove City, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2396, Atwater/Cosmos/Grove City, Minnesota, as of and for the year ending June 30, 2019, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 14, 2019.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the 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. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Corrective Action Plans on Internal Control as Audit Findings 2019-001 and 2019-002 to be material weaknesses.

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

District's Response to the Findings
The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Corrective Action Plans on Internal Control. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Bergan KDV, Ltd.

St. Cloud, Minnesota
October 14, 2019

Minnesota Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 2396
Atwater/Cosmos/Grove City, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2396, Atwater/Cosmos/Grove City, Minnesota, as of and for the year ended June 30, 2019, and the related notes to financial statements, and have issued our report thereon dated October 14, 2019.

The *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the State Auditor pursuant to *Minnesota Statutes* § 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. Our audit considered all of the listed categories.

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 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.

BerganKDV, Ltd.

St. Cloud, Minnesota
October 14, 2019

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Independent School District No. 2396
Schedule of Findings and Corrective Action Plans
on Internal Control

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:

Material Weaknesses:

Audit Finding 2019-001 – Preparation of Revenue Reconciliations and Timely Deposits

School districts generally receive payments from students, parents, and members of the community throughout the year. Oftentimes, payment comes in the form of cash, which is highly susceptible to theft. Therefore, it is important the District ensure there are adequate internal control procedures in place to ensure all payments made to the District are deposited into the District's bank account.

During our audit, we noted many of the receipts selected for testing did not have adequate back up documentation to allow for reconciling the total money received and deposited to the amount that should have been deposited. The District attaches receipts for cash payments, but while those receipts are pre-numbered, the receipts turned into the District Office had missing receipts in the sequence for the deposit. It was also noted there were instances where collected funds were not deposited within five days.

We recommend the District implement an internal control procedure to help ensure all money collected by District personnel is deposited into the District's bank account. An internal control procedure that could be implemented is to require reconciliations be completed by employees who are responsible for collecting money. This reconciliation should then be verified by another employee who would be responsible for completing the deposit and reviewed by a third employee to ensure there is adequate documentation to support the reconciliation and that the amount deposited matches the reconciliation. This reconciling procedure could be implemented by requiring sequentially numbered receipts be given to students, parents, or community members turning in the payment. If a teacher/coach collects payments, the teacher/coach should be provided with a receipt when the funds are turned into the main office for deposit. The teacher/coach should provide the main office with a list of the individual payments received, including whether the payments were cash or checks. At the end of the day, the employee responsible for collecting payments can then reconcile the carbon copies of the sequentially numbered receipts to the amount of money to be deposited. The reconciliation should be in writing and include the receipt numbers used that day, the total cash according to the receipts in that sequence, the total checks according to the receipts in that sequence, the total actual amount of cash, the total actual amount of checks, and the difference. If there is a difference, an explanation should be documented as to why there is a difference. In instances such as a la carte and concessions, a cash register could be used. The cash register tape could then be used to reconcile the amount in sales to the amount turned in to be deposited.

During our testing of certain programs within the community education revenues, it was noted students or parents did not receive a carbon copy receipt showing they paid for their activity. Without the receipt, reconciling deposits cannot be completed.

Independent School District No. 2396
Schedule of Findings and Corrective Action Plans
on Internal Control

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS: (CONTINUED)

Material Weaknesses: (Continued)

Audit Finding 2019-001 – Preparation of Revenue Reconciliations and Timely Deposits (Continued)

We recommend for every payment received by the District, a carbon copy receipt be filled out and the receipts reconciled with the deposit. We also recommend receipts collected be locked in a safe or secure location and be deposited daily or, at a minimum, weekly. Receipts should not be kept in the schools over the weekend.

CORRECTIVE ACTION PLAN (CAP):

1. <u>Explanation of Disagreement with Audit Finding</u>
   There is no disagreement with the audit finding.

2. <u>Actions Planned in Response to Finding</u>
   District office personnel have been assigned to handle early childhood funds and individual tuition rates are being reported to allow reconciliation.

3. <u>Official Responsible for Ensuring CAP</u>
   Nels Onstad, Superintendent of Schools, is the official responsible for ensuring corrective action of the deficiency.

4. <u>Planned Completion Date for CAP</u>
   The Superintendent of Schools will continually monitor the accounting system and improve controls when possible.

5. <u>Plan to Monitor Completion of CAP</u>
   The School Board will be monitoring this CAP.

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS: (CONTINUED)

Material Weaknesses: (Continued)

Audit Finding 2019-002 – Lack of Segregation of Accounting Duties

During the year ended June 30, 2019, the District had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management, along with the School Board, must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Business Manager has access to all areas of the accounting system.
- The Business Manager prepares the bank reconciliations, reviews receipts, and also has the ability to write checks.
- The Business Manager records and maintains capital asset records.
- The Business Manager reconciles state and federal receivables and revenues and posts entries to the general ledger to adjust them.
- The Business Manager reconciles cash monthly, which is not reviewed by another employee and has access to the general ledger.
- The Accounts Payable Clerk enters invoices into the system, prepares coding, verifies totals, signs off on invoices, has access to the digital signatures, and also prepares the checks.
- The Payroll Clerk verifies pay rates, prepares, and prints all payroll checks.
- Employees who collect money also reconcile the receipts, prepare the deposits, and take the deposits to the bank.
- The Business Manager occasionally prepares journal entries, related documentation, and posts those entries.

Independent School District No. 2396
Schedule of Findings and Corrective Action Plans
on Internal Control

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS: (CONTINUED)

Material Weaknesses: (Continued)

Audit Finding 2019-002 – Lack of Segregation of Accounting Duties (Continued)

CORRECTIVE ACTION PLAN (CAP):

1. <u>Explanation of Disagreement with Audit Finding</u>
   There is no disagreement with the audit finding.

2. <u>Actions Planned in Response to Finding</u>
   Efforts will continue to be made to revise division of duties where practicable. Further consultation through the service cooperative will help monitor the situation.

3. <u>Official Responsible for Ensuring CAP</u>
   Nels Onstad, Superintendent of Schools, is the official responsible for ensuring corrective action of the deficiency.

4. <u>Planned Completion Date for CAP</u>
   The Superintendent of Schools will continually monitor the accounting system and improve controls when possible.

5. <u>Plan to Monitor Completion of CAP</u>
   The School Board will be monitoring this CAP.