

**LAKE SUPERIOR PUBLIC SCHOOL
INDEPENDENT SCHOOL DISTRICT NO. 381**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2019

**INDEPENDENT SCHOOL DISTRICT NO. 381
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2019**

INTRODUCTORY SECTION

BOARD OF EDUCATION AND ADMINISTRATION	1
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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT	2
REQUIRED SUPPLEMENTARY INFORMATION	
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	15
STATEMENT OF ACTIVITIES	16
BALANCE SHEET – GOVERNMENTAL FUNDS	17
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS TO THE STATEMENTS OF NET POSITION GOVERNMENTAL ACTIVITIES	19
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUNDS	20
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES	22
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – GENERAL FUND	23
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – FOOD SERVICE FUND	24
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – BUDGET AND ACTUAL – COMMUNITY SERVICE FUND	25
STATEMENT OF FIDUCIARY NET POSITION	26
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION	27
NOTES TO BASIC FINANCIAL STATEMENTS	28
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY (ASSET) AND RELATED RATIOS	61
SCHEDULE OF MONEY WEIGHTED RATE OF RETURN ON PLAN ASSETS	62
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	63
SCHEDULE OF DISTRICT CONTRIBUTIONS	64
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION	65

**INDEPENDENT SCHOOL DISTRICT NO. 381
TABLE OF CONTENTS
YEAR ENDED JUNE 30, 2019**

SUPPLEMENTARY INFORMATION

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE	68
SINGLE AUDIT AND OTHER REQUIRED REPORTS	
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON A AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	69
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	71
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	73
INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE	74
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	75

INTRODUCTORY SECTION

**INDEPENDENT SCHOOL DISTRICT NO. 381
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2019**

BOARD OF EDUCATION

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Thomas Burns	12/31/22	Chairperson
Cynthia Ryder	12/31/20	Vice Chairperson
Alan Ringer	12/31/20	Treasurer
Mark Leblanc	12/31/20	Clerk
Dean Korri	12/31/22	Director
Tracy Tiboni	12/31/22	Director
Steve VanHouse	12/31/22	Director

ADMINISTRATION

Bill Crandall

Superintendent

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 381
Two Harbors, 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. 381 (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2019, and the respective changes in financial position and the respective budgetary comparison for the General, Food Service, and Community Service funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

During fiscal year ended June 30, 2019, the District restated the beginning fund balance of the general fund and beginning net position of the OPEB irrevocable trust fund due to a correction of an error. This restatement related to a portion of the prior year OPEB expenditures paid by the trust but shown as expenditures in the General Fund. The District restated beginning fund balance of the general fund and the beginning net position of the governmental activities due to a change in reporting entity. The District approved to move the student activity funds under board control for fiscal year 2019. See the detail of the correction of error and change of reporting entity restatements in Note 11. Our auditor's opinion was not modified with respect to these matters.

Other Matters

Report on Prior Year Summarized Information

The District's financial statements of the governmental activities, each major fund and the aggregate remaining fund information as of June 30, 2018 and for the year then ended were audited by other auditors, and they expressed an unmodified opinion on those audited financial statements in their report dated December 21, 2018. The summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Supplementary 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 Uniform Financial Accounting and Reporting Standards Compliance Table is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Uniform Financial Accounting and Reporting Standards Compliance Table and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 28, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

St. Cloud, Minnesota
October 28, 2019

REQUIRED SUPPLEMENTARY INFORMATION

**INDEPENDENT SCHOOL DISTRICT NO. 381
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

This section of Independent School District No. 381's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019.

FINANCIAL HIGHLIGHTS

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

- Net position increased by \$5,700,982 on revenues of \$21,925,786 compared to expenses of \$16,224,804 and a change in reporting entity of \$132,921.
- General Fund revenues increased from \$17,271,205 in FY2018 to \$17,673,747 in FY2019, an increase of \$402,542, or 2.3%, while expenditures increased from \$17,947,774 in FY2018 to \$18,294,111 in FY2019, an increase of \$349,337 or 1.9%.
- The General Fund fund balance decreased \$177,910 before the restatements.
- The Food Service Fund fund balance decreased \$35,323, due to an increase in food costs.
- The Community Service Fund fund balance increased \$9,065.
- The Debt Service Fund fund balance decreased \$22,047, due to continued payment on debt.
- The OPEB Debt Service Fund fund balance increased \$1,342, due to an increase in investment income.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the government-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.
- *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, 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 plus deferred outflows of resources and liabilities plus deferred inflows of resources – is one way to measure the District's financial health or *position*.

**INDEPENDENT SCHOOL DISTRICT NO. 381
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Statements (Continued)

- 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 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, administration, food services, and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements

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

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

The District has 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, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of 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 scholarship funds and the District's Private-Purpose Trust Fund. The District is responsible for ensuring that the 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 government-wide financial statements because the District cannot use these assets to finance its operations.

**INDEPENDENT SCHOOL DISTRICT NO. 381
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position was \$6,210,061 on June 30, 2019. This was an increase of \$5,700,982 from the prior year balance of \$376,158 (see Table A-1). This increase was due to a decrease in pension liability and related deferred inflows and outflows of resources.

**Table A-1
The District's Net Position**

	Governmental Activities as of June 30,		Percentage Change
	2019	2018	
Current and Other Assets	\$ 13,135,359	\$ 13,466,365	(2.46)%
Capital Assets	32,104,413	32,508,749	(1.24)
Total Assets	<u>45,239,772</u>	<u>45,975,114</u>	(1.60)
Deferred Outflows of Resources	14,180,574	13,655,982	3.84
Current Liabilities	5,435,601	5,220,463	4.12
Net Pension Liability	11,393,613	31,392,821	(63.71)
Long-Term Liabilities	13,870,407	16,861,561	(17.74)
Total Liabilities	<u>30,699,621</u>	<u>53,474,845</u>	(42.59)
Deferred Inflows of Resources	<u>22,510,664</u>	<u>5,780,093</u>	289.45
Net Position:			
Net Investment in Capital Assets	20,192,288	18,267,292	10.54
Restricted	1,966,988	2,926,302	(32.78)
Unrestricted	(15,949,215)	(20,817,436)	(23.39)
Total Net Position	<u>\$ 6,210,061</u>	<u>\$ 376,158</u>	1550.92

**INDEPENDENT SCHOOL DISTRICT NO. 381
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The increase in net position occurred primarily as a result of the decrease in overall pension liability and related deferred inflows and outflows. A summary of the revenues and expenses is presented below and described in more detail following the table.

**Table A-2
Change in Net Position**

	Governmental Activities for the Fiscal Year Ended June 30,		Percentage Change
	2019	2018	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 822,088	\$ 1,197,643	(31.36)%
Operating Grants and Contributions	1,293,369	3,034,269	(57.37)
Capital Grants and Contributions	336,056	-	100.00
<u>General Revenues</u>			
Property Taxes	6,565,856	6,239,519	5.23
Unrestricted State Aid	12,667,085	11,429,269	10.83
Investment Earnings	116,637	109,076	6.93
Other	124,695	191,547	(34.90)
Total Revenues	<u>21,925,786</u>	<u>22,201,323</u>	(1.24)
Expenses			
Administration	1,054,952	1,306,825	(19.27)
District Support Services	307,786	370,273	(16.88)
Regular Instruction	5,163,773	12,590,358	(58.99)
Vocational Education Instruction	262,513	332,896	(21.14)
Special Education Instruction	2,737,324	3,562,556	(23.16)
Instructional Support Services	927,557	914,612	1.42
Pupil Support Services	1,056,186	1,244,711	(15.15)
Sites and Buildings	2,078,733	1,684,761	23.38
Fiscal and Other Fixed Cost Programs	71,149	-	100.00
Food Service	575,874	526,794	9.32
Community Service	707,618	730,567	(3.14)
Interest and Fiscal Charges on Unallocated Depreciation Expense	864,251	1,134,905	(23.85)
Long-Term Liabilities	417,088	791,702	(47.32)
Total Expenses	<u>16,224,804</u>	<u>25,190,960</u>	(35.59)
Change in Net Position	5,700,982	(2,989,637)	
Beginning Net Position	376,158	3,365,795	
Change in Reporting Entity	132,921	-	
Beginning Net Position, as Restated	<u>509,079</u>	<u>3,365,795</u>	
Ending Net Position	<u>\$ 6,210,061</u>	<u>\$ 376,158</u>	

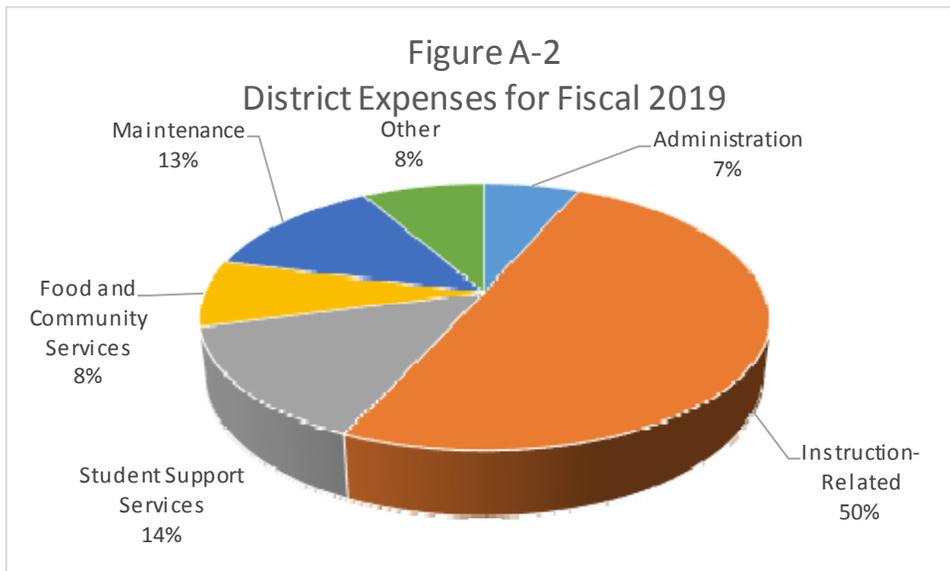
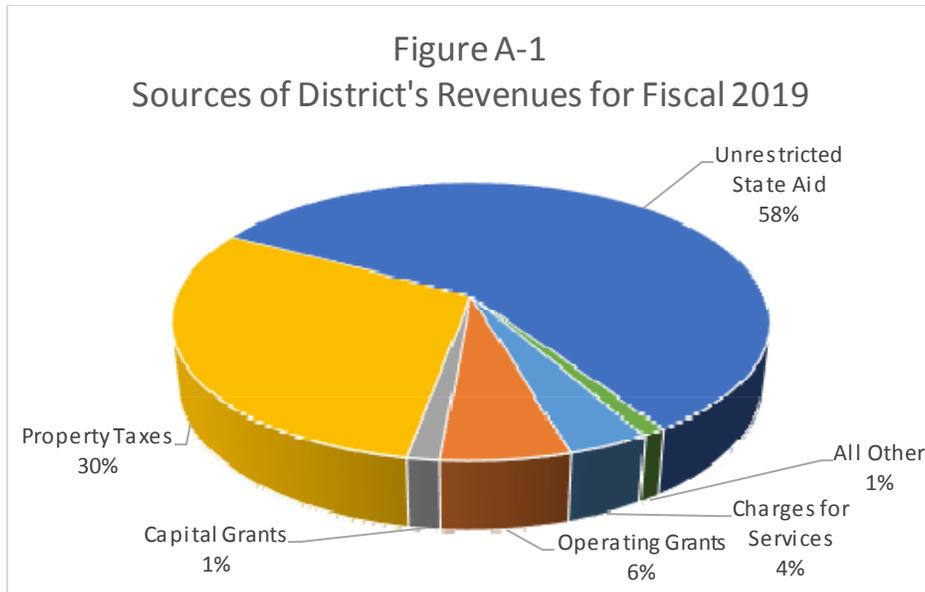
**INDEPENDENT SCHOOL DISTRICT NO. 381
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

The cost of all governmental activities this year was \$16,224,804.

- Some of the cost was paid by the users of the District's programs (\$822,088).
- The federal and state governments subsidized certain programs with grants and contributions (\$1,629,425).
- Most of the District's costs, however, were paid for by the District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$6,565,856 in property taxes, \$12,667,085 of state and federal aid and \$241,332 investment earnings and other general revenues.



**INDEPENDENT SCHOOL DISTRICT NO. 381
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)
Changes in Net Position (Continued)**

**Table A-3
Program Expenses and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2019	2018		2019	2018	
Administration	\$ 1,054,952	\$ 1,306,825	(19.27) %	\$ 1,079,831	\$ 1,073,332	0.61 %
District Support Services	307,786	370,273	(16.88)	279,823	370,273	(24.43)
Regular Instruction	5,163,773	12,590,358	(58.99)	4,683,435	9,635,194	(51.39)
Vocational Education Instruction	262,513	332,896	(21.14)	276,992	332,896	(16.79)
Special Education Instruction	2,737,324	3,562,556	(23.16)	2,278,443	3,562,556	(36.04)
Instructional Support Services	927,557	914,612	1.42	700,540	908,728	(22.91)
Pupil Support Services	1,056,186	1,244,711	(15.15)	898,555	1,244,444	(27.79)
Sites and Buildings	2,078,733	1,684,761	23.38	1,958,284	1,684,761	16.24
Fiscal and Other Fixed Cost Programs	71,149	-	100.00	71,149	-	100.00
Food Service	575,874	526,794	9.32	31,386	5,439	477.05
Community Service	707,618	730,567	(3.14)	233,514	214,818	8.70
Unallocated Depreciation Expense	864,251	1,134,905	(23.85)	864,251	1,134,905	(23.85)
Interest and Fiscal Charges on Long-Term Liabilities	417,088	791,702	(47.32)	417,088	791,702	(47.32)
	<u>\$ 16,224,804</u>	<u>\$ 25,190,960</u>	(35.59)	<u>\$ 13,773,291</u>	<u>\$ 20,959,048</u>	(34.28)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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 \$5,182,542.

Revenues for the District's governmental funds were \$22,563,660 while total expenditures were \$23,230,987. See Table A-4 below for more information.

**Table A-4
Net Change in Fund Balance - All Governmental Funds**

	Year Ended		Change
	June 30, 2019	June 30, 2018	
Revenue	\$ 22,563,660	\$ 22,260,958	\$ 302,702
Expenditures	<u>23,230,987</u>	<u>22,929,731</u>	<u>301,256</u>
Difference	(667,327)	(668,773)	1,446
Other Financing Sources - Net	442,454	(4,957,965)	5,400,419
Net Change in Fund Balance	<u>\$ (224,873)</u>	<u>\$ (5,626,738)</u>	<u>\$ 5,401,865</u>

**INDEPENDENT SCHOOL DISTRICT NO. 381
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND

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

The following schedule presents a summary of General Fund revenues:

**Table A-5
General Fund Revenues**

	Year Ended		Change	
	June 30, 2019	June 30, 2018	Increase (Decrease)	Percent Change
Local Sources:				
Property Taxes	\$ 2,942,714	\$ 2,521,131	\$ 421,583	16.7 %
Earnings on Investments	80,046	67,350	12,696	18.9
Other	645,253	791,087	(145,834)	(18.4)
State Sources	13,473,793	13,212,009	261,784	2.0
Federal Sources	531,941	679,628	(147,687)	(21.7)
Total General Fund Revenue	<u>\$ 17,673,747</u>	<u>\$ 17,271,205</u>	<u>\$ 402,542</u>	2.3

The General Fund revenues increased by \$402,542 or 2.3% from the prior year. This was primarily a result of increased property taxes.

The following schedule presents a summary of General Fund expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Year Ended	
	June 30, 2019	% of Total	June 30, 2018	% of Total
Salaries	\$ 10,743,367	58.7 %	\$ 10,625,039	59.2 %
Employee Benefits	3,925,387	21.5	3,989,510	22.2
Purchased Services	1,561,120	8.5	1,655,767	9.2
Supplies and Materials	685,163	3.7	716,779	4.0
Capital Expenditures	1,127,887	6.2	780,984	4.4
Other Expenditures	96,331	0.5	89,315	0.5
Debt Service	154,856	0.8	90,380	0.5
Total General Fund Expenditures	<u>\$ 18,294,111</u>		<u>\$ 17,947,774</u>	

The General Fund expenditures increased by \$346,337 or 1.9% from the prior year. This was primarily a result of increased capital expenditures due to various projects in fiscal year 2019 along with an increase in debt service expenditures due to the addition of a new capital lease.

**INDEPENDENT SCHOOL DISTRICT NO. 381
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND (CONTINUED)

General Fund Budgetary Highlights

Actual results differed from budget as follows:

- The District's budget for the General Fund anticipated that expenditures would exceed revenues by \$778,046, actual expenditures exceeded actual revenue by \$620,364.
- Overall, actual revenues were \$237,298 more than budgeted, mainly due to higher than anticipated earnings on investments and state and federal sources.
- Actual expenditures were \$79,616 more than budgeted, mainly due to higher than anticipated capital outlay for various projects.
- The General Fund's unassigned fund balance increased \$152,284 from the prior year.

OTHER MAJOR FUNDS

The Food Service Fund had fund balance of \$166,001, a decrease of \$35,323, which was due to a planned spend down of fund balance.

The Community Service Fund had fund balance of \$153,940, an increase of \$9,065, which was due to an increase of overall revenue and expenditures.

The Debt Service Fund had fund balance of \$655,994, a decrease of \$22,047 from prior year.

The OPEB Debt Service Fund had fund balance of \$207,392, an increase of \$1,342 from prior year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Through 2019, the District has invested \$56,344,569 in a broad range of capital assets, including: school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year was \$1,472,888.

**Table A-7
Capital Assets**

	2019	2018	Percentage Change
Land	\$ 129,198	\$ 129,198	-
Land Improvements	1,118,592	990,925	12.9
Buildings and Improvements	49,251,144	48,843,154	0.8
Equipment	5,845,635	5,523,913	5.8
Less: Accumulated Depreciation	(24,240,156)	(22,978,441)	5.5
Total District Capital Assets	<u>\$ 32,104,413</u>	<u>\$ 32,508,749</u>	(1.2)

**INDEPENDENT SCHOOL DISTRICT NO. 381
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities

At year-end, the District had \$16,936,000 in general obligation bonds outstanding, capital leases, severance benefits payable, and compensated absences payable as shown in Note 5 to the financial statements.

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

	2019	2018	Percentage Change
General Obligation Bonds	\$ 15,355,000	\$ 18,265,000	(15.9)%
Net Bond Premium and Discount	1,008,474	1,283,397	(21.4)
Capital Leases Payable	358,651	88,060	307.3
Severance Benefits Payable	103,926	117,727	(11.7)
Compensated Absences Payable	109,666	153,848	(28.7)
Total Long-Term Liabilities	<u>\$ 16,935,717</u>	<u>\$ 19,908,032</u>	(14.9)
Due Within One Year	\$ 3,065,310	\$ 3,046,471	
Due in More Than One Year	13,870,407	16,861,561	
Total	<u>\$ 16,935,717</u>	<u>\$ 19,908,032</u>	

FACTORS BEARING ON THE DISTRICT'S FUTURE

Special education – Student needs continue to increase as the funding for this mandated program continue to fall short.

State funding – The District continues to be highly dependent on the State of Minnesota for its revenue. The state funding is directly tied to the number of students served by the District. Student enrollment has continued to decline over the past few years. The District anticipates having to implement some cost saving measures to account for the loss of State funding.

Local funding – The Board of Education voted to approve a \$300 per pupil unit operating level as followed under new State legislation. This levy increase operational income beginning in fiscal year 2015 and is ongoing. The Board of Education has approved an additional \$424 per pupil unit location optional level as allowed under State legislation. This levy will create an additional increase in operational income beginning in fiscal year 2016. This levy is reviewed each year by the Board and can be adjusted from \$0 to \$424 per pupil unit at the annual levy certification meeting.

Flexible school week – The Minnesota Department of Education has currently approved the District for a flexible school week through the 2019-20 school year. The Department of Education will review this application at the end of the current approval period. The flexible school week continues to save the District money.

**INDEPENDENT SCHOOL DISTRICT NO. 381
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District 381, 1640 Highway 2, Two Harbors, MN 55616, (218)-834-8201.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 381
STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)

	Governmental Activities	
	2019	2018
ASSETS		
Cash and Investments	\$ 6,062,376	\$ 6,871,355
Receivables:		
Property Taxes	2,847,033	2,744,560
Other Governments	2,378,858	2,317,086
Other	27,783	80
Prepaid Items	258,865	4,053
Inventories	46,688	21,910
Due from Fiduciary Funds	432,121	-
Net OPEB Asset	1,081,635	1,507,321
Capital Assets:		
Land and Construction in Progress	129,198	129,198
Other Capital Assets, Net of Depreciation	31,975,215	32,379,551
Total Assets	<u>45,239,772</u>	<u>45,975,114</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows - Pension Related	13,700,542	13,002,469
Deferred Outflows - Other Postemployment Benefits	480,032	653,513
Total Deferred Outflows of Resources	<u>14,180,574</u>	<u>13,655,982</u>
LIABILITIES		
Salaries Payable	1,715,654	1,708,039
Accounts and Contracts Payable	299,354	88,135
Severance and Health Benefits Payable	-	48,411
Accrued Interest	192,953	207,659
Due to Other Governmental Units	136,844	170,159
Unearned Revenue	25,486	-
Long-Term Liabilities:		
Net Pension Liability	11,393,613	31,392,821
Other Long-Term Liabilities Due Within One Year	3,065,310	2,998,060
Other Long-Term Liabilities Due in More Than One Year	13,870,407	16,861,561
Total Liabilities	<u>30,699,621</u>	<u>53,474,845</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year	4,559,879	4,703,229
Deferred Inflows - Pension Related	17,291,029	499,877
Deferred Inflows - Other Postemployment Benefits	659,756	576,987
Total Deferred Inflows of Resources	<u>22,510,664</u>	<u>5,780,093</u>
NET POSITION		
Net Investment in Capital Assets	20,192,288	18,267,292
Restricted for:		
General Fund Operating Capital Purposes	514,332	2,926,302
General Fund State-Mandated Reserves	313,328	-
Food Service	166,001	-
Community Service	213,430	-
Debt Service	759,897	-
Unrestricted	<u>(15,949,215)</u>	<u>(20,817,436)</u>
Total Net Position	<u>\$ 6,210,061</u>	<u>\$ 376,158</u>

See accompanying Notes to Basic Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 381
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)

Functions	2019				2018	
	Expenses	Program Revenues		Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Position	Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions		Total Governmental Activities	Total Governmental Activities
GOVERNMENTAL ACTIVITIES						
Administration	\$ 1,054,952	\$ 5,274	\$ (40,259)	\$ 10,106	\$ (1,079,831)	\$ (1,073,332)
District Support Services	307,786	-	651	27,312	(279,823)	(370,273)
Regular Instruction	5,163,773	153,824	181,205	145,309	(4,683,435)	(9,635,194)
Vocational Education Instruction	262,513	-	(15,383)	904	(276,992)	(332,896)
Special Education Instruction	2,737,324	-	458,881	-	(2,278,443)	(3,562,556)
Instructional Support Services	927,557	-	192,878	34,139	(700,540)	(908,728)
Pupil Support Services	1,056,186	2,350	155,281	-	(898,555)	(1,244,444)
Sites and Buildings	2,078,733	-	2,163	118,286	(1,958,284)	(1,684,761)
Fiscal and Other Fixed Cost Programs	71,149	-	-	-	(71,149)	-
Food Service	575,874	275,430	269,058	-	(31,386)	(5,439)
Community Service	707,618	385,210	88,894	-	(233,514)	(214,818)
Unallocated depreciation expense	864,251	-	-	-	(864,251)	(1,134,905)
Interest and Fiscal Charges on Long-Term Liabilities	417,088	-	-	-	(417,088)	(791,702)
Total School District	\$ 16,224,804	\$ 822,088	\$ 1,293,369	\$ 336,056	(13,773,291)	(20,959,048)
GENERAL REVENUES						
Property Taxes Levied for:						
General Purposes					2,955,639	2,499,352
Community Service					271,134	257,887
Debt Service					3,339,083	2,716,913
State Aid Not Restricted to Specific Purposes					12,667,085	11,429,269
Earnings on Investments					116,637	109,076
Miscellaneous					124,695	956,914
Total General Revenues					19,474,273	17,969,411
CHANGE IN NET POSITION					5,700,982	(2,989,637)
Net Position - Beginning, As Previously Reported					376,158	3,365,795
Change in Reporting Entity (See Note 11)					132,921	-
Net Position - Beginning, as Restated					509,079	3,365,795
NET POSITION - ENDING					\$ 6,210,061	\$ 376,158

See accompanying Notes to Basic Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 381
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)

	Major Funds			
	General	Food Service	Community Service	Debt Service
ASSETS				
Cash and Investments	\$ 3,458,927	\$ 151,202	\$ 201,874	\$ 1,720,766
Receivables:				
Current Property Taxes	990,039	-	-	1,359,003
Delinquent Property Taxes	44,501	-	-	69,586
Accounts and Interest Receivable	22,359	5,424	-	-
Due from Other Minnesota School Districts	195,856	-	-	-
Due from Minnesota Department of Education	1,378,938	764	6,266	18,518
Due from Federal through Minnesota Department of Education	351,822	5,055	-	-
Due from Other Governmental Units	420,389	-	-	-
Due from Other Funds	432,121	-	-	-
Inventory	16,676	30,012	-	-
Prepays	256,151	2,714	-	-
	<u>\$ 7,567,779</u>	<u>\$ 195,171</u>	<u>\$ 208,140</u>	<u>\$ 3,167,873</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE				
Liabilities:				
Salaries and Compensated Absences Payable	\$ 990,127	\$ 20,836	\$ 25,791	\$ -
Payroll Deductions and Employer Contributions Payable	672,273	3,157	3,470	-
Accounts and Contracts Payable	294,724	439	4,191	-
Due to Other Minnesota School Districts	126,258	-	-	-
Due to Other Governmental Units	10,586	-	-	-
Severance Payable	-	-	-	-
Unearned Revenue	-	4,738	20,748	-
Total Liabilities	<u>2,093,968</u>	<u>29,170</u>	<u>54,200</u>	<u>-</u>
Deferred Inflows of Resources:				
Levied for Subsequent Year	1,430,095	-	-	2,442,293
Unavailable Revenue - Delinquent Property Taxes	44,501	-	-	69,586
Total Deferred Inflows of Resources	<u>1,474,596</u>	<u>-</u>	<u>-</u>	<u>2,511,879</u>
Fund Balance:				
Nonspendable:				
Inventory	16,676	30,012	-	-
Prepays	256,151	2,714	-	-
Restricted for:				
Staff Development	117,859	-	-	-
Health and Safety	-	-	-	-
Teacher Development and Eval Learning and Development	-	-	-	-
Gifted and Talented	39,085	-	-	-
Taconite Building Maintenance	159,019	-	-	-
Basic Skills Ext Time	19,893	-	-	-
Safe Schools Levy	(22,528)	-	-	-
Long-Term Facilities Maintenance	514,332	-	-	-
Restricted for Medical Assistance	-	-	-	-
Community Education	-	-	(59,490)	-
Early Childhood and Family Education	-	-	135,268	-
\$25 Taconite	-	-	31,340	-
School Readiness	-	-	46,611	-
Restricted for Other Purposes	-	133,275	211	655,994
Assigned for:				
Other	179,053	-	-	-
Unassigned	<u>2,719,675</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>3,999,215</u>	<u>166,001</u>	<u>153,940</u>	<u>655,994</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 7,567,779</u>	<u>\$ 195,171</u>	<u>\$ 208,140</u>	<u>\$ 3,167,873</u>

See accompanying Notes to Basic Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 381
BALANCE SHEET
GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

OPEB Debt Service	Total Governmental Funds	
	2019	2018
\$ 529,607	\$ 6,062,376	\$ 6,871,355
364,026	2,713,068	2,603,112
19,878	133,965	141,448
-	27,783	80
-	195,856	198,366
1,250	1,405,736	1,183,119
-	356,877	483,667
-	420,389	451,934
-	432,121	-
-	46,688	21,910
-	258,865	4,053
<u>\$ 914,761</u>	<u>\$ 12,053,724</u>	<u>\$ 11,959,044</u>
\$ -	\$ 1,036,754	\$ 1,022,555
-	678,900	637,073
-	299,354	88,135
-	126,258	170,134
-	10,586	25
-	-	48,411
-	25,486	-
-	2,177,338	1,966,333
687,491	4,559,879	4,703,229
19,878	133,965	141,448
<u>707,369</u>	<u>4,693,844</u>	<u>4,844,677</u>
-	46,688	21,910
-	258,865	4,053
-	117,859	176,244
-	-	(183,699)
-	-	32,426
-	-	14,237
-	39,085	19,476
-	159,019	146,778
-	19,893	4,988
-	(22,528)	43,511
-	514,332	343,830
-	-	92,118
-	(59,490)	1,721
-	135,268	138,487
-	31,340	9,940
-	46,611	(730)
207,392	996,872	1,065,413
-	179,053	649,941
-	2,719,675	2,567,390
<u>207,392</u>	<u>5,182,542</u>	<u>5,148,034</u>
<u>\$ 914,761</u>	<u>\$ 12,053,724</u>	<u>\$ 11,959,044</u>

See accompanying Notes to Basic Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 381
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION GOVERNMENTAL ACTIVITIES
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)

	2019	2018
Total Fund Balance for Governmental Funds	\$ 5,182,542	\$ 5,148,034
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	129,198	129,198
Land Improvements, Net of Accumulated Depreciation	566,134	484,768
Buildings and Improvements, Net of Accumulated Depreciation	29,573,308	30,311,441
Equipment, Net of Accumulated Depreciation	1,835,773	1,583,342
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unearned revenue in the funds.		
	133,965	141,448
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditures when due.		
	(192,953)	(207,659)
The District's net pension liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:		
Net Pension Liability	(11,393,613)	(31,392,821)
Deferred Inflows of Resources - Pension Related	(17,291,029)	(499,877)
Deferred Outflows of Resources - Pension Related	13,700,542	13,002,469
The District's OPEB liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year end are:		
Other Postemployment Benefits Asset	1,081,635	1,507,321
Deferred Inflows of Resources - Other Postemployment Benefits	(659,756)	(576,987)
Deferred Outflows of Resources - Other Postemployment Benefits	480,032	653,513
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:		
Bonds Payable	(15,355,000)	(18,265,000)
Unamortized Premiums	(1,058,254)	(1,339,742)
Unamortized Discounts	49,780	56,345
Obligations Under Capital Leases	(358,651)	(88,060)
Severance Benefits Payable	(103,926)	(117,727)
Compensated Absences Payable	(109,666)	(153,848)
Total Net Position of Governmental Activities	\$ 6,210,061	\$ 376,158

See accompanying Notes to Basic Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 381
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)

	Major Funds			
	General	Food Service	Community Service	Debt Service
REVENUES				
Local Sources:				
Property Taxes	\$ 2,942,714	\$ -	\$ 271,134	\$ 2,689,391
Earnings and Investments	80,046	-	-	-
Other	645,253	277,966	420,461	-
State Sources	13,473,793	29,677	58,813	185,178
Federal Sources	531,941	238,101	-	-
Total Revenues	<u>17,673,747</u>	<u>545,744</u>	<u>750,408</u>	<u>2,874,569</u>
EXPENDITURES				
Current:				
Administration	1,309,136	-	-	-
District Support Services	319,673	-	-	-
Elementary and Secondary Regular Instruction	7,888,677	-	-	-
Vocational Education Instruction	358,479	-	-	-
Special Education Instruction	3,510,317	-	-	-
Instructional Support Services	986,504	-	-	-
Pupil Support Services	1,102,256	-	-	-
Sites and Buildings	1,466,662	-	-	-
Fiscal and Other Fixed Cost Programs	69,664	-	-	-
Food Service	-	565,570	-	-
Community Service	-	-	739,559	-
Capital Outlay	1,127,887	15,497	1,784	-
Debt Service:				
Principal	151,120	-	-	2,325,000
Interest and Fiscal Charges	3,736	-	-	571,616
Total Expenditures	<u>18,294,111</u>	<u>581,067</u>	<u>741,343</u>	<u>2,896,616</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(620,364)	(35,323)	9,065	(22,047)
OTHER FINANCING SOURCES (USES)				
Sale of Equipment	10,150	-	-	-
Insurance Recovery	10,593	-	-	-
Sale of Bonds	-	-	-	-
Bond Premium	-	-	-	-
Issuance of Certificates of Participation	-	-	-	-
Capital Loans	421,711	-	-	-
Payment to Refunded Bond Escrow Agent	-	-	-	-
Total Other Financing Sources (Uses)	<u>442,454</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(177,910)	(35,323)	9,065	(22,047)
FUND BALANCES				
Beginning of Year, as Previously Reported	3,917,744	201,324	144,875	678,041
Restatement - Correction of an Error (See Note 11)	126,460	-	-	-
Restatement - Change in Reporting Entity (See Note 11)	132,921	-	-	-
Beginning of Year, Restated	<u>4,177,125</u>	<u>201,324</u>	<u>144,875</u>	<u>678,041</u>
End of Year	<u>\$ 3,999,215</u>	<u>\$ 166,001</u>	<u>\$ 153,940</u>	<u>\$ 655,994</u>

See accompanying Notes to Basic Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 381
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)

OPEB Debt Service	Total Governmental Funds	
	2019	2018
\$ 670,100	\$ 6,573,339	\$ 6,299,152
36,591	116,637	109,076
-	1,343,680	1,578,724
12,501	13,759,962	13,371,302
-	770,042	902,704
<u>719,192</u>	<u>22,563,660</u>	<u>22,260,958</u>
-	1,309,136	1,295,438
-	319,673	370,273
-	7,888,677	8,107,554
-	358,479	300,812
-	3,510,317	3,545,476
-	986,504	812,220
-	1,102,256	1,655,879
-	1,466,662	1,512,804
-	69,664	-
-	565,570	-
-	739,559	711,644
-	1,145,168	808,631
585,000	3,061,120	2,764,979
132,850	708,202	1,044,021
<u>717,850</u>	<u>23,230,987</u>	<u>22,929,731</u>
1,342	(667,327)	(668,773)
-	10,150	-
-	10,593	-
-	-	760,000
-	-	21,351
-	-	178,039
-	421,711	-
-	-	(5,917,355)
-	<u>442,454</u>	<u>(4,957,965)</u>
1,342	(224,873)	(5,626,738)
206,050	5,148,034	10,774,772
-	126,460	-
-	132,921	-
<u>206,050</u>	<u>5,407,415</u>	<u>10,774,772</u>
<u>\$ 207,392</u>	<u>\$ 5,182,542</u>	<u>\$ 5,148,034</u>

See accompanying Notes to Basic Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 381
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS
TO STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)**

	2019	2018
Net Change in Fund Balance - Total Governmental Funds	\$ (224,873)	\$ (5,626,738)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlays exceeded depreciation in the current period is:		
Capital Outlays	1,085,212	610,407
Loss on Disposal of Capital Assets	(16,660)	-
Proceeds from the Sales of Capital Assets	-	-
Depreciation Expense	(1,472,888)	(1,437,146)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures and, therefore, are unearned in the governmental funds.		
	(7,483)	(59,635)
Some capital asset additions are financed through capital leases. In governmental funds, a capital		
Pension expenditures in the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in the net pension liability and the related deferred inflows and outflows of resources.		
	3,906,129	(4,462,354)
In the statement of activities, certain operating expenses - severance benefits and compensated absences - are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (amounts actually paid).		
	57,983	44,073
Payments to the District's OPEB liability are recognized as expenditures at the fund level while the change in the OPEB obligation and the related deferred inflows and outflows of resources are recognized in the statement of net position.		
	(555,476)	(33,507)
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
General Obligation and Certificates of Participation Bond Proceeds	-	(938,039)
Bond Premium or Discount	-	(21,351)
Proceeds from Capital Lease	(421,711)	-
Repayment of Bond Principal	2,910,000	8,549,979
Repayment of Capital Lease	151,120	-
Change in Accrued Interest Payable	14,706	-
Change in Prepaid Interest Expensed	-	175,327
Amortization of Bond Premium	281,488	209,347
Amortization of Bond Discount	(6,565)	-
Total	\$ 5,700,982	\$ (2,989,637)

See accompanying Notes to Basic Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 381
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Property Taxes	\$ 2,888,825	\$ 2,908,993	\$ 2,942,714	\$ 33,721
Earnings and Investments	23,800	23,400	80,046	56,646
Other	567,200	615,800	645,253	29,453
State Sources	13,335,996	13,377,756	13,473,793	96,037
Federal Sources	510,500	510,500	531,941	21,441
Total Revenues	<u>17,326,321</u>	<u>17,436,449</u>	<u>17,673,747</u>	<u>237,298</u>
EXPENDITURES				
Current:				
Administration	1,215,598	1,311,373	1,309,136	(2,237)
District Support Services	(145,738)	325,240	319,673	(5,567)
Elementary and Secondary Regular Instruction	8,171,331	8,165,770	7,888,677	(277,093)
Vocational Education Instruction	326,668	362,324	358,479	(3,845)
Special Education Instruction	3,742,190	3,766,300	3,510,317	(255,983)
Instructional Support Services	733,891	855,832	986,504	130,672
Pupil Support Services	1,263,502	1,269,188	1,102,256	(166,932)
Sites and Buildings	1,444,201	1,429,294	1,466,662	37,368
Fiscal and Other Fixed Cost Programs	10,478	(96,000)	69,664	165,664
Capital Outlay	671,600	734,794	1,127,887	393,093
Debt Service:				
Principal	88,059	88,059	151,120	63,061
Interest and Fiscal Charges	2,321	2,321	3,736	1,415
Total Expenditures	<u>17,524,101</u>	<u>18,214,495</u>	<u>18,294,111</u>	<u>79,616</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(197,780)	(778,046)	(620,364)	157,682
OTHER FINANCING SOURCES				
Sale of Real Property	130,000	-	-	-
Sale of Equipment	4,000	10,000	10,150	150
Insurance Recovery	2,000	12,000	10,593	(1,407)
Issuance of Capital Loans	-	-	421,711	421,711
Total Other Financing Sources (Uses)	<u>136,000</u>	<u>22,000</u>	<u>442,454</u>	<u>420,454</u>
NET CHANGE IN FUND BALANCE	<u>\$ (61,780)</u>	<u>\$ (756,046)</u>	(177,910)	<u>\$ 578,136</u>
FUND BALANCE				
Beginning of Year, as Previously Stated			3,917,744	
Restatement - Correction of an Error (See Note 11)			126,460	
Restatement - Change in Reporting Entity (See Note 11)			132,921	
Beginning of Year, Restated			<u>4,177,125</u>	
End of Year			<u>\$ 3,999,215</u>	

See accompanying Notes to Basic Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 381
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Earnings and Investments	\$ 500	\$ 500	\$ -	\$ (500)
Other - Primarily Meal Sales	307,200	307,200	277,966	(29,234)
State Sources	33,500	33,500	29,677	(3,823)
Federal Sources	252,500	252,500	238,101	(14,399)
Total Revenues	<u>593,700</u>	<u>593,700</u>	<u>545,744</u>	<u>(47,956)</u>
EXPENDITURES				
Current:				
Food Service	605,322	614,902	565,570	(49,332)
Capital Outlay	<u>8,400</u>	<u>13,400</u>	<u>15,497</u>	<u>2,097</u>
Total Expenditures	<u>613,722</u>	<u>628,302</u>	<u>581,067</u>	<u>(47,235)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(20,022)	(34,602)	(35,323)	(721)
OTHER FINANCING SOURCES (USES)				
Judgments for the School District	<u>3,600</u>	<u>3,600</u>	<u>-</u>	<u>(3,600)</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ (16,422)</u></u>	<u><u>\$ (31,002)</u></u>	<u>(35,323)</u>	<u><u>\$ (4,321)</u></u>
FUND BALANCE				
Beginning of Year			<u>201,324</u>	
End of Year			<u><u>\$ 166,001</u></u>	

See accompanying Notes to Basic Financial Statements.

**INDEPENDENT SCHOOL DISTRICT NO. 381
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Property Taxes	\$ 273,014	\$ 273,014	\$ 271,134	\$ (1,880)
Other - Primarily Tuition and Fees	341,053	344,053	420,461	76,408
State Sources	72,452	72,452	58,813	(13,639)
Total Revenues	<u>686,519</u>	<u>689,519</u>	<u>750,408</u>	<u>60,889</u>
EXPENDITURES				
Current:				
Community Service	661,978	672,851	739,559	66,708
Capital Outlay	<u>1,750</u>	<u>1,750</u>	<u>1,784</u>	<u>34</u>
Total Expenditures	<u>663,728</u>	<u>674,601</u>	<u>741,343</u>	<u>66,742</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ 22,791</u></u>	<u><u>\$ 14,918</u></u>	9,065	<u><u>\$ (5,853)</u></u>
FUND BALANCE				
Beginning of Year			<u>144,875</u>	
End of Year			<u><u>\$ 153,940</u></u>	

See accompanying Notes to Basic Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 381
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)

	Private-Purpose Trust	OPEB Irrevocable Trust	Totals	
			2019	2018
ASSETS				
Cash and Cash Equivalents	\$ 68,437	\$ -	\$ 68,437	\$ -
Investments				
Money Market	-	68,996	68,996	-
Negotiable CD's	-	4,796,574	4,796,574	4,997,491
Prepaid Items	-	22,588	22,588	-
Interest Receivable	-	117,510	117,510	180,611
Total Assets	<u>68,437</u>	<u>5,005,668</u>	<u>5,074,105</u>	<u>5,178,102</u>
LIABILITIES				
Due to Other Funds	-	432,121	432,121	-
NET POSITION				
Held In Trust	<u>\$ 68,437</u>	<u>\$ 4,573,547</u>	<u>\$ 4,641,984</u>	<u>\$ 5,178,102</u>

See accompanying Notes to Basic Financial Statements.

INDEPENDENT SCHOOL DISTRICT NO. 381
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)

	Private-Purpose Trust	OPEB Irrevocable Trust	Totals 2019	Totals 2018
ADDITIONS				
Gifts and Donations	\$ 19,119	\$ -	\$ 19,119	\$ 16,716
OPEB Contributions	-	-	-	7,899
Investment Income:				
Interest and Dividends	1,793	9,244	11,037	113,483
Less Investment Expense	-	(250)	(250)	(251)
Net Investment Income	<u>1,793</u>	<u>8,994</u>	<u>10,787</u>	<u>113,232</u>
Total Additions	<u>20,912</u>	<u>8,994</u>	<u>29,906</u>	<u>137,847</u>
DEDUCTIONS				
Scholarships Awarded	29,971	-	29,971	21,839
OPEB Health Insurance Payments	-	409,593	409,593	310,865
Total Deductions	<u>29,971</u>	<u>409,593</u>	<u>439,564</u>	<u>332,704</u>
CHANGE IN NET POSITION	(9,059)	(400,599)	(409,658)	(194,857)
Net Position - Beginning	77,496	5,100,606	5,178,102	5,372,959
Restatement - Correction of an Error (See Note 11)	-	(126,460)	(126,460)	-
Net Position - Restated	<u>77,496</u>	<u>4,974,146</u>	<u>5,051,642</u>	<u>5,372,959</u>
NET POSITION - END OF YEAR	<u>\$ 68,437</u>	<u>\$ 4,573,547</u>	<u>\$ 4,641,984</u>	<u>\$ 5,178,102</u>

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 381 (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

The District is an instrumentality of the state of Minnesota established to function as an educational institution. The elected Board of Education (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

GAAP require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units – entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities, or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. There are no other entities for which the District is financially accountable.

Student activities of the District are under the Board of Education's Control; therefore, activity is included within the General Fund.

C. Basic Financial Statement Presentation

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

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

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

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund and 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. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. 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 GAAP. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month period of availability is generally used for other fund revenue.

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

Description of Funds

The existence of the various District funds has been established by the state of Minnesota, Department of Education. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. A description of the funds included in this report is as follows:

Major Governmental Funds

General Fund

The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the district, as well as the capital related activities such as maintenance of facilities equipment purchases, health and safety projects, and disabled accessibility projects.

Food Service Special Revenue Fund

The Food Service Fund is used to account for food service revenues and expenditures. Revenues recorded in this fund include meal sales to pupils along with state and federal reimbursements for meals.

Community Service Special Revenue Fund

The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs or other similar services. Revenues recorded in this fund include property taxes restricted for Community Service purposes and tuition and fees charged for Community Education.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general long-term obligation bond principal, interest, and related costs. The regular debt service account is used for all general obligation bond debt service, except those accounted for in the OPEB Debt Service Fund.

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Major Governmental Funds (Continued)

OPEB Debt Service Fund

The OPEB Debt Service Fund is used to account for the accumulation of resources for, and payment of, the Districts OPEB general long-term obligation bond principal, interest, and related costs.

Fiduciary Fund

Private-Purpose Trust Fund

The Private-Purpose Trust Fund which is used to account for gifts, donations, certain grants, and other monies held by the District to be handled in accordance with specified conditions of the donors.

OPEB Irrevocable Trust Fund

The OPEB Irrevocable Trust Fund which is used for reporting resources set aside and held in an irrevocable trust arrangement for postemployment benefits. The District's contributions to this fund must be expensed to an operating fund.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with GAAP. Each June, the Board of Education adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, Capital Projects – Buildings Construction, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper. Reported budget amounts represent the amended budget as adopted by the Board of Education. Legal budgetary control is at the fund level.

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

Budgeted amounts include interim budget amendments that increased or decreased revenue and expenditure budgets as follows:

	Original Budget	Amendments	Amended Budget
<u>Revenues</u>			
General Fund	\$ 17,326,321	\$ 110,128	\$ 17,436,449
Special Revenue Funds:			
Community Service Fund	686,519	3,000	689,519
Capital Projects Fund	-	-	-
<u>Expenditures</u>			
General Fund	17,524,101	690,394	18,214,495
Special Revenue Funds:			
Food Service Fund	613,722	14,580	628,302
Community Service Fund	663,728	10,873	674,601

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

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

F. Cash and Investments

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. The Fiduciary funds are not included in this pool.

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Investments in external investment which meet the criteria included in GASB Statement No. 79 are measured at amortized cost.

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are current property taxes receivable.

H. Inventories

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

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are expensed in the periods benefitted.

J. Property Taxes

Property tax levies are established by the Board of Education in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to the Districts at periodic intervals as they are collected. A portion of property taxes levied is paid through state credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as a deferred inflow (property taxes levied for subsequent year). The majority of District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy (frozen at \$121,543) for the District. Certain other portions of the District's 2018 pay 2019 levy, normally revenue for the 2019-20 fiscal year, are also advance recognized as June 30, 2019, as required by state statute to match revenue with the same fiscal year as the related expenditures.

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes (Continued)

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is shown as a deferred inflow of resources because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year beginning July 1, 2019, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

K. Capital Assets

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

Capital assets are recorded in the government-wide financial statement, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements, buildings, and building improvements, and 5 to 15 years for equipment.

Capital assets not being depreciated include land and construction in progress.

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

L. Deferred Outflows/Inflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has two types of item that qualifies for reporting in this category. The District has reported deferred outflows of resources related to pensions. The District also reports deferred outflows of resources related to OPEB. See Notes 7 and 8 for additional detail.

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items which occur related to revenue recognition. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year. The second type of deferred inflow of resources occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year-end) under the modified accrual basis of accounting. The third type of deferred inflows reported is related to pensions and OPEB benefits. See Notes 7 and 8 for additional detail.

M. 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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount on the Statement of Net Position.

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

N. Accrued Employee Benefits

Vacation Pay

Vacation granted is based on length of service and various bargaining unit contracts. A liability is recorded for earned but unpaid vacation.

Sick Pay

Most full-time and certain part-time employees are eligible for a one-time severance payment upon retirement. Employees receive severance benefits based on accumulated sick leave days, up to a maximum of 125 days times their daily rate of pay. Severance benefits are recognized in the fund financial statements at the time the employee retires.

Postemployment Health Care Benefits

In addition to retirement benefits, the District provides postretirement medical insurance benefits to teachers, administrators, principals, food service workers, custodians, and clerical employees, in accordance with their respective master employment agreements. The eligibility for, amount of, duration of, and District's contribution to the cost of the benefits provided varies by contract and date of retirement. See Note 8 for further information.

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. 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.

P. Unearned Revenue

Unearned revenues are those in which resources are received by the District before it has legal claim to them. The District has reported unearned revenues for the unearned grant revenue, charges for services, and school lunch deposits.

Q. Fund Balance

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

Nonspendable – portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund.

Restricted – funds are constrained by outside parties (statute, grantors, bond agreements, etc.).

Committed – funds are established and modified by a resolution approved by the Board of Education.

Assigned – consists of internally imposed constraints. The Board of Education passed a resolution authorizing the Superintendent and Director of Business Affairs to assign fund balances and their intended uses.

Unassigned – is the residual classification for the general fund and also reflects negative residual amounts in other funds.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance.

When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

The District formally adopted a fund balance policy for the General Fund. The policy establishes a year-end minimum unassigned fund balance of 0% of the annual budget.

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. 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 and Fiduciary Fund financial statements. Net investment in capital assets consists of capital assets, net of accumulation 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 imposed on its use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

S. Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds at June 30, 2019:

	Budget	Expenditures	Excess
General Fund	\$ 18,214,495	\$ 18,294,111	\$ 79,616
Special Revenue Funds:			
Community Service Fund	674,601	741,343	66,742

All related expenditures were approved by the District's Board.

B. Due to/from Other Funds

	Due from Other Fund	Due to Other Fund
General Fund	\$ 432,121	\$ -
Fiduciary Fund:		
OPEB Irrevocable Trust	-	432,121
Total	\$ 432,121	\$ 432,121

The amount due to the General Fund from the OPEB Irrevocable Trust Fund is the amount of the trust draw in the current year.

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

The District maintains a cash and investment pool that is available for use by all funds, except the OPEB Irrevocable Trust Fund. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Investments." In accordance with Minnesota Statutes, the District maintains deposits at financial institutions which are authorized by the School District's Board.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral includes: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The District's deposits in banks at June 30, 2019 were entirely covered by federal depository insurance or by collateral in accordance with Minnesota Statutes.

B. Investments

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

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less.
- General obligations rated "A" or better; revenue obligations rated "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rate "A" or better.
- Bankers acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
- Investments related to the OPEB Revocable Trust Fund may be invested in accordance with Minnesota Statute 356A.06, Subdivision 7.

At June 30, 2019, the District’s investment balances were as follows:

Type	Amount
MSDLAF+	\$ 696,086
MN Trust Investment Shares	1,920,887
MN Trust Term Series	1,000,000
Negotiable Certificates of Deposit	499,479
	\$ 4,116,452

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following chart summarized year-end rating for the District’s investments as rated by Standard & Poor’s:

Type	Credit Quality Rating	Amount
MSDLAF+	AA+ - A-1	\$ 696,086
MN Trust Investment Shares	AAAm	1,920,887
MN Trust Term Series	Not Rated	1,000,000
Negotiable Certificates of Deposit	Not Rated	499,479
		\$ 4,116,452

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District’s investment policies do not limit the maturities of investments; however, when purchasing investments the District considers such things as interest rates and cash flow needs.

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

The maturities of the District's investments are as follows:

Type	Total	Maturity Duration in Years		
		12 Months or Less	13 to 24 Months	24 Months or More
MSDLAF+	\$ 696,086	\$ 696,086	\$ -	\$ -
MN Trust Investment Shares	1,920,887	1,920,887	-	-
MN Trust Term Series	1,000,000	1,000,000	-	-
Negotiable Certificates of Deposit	499,479	-	499,479	-
Total	<u>\$ 4,116,452</u>	<u>\$ 3,616,973</u>	<u>\$ 499,479</u>	<u>\$ -</u>

Concentration of Credit Risk – The District places no limit on the amount that the District may invest in any one issuer. The District had no investments at June 30, 2019 which individually comprised more than 5% of total investments.

The deposits and investments are presented in the financial statements as follows:

Deposits	\$ 6,879,931
Investments	4,116,452
Total	<u>\$ 10,996,383</u>
Cash and Investments - Statement of Net Position	\$ 6,062,376
Cash and Investments - Statement of Fiduciary Net Position	4,934,007
Total	<u>\$ 10,996,383</u>

C. Fair Value Measurements

The District uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The District follows an accounting standard which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the District has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quotes prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Fair Value Measurements (Continued)

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

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

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

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

Assets of the District measured at fair value on a recurring basis:

Investment	Total	Level 1	Level 2	Level 3
Negotiable Certificates of Deposit	\$ 499,479	\$ -	\$ 499,479	\$ -

NOTE 4 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	\$ 129,198	\$ -	\$ -	\$ 129,198
Capital Assets, Being Depreciated				
Land Improvements	990,925	127,667	-	1,118,592
Buildings and Improvements	48,843,154	424,990	(17,000)	49,251,144
Equipment	5,523,913	532,555	(210,833)	5,845,635
Total Capital Assets, Being Depreciated	<u>55,357,992</u>	<u>1,085,212</u>	<u>(227,833)</u>	<u>56,215,371</u>
Accumulated Depreciation for:				
Land Improvements	(506,157)	(46,301)	-	(552,458)
Buildings and Improvements	(18,531,713)	(1,146,463)	340	(19,677,836)
Equipment	(3,940,571)	(280,124)	210,833	(4,009,862)
Total Accumulated Depreciation	<u>(22,978,441)</u>	<u>(1,472,888)</u>	<u>211,173</u>	<u>(24,240,156)</u>
Total Capital Assets, Being Depreciated, Net	<u>32,379,551</u>	<u>(387,676)</u>	<u>(16,660)</u>	<u>31,975,215</u>
Governmental Activities Capital Assets, Net	<u>\$ 32,508,749</u>	<u>\$ (387,676)</u>	<u>\$ (16,660)</u>	<u>\$ 32,104,413</u>

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the District as follows:

Governmental Activities

Administration	\$	9,526
Regular Instruction		406,245
Vocational Education Instruction		22,183
Special Education Instruction		10,515
Instructional Support Services		17,926
Pupil Support Services		130,269
Sites and Buildings		11,973
Unallocated		864,251
Total Depreciation Expense, Governmental Activities	<u>\$</u>	<u>1,472,888</u>

NOTE 5 LONG-TERM LIABILITIES

A. Components of Long-Term Debt

Issue Date	Net Interest Rate	Series Number	Original Issue	Maturities	Principal Outstanding	
					Due Within One Year	Total
3/5/2015	1.6%-3.05%	2015A	\$ 5,395,000	2019-2027	\$ 595,000	\$ 4,810,000
1/5/2016	3.0%-5.0%	2016A	16,150,000	2016-2023	2,300,000	9,900,000
1/11/2018	2.0%-4.0%	2018A	760,000	2018-2024	120,000	645,000
Total General Obligation Bonds					3,015,000	15,355,000
Bond Premiums					-	1,058,254
Bond Discounts					-	(49,780)
Capital Leases					50,310	358,651
Compensated Absences Payable					-	109,666
Severance Benefits Payable					-	103,926
Total Long-Term Debt					<u>\$ 3,065,310</u>	<u>\$ 16,935,717</u>

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt, not including compensated absences and severance benefits payable are as follows:

Year Ending June 30,	General Obligation Bonds Payable		Capital Lease		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
	2020	\$ 3,015,000	\$ 601,795	\$ 50,310	\$ 14,166	\$ 3,065,310
2021	3,140,000	478,135	52,296	12,180	3,192,296	490,315
2022	3,280,000	338,430	54,362	10,114	3,334,362	348,544
2023	3,425,000	190,845	56,510	7,966	3,481,510	198,811
2024	780,000	72,270	145,173	5,828	925,173	78,098
2025-2027	1,715,000	95,520	-	-	1,715,000	95,520
Total	<u>\$ 15,355,000</u>	<u>\$ 1,776,995</u>	<u>\$ 358,651</u>	<u>\$ 50,254</u>	<u>\$ 15,713,651</u>	<u>\$ 1,827,249</u>

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt

1. Taxable General Obligation OPEB Crossover Refunding Bonds, Series 2015A

On March 5, 2015, the District issued \$5,395,000 Taxable General Obligation OPEB Crossover Refunding Bonds, Series 2015A, to crossover refund the Taxable General Obligation OPEB Bonds, Series 2008A. The proceeds were placed in escrow and invested in State and Local Government Securities. The proceeds plus interest earned were sufficient to pay the interest on the new issue along with the 2018 through 2027 payments of the Taxable General Obligation OPEB Bonds, Series 2008A callable on February 2, 2018. The refunding was undertaken to reduce total debt service payments in the amount of \$585,068 over the next ten years, and resulted in economic gain of \$588,757.

2. General Obligation School Building Refunding Bonds, Series 2016A

On January 1, 2016, the District issued \$16,150,000 General Obligation School Building Refunding Bonds, Series 2016A, to refund the General Obligation School Building Refunding Bonds, Series 2006C. The proceeds were sufficient to pay the 2016 through 2023 payments of the General Obligation Refunding Bonds, Series 2006C callable on April 1, 2016. The refunding was undertaken to reduce total debt service payments in the amount of \$1,500,470 over the next seven years, and resulted in economic gain of \$1,509,976.

3. General Obligation Refunding Bonds, Series 2018A

On January 11, 2018, the District issued \$760,000 General Obligation Refunding Bonds, Series 2018A, to refund the General Obligation Capital Facilities Bonds, Series 2009A and the General Obligation Alternative Facilities Bonds, Series 2009B. The proceeds were sufficient to pay the 2019 through 2024 payments of the General Obligation Capital Facilities Bonds, Series 2009A and the General Obligation Alternative Facilities Bonds, Series 2009B callable on January 15, 2018. The refunding was undertaken to reduce total debt service payments in the amount of \$38,965 over the next ten years, and resulted in economic gain of \$39,466.

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt (Continued)

4. Capital Lease Obligations

On August 17, 2018, the District entered into a lease for five busses. Payments on the lease are due annually and commenced on September 17, 2018. Capital assets relating to the lease had a cost of \$421,711 and accumulated depreciation of \$0 at June 30, 2019.

The following is a schedule of future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2019:

Capital Leases	
Year Ending June 30,	Amount
2020	\$ 64,476
2021	64,476
2022	64,476
2023	64,476
2024	151,001
Total Minimum Lease Payments	408,905
Less: Amounts Representing Interest	(50,254)
Present Value of Net Minimum Lease Payments	\$ 358,651

Severance Benefits Payable

During the fiscal year, the District did not recognize any expenditures in the fund financial statements during the year as they did not have any retirees.

In the government-wide financial statements, severance benefits are recognized as a liability when an employee vests, at their current daily rate of pay.

D. Changes in Long-Term Debt

	June 30, 2018	Additions	Retirements	June 30, 2019	Current Portion
Bonds Payable	\$ 18,265,000	\$ -	\$ 2,910,000	\$ 15,355,000	\$ 3,015,000
Unamortized Premiums	1,339,742	-	281,488	1,058,254	-
Unamortized Discounts	(56,345)	-	(6,565)	(49,780)	-
Capital Leases	88,060	421,711	151,120	358,651	50,310
Compensated Absences Payable	153,848	78,107	122,289	109,666	-
Severance Benefits Payable	117,727	25,069	38,870	103,926	-
Total	\$ 19,908,032	\$ 524,887	\$ 3,497,202	\$ 16,935,717	\$ 3,065,310

General Obligation Bonds (other than OPEB Bonds) are payable from the Debt Service Fund. The capital lease is payable from the General Fund. The OPEB bonds are payable from the OPEB Debt Service Fund. Compensated absences and severance benefits are paid from the General Fund, Food Service Fund, and Community Service Fund.

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6 FUND BALANCES

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. Any such "restrictions" which have an accumulated deficit rather than a position balance at June 30 are reported as a deficit balance because there is specific revenue authority under state accounting guidelines which will be utilized to eliminate the deficit. A description of these "deficit balance restrictions" is included herein since the District has specific statutory authority to levy taxes for such deficits.

Certain portions of fund balance are assigned as determined by the Board of Education.

A. Restricted for Staff Development

Represents unspent staff development revenues set aside from general education revenue that were restricted for staff development. Expenditures for staff development must equal at least two percent of the basic general education revenue, unless legal stipulations are met.

B. Restricted for Health and Safety

Represents available resources to be used for health and safety projects in accordance with an approved health and safety plan through June 30, 2016.

C. Restricted for Teacher Development and Eval

Represents resources available for teacher development and evaluation uses as described in statutes.

D. Restricted for Learning and Development

Represents resources available revenues for learning and development, which is mainly for reducing the pupil to staff ratio.

E. Restricted for Gifted and Talented

Represents the part of general education aid revenue for the gifted and talented program that is unspent at year-end.

F. Restricted for Taconite Building Maintenance

Represents resources remaining from the distribution of taconite revenue for the purpose of building maintenance and repair.

G. Restricted for Basic Skills Ext. Time

Represents resources available for the basic skills extended time uses listed in Minnesota Statutes, section 126C.15, subdivision 1.

H. Restricted for Safe Schools Levy

This restriction represents the unspent resources from the crime levy to be used for crime prevention, student and staff safety, and violence prevention measures.

I. Restricted for Long-term Facilities Maintenance (LTFM)

This restriction represents available resources to be used for LTFM projects in accordance with the 10-year capital plan.

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 FUND BALANCES (CONTINUED)

J. Restricted for Medical Assistance

Represents resources available to be used for medical assistance expenditures.

K. Restricted for Community Education

The fund balance restriction represents accumulated resources available to provide general community education programming.

L. Restricted for Early Childhood and Family Education

This fund balance restriction represents accumulated resources available to provide services for early childhood and family education programming.

M. Restricted for \$25 Taconite

Represents available resources for outcome-based learning programs or early childhood learning programs from taconite referendum revenue.

N. Restricted for School Readiness

The fund balance restriction represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

O. Restricted for Other Purposes

Restricted for Other Purposes represents amounts that can be spent for only specific purposes stipulated by constitution, external resource providers, or through enabling legislation, such as community service and debt payments.

Other Restricted:

Restricted for Food Service	\$ 133,275
Restricted for Community Service	211
Restricted for Debt Service	655,994
Restricted for OPEB Debt Service	207,392
Total Other Restricted	<u>\$ 996,872</u>

P. Assigned for Other Purposes

Other Assigned:

Student Activities	\$ 101,083
Two Harbors Turf Replacement	19,097
DECA	1,494
Robotics	3,352
Jr Robotics	3,720
William Kelley High School	2,792
William Kelley Elementary	38,729
Two Harbors High School	200
Minnehaha Elementary	8,586
Total Other Assigned	<u>\$ 179,053</u>

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 DEFINED BENEFIT PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan (General Employees 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.

2. Teachers Retirement Fund (TRA)

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

Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or University of Minnesota System).

B. Benefits Provided

PERA and TRA provide 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.

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 accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

General Employees Plan Benefits (Continued)

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a 1% increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

TRA Benefits

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

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

Tier 1 Benefits

Tier 1	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:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- (b) 3.0% per year early retirement reduction factor for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

TRA Benefits (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. 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 Statutes. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989, receive only the Tier II 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.

C. Contributions

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

1. General Employees Fund Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.50% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2019, were \$193,992. The District's contributions were equal to the required contributions as set by state statute.

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 rates for the fiscal year for coordinated were 7.5% for the employee and 7.71% for the employer. Basic rates were 11.00% for the employee and 11.71% for the employer. The District's contributions to TRA for the plan's fiscal year ended June 30, 2019 were \$648,207. The District's contributions were equal to the required contributions for each year as set by state statute.

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. General Employees Plan Pension Costs

At June 30, 2019, the District reported a liability of \$2,163,560 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2018. The state of Minnesota is considered a nonemployer 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 \$71,005, for a total net pension liability of \$2,234,565 associated with the District. 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 proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 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 0.039% which was a decrease of 0.0006% from its proportionate share measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$97,474 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$16,558 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2019, the District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 57,266	\$ 63,102
Changes in Actuarial Assumptions	206,675	243,099
Net Difference Between Projected and Actual		
Earnings on Plan Investments	-	221,082
Changes in Proportion	42,658	28,982
District Contributions Subsequent to the Measurement Date	193,992	-
Total	<u>\$ 500,591</u>	<u>\$ 556,265</u>

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Plan Pension Costs (Continued)

\$193,992 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 deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Pension Expense Amount</u>
2020	\$ 93,667
2021	(112,960)
2022	(185,215)
2023	(45,158)

2. TRA Pension Costs

At June 30, 2019 the District reported a liability of \$9,230,053 for its proportionate share of TRA's 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 .1470% at the end of the measurement period and .1446% at the beginning of the period.

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:

<u>Description</u>	<u>Amount</u>
District's Proportionate Share of the TRA Net Pension Liability	\$ 9,230,053
State's Proportionate Share of the Net Pension Liability Associated with the District	867,189
Total Liability	<u>\$ 10,097,242</u>

For the year ended June 30, 2019, the District recognized negative pension expense of \$3,226,023. It also recognized \$605,242 as a decrease to pension expense for the support provided by direct aid.

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

At June 30, 2019, the District reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 98,449	\$ 186,139
Changes in Actuarial Assumptions	11,917,706	15,738,381
Net Difference Between Projected and Actual Earnings on Plan Investments	-	715,788
Changes in Proportion	535,589	94,456
District Contributions Subsequent to the Measurement Date	648,207	-
Total	<u>\$ 13,199,951</u>	<u>\$ 16,734,764</u>

\$648,207 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

<u>Year Ending June 30.</u>	<u>Pension Expense Amount</u>
2020	\$ 932,869
2021	666,297
2022	80,923
2023	(3,415,939)
2024	(2,447,170)

E. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using an individual entry-age normal actuarial cost method and the following actuarial assumptions:

<u>Assumptions</u>	<u>GERF</u>	<u>TRA</u>
Inflation	2.50% per Year 11.25% after 1 year of service decreasing to 3.25% per year after 26 years	2.50% per Year 2.85% for 10 years and 3.25% thereafter
Active Member Payroll Growth	7.50%	7.50%
Investment Rate of Return	7.50%	7.50%

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

PERA Salary increases were based on a service-related table. PERA mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. PERA cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan and 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually for TRA.

TRA pre-retirement mortality rates were based on the RP-2014 white collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP-2015 scale. Post-retirement mortality rates were based on the RP-2014 white collar annuitant table, male rates set back 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP-2015 scale. Post-disability mortality rates were based on the RP-2014 disabled retiree mortality table, without adjustment. TRA cost of living benefit increases 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

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 for PERA occurred in 2018:

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

The following changes in actuarial assumptions for TRA occurred in 2018:

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

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

- Augmentation on deferred benefits will be reduced to 0.0% 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 is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 4 years, (7.92% in 2019, 8.13% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.
- The single discount rate was changed from 5.12% to 7.5%.

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

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

F. Discount Rate

The discount rate used to measure the PERA General Employees Plan liability in 2018 was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net positions of the General Employees Fund were 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.

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

F. Discount Rate (Continued)

The discount rate used to measure the TRA pension liability was 7.50%. 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 contribution will be made at the fiscal year 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).

G. Pension Liability Sensitivity

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

Description	1% Decrease	Current Discount Rate	1% Increase in Discount Rate
<u>GERF Discount Rate</u>	6.50%	7.50%	8.50%
District's Proportionate Share of the GERF Net Pension Liability	\$ 3,516,062	\$ 2,163,560	\$ 1,047,108
<u>TRA Discount Rate</u>	6.50%	7.50%	8.50%
District's Proportionate Share of the TRA Net Pension Liability	\$ 14,648,056	\$ 9,230,053	\$ 4,760,235

H. Pension Plan Fiduciary Net Position

Detailed information about General Employees Plan's fiduciary's net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org.

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-2409 or 1-800-657-3669.

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PAYABLE

A. Plan Description

The District operates and administers a single-employer defined benefit other postemployment benefit plan (the Plan) that provides medical and life insurance to eligible employees and their spouses through the District's insurance plan. There are 142 active participants, 72 active employees waiving coverage and 27 retired participants. Benefit and eligibility provisions are established through individual contracts and negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

B. Funding Policy

The District has assets designated for OPEB. These assets are in a qualified irrevocable trust which is included as a fiduciary fund in these financial statements. The District's investment policy is to follow state statutes as listed in Note 3. Benefit payments equal to the annual direct subsidy plus implicit subsidy are assumed to be made from the trust. Contribution requirements are negotiated between the District and union representatives. For fiscal year 2019, the District made no contribution to the plan; the current year benefits were paid from the District's OPEB Trust Fund.

C. Net OPEB Liability (Asset) of the District

The components of the net OPEB liability (asset) of the District at June 30, 2019, were as follows:

Total OPEB Liability (Asset)	\$	3,491,912
Plan Fiduciary Net Position		(4,573,547)
District's Net OPEB Liability (Asset)		<u><u>\$ (1,081,635)</u></u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability		423%

D. Actuarial Methods and Assumptions

The long-term expected rate of return on OPEB plan investments that are expected to be used to finance the payments of benefits, to the extent that (1) the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and (2) OPEB plan assets are expected to be invested using a strategy to achieve that return, and a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale), to the extent that the conditions above are not met.

The District's net OPEB liability (asset) was measured as of June 30, 2019, and the total OPEB liability (asset) used to calculate the net OPEB liability (asset) was determined by an actuarial valuation as of July 1, 2017. Liabilities in this report were calculated as of the valuation date and rolled forward to the measurement date using standard actuarial roll-forward techniques.

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PAYABLE (CONTINUED)

D. Actuarial Methods and Assumptions (Continued)

The total OPEB liability (asset) 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:

Inflation	2.50%
Salary Increases	3.50%
Investment Rate of Return	3.00%
Health Care Trend Rates	6.90% grading to 4.40% in FY2075

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

The long-term expected rate of return on OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (or target allocation, if available) and by adding expected inflation (2.50%). Best estimates of geometric real and nominal rates of return for each major asset class included in the OPEB plan's asset allocation as of the measurement date are summarized in the following table:

Asset Class	Long-Term Expected Real Rate of Return	Long-Term Expected Nominal Rate of Return
Domestic Equity	4.95%	7.70%
International Equity	5.24%	7.99%
Fixed Income	1.99%	4.74%
Real Estate and Alternatives	4.19%	6.94%
Cash and Equivalents	0.58%	3.33%
Total		3.09%
Reduced for Assumed Investment Expense		0.00%
Net Assumed Investment Return (Weighted Avg, Rounded to 1/4%)		<u>3.00%</u>

The discount rate used to measure the total OPEB liability (asset) was 3.18%. The projection of cash flows and OPEB trust assets used to determine the discount rate were based on recent employer contribution history and their stated funded policy. The OPEB trust's long-term assumed investment return was used to discount projected benefit payments for as long as projected trust assets are available to the OPEB payments. Once project trust assets are exhausted, the municipal bond index rate was applied to the remaining expected benefit payments.

The expected employer asset return is based on long-term expected return on short-term/cash equivalent assets using our capital market assumption model.

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PAYABLE (CONTINUED)

D. Actuarial Methods and Assumptions (Continued)

Since the most recent GASB 75 valuation, the following changes have been made:

- The discount rate decreased from 3.18% to 3.05%.

E. Changes in the OPEB Liability (Asset)

The following table shows the components of the changes in the District's OPEB liability (Asset):

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2018, as Restated	\$ 3,593,284	\$ 4,974,145	\$ (1,380,861)
Changes for the Year:			
Service Cost	175,255	-	175,255
Interest Cost	113,327	-	113,327
Differences Between Expected and Actual Experience	-	-	-
Employer Contributions	-	-	-
Net Investment Income	-	8,995	(8,995)
Changes of Assumptions	19,639	-	19,639
Benefit Payments	(409,593)	(409,593)	-
Administrative Expense	-	-	-
Net Changes	<u>(101,372)</u>	<u>(400,598)</u>	<u>299,226</u>
Balances at June 30, 2019	<u>\$ 3,491,912</u>	<u>\$ 4,573,547</u>	<u>\$ (1,081,635)</u>

The following presents the net OPEB liability (asset) of the District, as well as what the District's net OPEB liability (asset) would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (2.05%)	Discount Rate (3.05%)	1% Increase (4.05%)
Net OPEB Liability (Asset)	\$ (934,114)	\$ (1,081,635)	\$ (1,234,578)

The following presents the net OPEB liability (asset) of the District, as well as what the District's net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1% point lower (5.9% decreasing to 3.4%) or 1% point higher (7.9% decreasing to 5.4%) than the current healthcare cost trend rates:

	1% Decrease (5.9% Decreasing to 3.4%)	Current Trend Rates (6.9% Decreasing to 4.4%)	1% Increase (7.9% Decreasing to 5.4%)
Net OPEB Liability (Asset)	\$ (1,437,331)	\$ (1,081,635)	\$ (672,772)

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 OTHER POSTEMPLOYMENT BENEFITS PAYABLE (CONTINUED)

E. Changes in the OPEB Liability (Asset) (Continued)

For the year ended June 30, 2019, the District recognized OPEB expense of \$196,028. 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
Difference Between Expected and Actual Liability	\$ -	\$ 437,990
Change of Assumption	480,032	16,821
Net Difference Between Projected and Actual Earnings on Plan Investments	-	204,945
Total	\$ 480,032	\$ 659,756

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

Year Ending June 30.	Future Recognition
2020	\$ (60,464)
2021	(60,463)
2022	(37,185)
2023	(23,052)
2024	4,171
Thereafter	(2,731)

At June 30, 2019, the District's trust reported a payable, which is due to the General Fund, of \$432,121 for the outstanding amount of contributions paid by the General Fund for the year ended June 30, 2019.

NOTE 9 COMMITMENTS AND CONTIGENCIES

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

NOTE 10 RISK MANAGEMENT

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

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10 RISK MANAGEMENT (CONTINUED)

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

NOTE 11 RESTATEMENT OF BEGINNING FUND BALANCE AND NET POSITION

During fiscal year ended June 30, 2019, the District restated beginning fund balance of the general fund, beginning net position of the governmental activities, and beginning net position of the OPEB irrevocable trust fund. These restatements relate to a correction of error and change in reporting entity. The restatement related to a correction of error is due to a portion of the prior year OPEB expenditures being reported as paid out of the general fund but were actually paid out of the OPEB trust fund. The restatement related to a change in reporting entity is due to the District approving to move the student activity funds under board control for fiscal year 2019.

As a result, the District's general fund fund balance, governmental activities net position and OPEB irrevocable trust fund net position as of June 30, 2018 has been restated to reflect this noted below:

Description	General Fund	Governmental Activities
Fund Balance, June 30, 2018, as Previously Reported	\$ 3,917,744	\$ 376,158
Cumulative Affect of Correction of an Error	126,460	-
Cumulative Affect of Change in Reporting Entity	132,921	132,921
Fund Balance, June 30, 2018, as Restated	\$ 4,177,125	\$ 509,079

Description	OPEB Irrevocable Trust
Net Position, June 30, 2018, as Previously Reported	\$ 5,100,606
Cumulative Affect of Correction of an Error	(126,460)
Cumulative Affect of Change in Reporting Entity	-
Net Position, June 30, 2018, as Restated	\$ 4,974,146

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 381
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY (ASSET)
AND RELATED RATIOS
JUNE 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability			
Service Cost	\$ 175,255	\$ 185,817	\$ 184,288
Interest	113,327	130,471	132,284
Differences Between Expected and Actual Experience	-	614,244	-
Changes of Assumptions	19,639	(664,451)	(11,116)
Benefit Payments	<u>(409,593)</u>	<u>(429,428)</u>	<u>(419,989)</u>
Net Change in Total OPEB Liability	<u>(101,372)</u>	<u>(163,347)</u>	<u>(114,533)</u>
Total OPEB Liability - beginning	3,593,284	3,756,631	3,871,164
Total OPEB Liability - ending (a)	<u><u>\$ 3,491,912</u></u>	<u><u>\$ 3,593,284</u></u>	<u><u>\$ 3,756,631</u></u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ -	\$ -	\$ -
Net Investment Income	8,995	113,216	80,641
Benefit Payments	<u>(409,593)</u>	<u>(429,428)</u>	<u>(419,989)</u>
Net Change in Plan Fiduciary Net Position	<u>(400,598)</u>	<u>(316,212)</u>	<u>(339,348)</u>
Plan Fiduciary Net Position - beginning	4,974,145	5,290,357	5,629,705
Plan Fiduciary Net Position - ending (b)	<u><u>\$ 4,573,547</u></u>	<u><u>\$ 4,974,145</u></u>	<u><u>\$ 5,290,357</u></u>
District's Net OPEB Liability (Asset) - ending (a) - (b)	\$ (1,081,635)	\$ (1,380,861)	\$ (1,533,726)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	130.98%	138.43%	140.83%
Covered-employee Payroll	\$ 10,310,016	\$ 9,252,000	\$ 9,800,000
District's Net OPEB Liability (Asset) as a Percentage of Covered-employee Payroll	-10.49%	-14.93%	-15.7%

The District implemented GASB Statement Nos. 74 and 75 in fiscal year 2017, the above table will be expanded to 10 years of information as the information becomes available.

INDEPENDENT SCHOOL DISTRICT NO. 381
SCHEDULE OF MONEY WEIGHTED RATE OF RETURN ON PLAN ASSETS
JUNE 30, 2019

<u>Year</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
2017	1.43%
2018	2.14%
2019	0.18%

The District implemented GASB Statement Nos. 74 and 75 in fiscal year 2017, and the above table will be expanded to 10 years of information as the information becomes available.

INDEPENDENT SCHOOL DISTRICT NO. 381
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
JUNE 30, 2019

TRA Schedule of the District's Proportionate Share of the Net Pension Liability

	Measurement Date June 30,				
	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability	0.1470%	0.1446%	0.1398%	0.1394%	0.1481%
District's Proportionate Share of the Net Pension Liability	\$ 9,230,053	\$ 28,864,783	\$ 33,345,636	\$ 8,623,269	\$ 6,824,341
State's Proportionate Share of the Net Pension Liability Associated with District	867,189	2,790,653	3,346,330	1,057,735	480,027
Total	<u>\$ 10,097,242</u>	<u>\$ 31,655,436</u>	<u>\$ 36,691,966</u>	<u>\$ 9,681,004</u>	<u>\$ 7,304,368</u>
District's Covered Payroll	\$ 8,119,045	\$ 7,782,335	\$ 7,272,453	\$ 7,073,520	\$ 6,760,392
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	113.68%	370.90%	458.52%	121.91%	100.95%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.07%	51.57%	44.88%	76.80%	81.50%

GERF Schedule of the District's Proportionate Share of the Net Pension Liability

	Measurement Date June 30,				
	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability	0.0390%	0.0396%	0.0387%	0.0376%	0.0401%
District's Proportionate Share of the Net Pension Liability	\$ 2,163,560	\$ 2,528,038	\$ 3,142,248	\$ 1,948,627	\$ 1,883,697
State's Proportionate Share of the Net Pension Liability Associated with District	71,005	31,823	41,033	-	-
Total	<u>\$ 2,234,565</u>	<u>\$ 2,559,861</u>	<u>\$ 3,183,281</u>	<u>\$ 1,948,627</u>	<u>\$ 1,883,697</u>
District's Covered Payroll	\$ 2,620,299	\$ 2,553,915	\$ 2,403,478	\$ 2,207,034	\$ 2,103,944
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	82.57%	98.99%	130.74%	88.29%	89.53%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.50%	75.90%	68.90%	78.20%	78.70%

NOTE: Information is presented prospectively and an accumulation of 10 years will be provided.

**INDEPENDENT SCHOOL DISTRICT NO. 381
SCHEDULE OF THE DISTRICT CONTRIBUTIONS
LAST FIVE FISCAL YEARS**

**TRA Schedule of District Contributions
Last Five Fiscal Years**

	Fiscal Year Ended June 30,				
	2019	2018	2017	2016	2015
Statutorily Required Contribution	\$ 648,207	\$ 608,928	\$ 583,675	\$ 545,434	\$ 530,514
Contributions in Relation to the Statutorily Required Contribution	(648,207)	(608,928)	(583,675)	(545,434)	(530,514)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 8,407,354	\$ 8,119,045	\$ 7,782,335	\$ 7,272,453	\$ 7,073,520
Contributions as a Percentage of Covered Payroll	7.71%	7.50%	7.50%	7.50%	7.50%

**GERF Schedule of District Contributions
Last Five Fiscal Years**

	Fiscal Year Ended June 30,				
	2019	2018	2017	2016	2015
Statutorily Required Contribution	\$ 193,992	\$ 196,523	\$ 191,544	\$ 180,261	\$ 163,040
Contributions in Relation to the Statutorily Required Contribution	(193,992)	(196,523)	(191,544)	(180,261)	(163,040)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 2,586,560	\$ 2,620,299	\$ 2,553,915	\$ 2,403,478	\$ 2,207,034
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.39%

NOTE: Information is present prospectively and an accumulation of ten years will be provided.

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019**

NOTE 1 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, ACTUARIAL METHODS AND ASSUMPTIONS

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the measurement period ended June 30:

2018

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

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for nonvested 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

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

INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019

NOTE 1 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)

The following changes were reflected in the valuation performed on behalf of the Teachers Retirement Association for the measurement period ended June 30:

2018

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

2017

- 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.
- 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 3.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for 10 years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate was changed from 4.66% to 5.12%.

**INDEPENDENT SCHOOL DISTRICT NO. 381
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019**

NOTE 1 CHANGES IN SIGNIFICANT PENSION PLAN PROVISION, ACTUARIAL METHODS AND ASSUMPTIONS (CONTINUED)

2016

- There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date.
- Post-retirement benefit adjustments are now assumed to stay level at 2.0% annually.
- The single discount rate was changed from 8.0% to 4.66%.

NOTE 2 CHANGES IN SIGNIFICANT OTHER POSTEMPLOYMENT BENEFIT PLAN PROVISION, ACTUARIAL METHODS AND ASSUMPTIONS

Since the most recent valuation, the following assumption changes have been made for the measurement date July 1, 2015:

- The discount rate was changed from 3.50% to 3.18% based on updated expectations of long-term returns on trust assets and 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost insurance plans.
- Medical per capita claims costs were updated to reflect recent experience and new plan offerings.
- Withdrawal, retirement, mortality and salary increase rates were updated from the rates used in the 7/1/2015 PERA General Employees Retirement Plan and 7/1/2015 Teachers Retirement Association valuations to the rates used in the 7/1/2017 valuations.
- The percent of future retirees eligible for a direct subsidy assumed to elect coverage at retirement changed from 100% to 90% to reflect recent plan experience.
- The percent of retirees electing spouse coverage changed from 20% to 30% to reflect recent plan experience.
- The percent of future non Medicare eligible retirees electing each medical plan changed to reflect recent plan experience and new plan offerings.
- The inflation assumption was changed from 2.75% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.

Since the most recent valuation, the following plan changes have been made for the measurement date July 1, 2015:

- Retiree premiums were updated to current levels.

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 381
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2019

	Audit	UFARS	Difference		Audit	UFARS	Difference
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$ 17,684,340	\$ 17,684,341	\$ (1)	Total Revenue	\$ -	\$ -	\$ -
Total Expenditures	\$ 18,294,111	\$ 18,294,097	\$ 14	Total Expenditures	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	\$ 272,827	\$ 272,827	\$ -	460 Nonspendable Fund Balance	\$ -	\$ -	\$ -
<i>Restricted:</i>				<i>Restricted:</i>			
403 Staff Development	\$ 117,859	\$ 117,860	\$ (1)	407 Capital Projects Levy	\$ -	\$ -	\$ -
405 Deferred Maintenance	\$ -	\$ -	\$ -	409 Alternative Facility Program	\$ -	\$ -	\$ -
406 Health and Safety	\$ -	\$ -	\$ -	413 Projects Funded by COP	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	467 LTFM	\$ -	\$ -	\$ -
408 Cooperative Programs	\$ -	\$ -	\$ -	464 Restricted Fund Balance	\$ -	\$ -	\$ -
413 Projects Funded by COP	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
414 Operating Debt	\$ -	\$ -	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
416 Levy Reduction	\$ -	\$ -	\$ -	07 DEBT SERVICE			
417 Taconite Building Maintenance	\$ 159,019	\$ 159,019	\$ -	Total Revenue	\$ 2,874,569	\$ 2,874,569	\$ -
424 Operating Capital	\$ -	\$ -	\$ -	Total Expenditures	\$ 2,896,616	\$ 2,896,616	\$ -
426 \$25 Taconite	\$ -	\$ -	\$ -	<i>Nonspendable:</i>			
427 Disabled Accessibility	\$ -	\$ -	\$ -	460 Nonspendable Fund Balance	\$ -	\$ -	\$ -
428 Learning and Development	\$ -	\$ -	\$ -	<i>Restricted:</i>			
434 Area Learning Center	\$ -	\$ -	\$ -	425 Bond Refunding	\$ -	\$ -	\$ -
435 Contracted Alternative Programs	\$ -	\$ -	\$ -	451 QZAB and QSCB Payments	\$ -	\$ -	\$ -
436 State-Approved Alternative Programs	\$ -	\$ -	\$ -	464 Restricted Fund Balance	\$ 655,994	\$ 655,994	\$ -
438 Gifted and Talented	\$ 39,085	\$ 39,085	\$ -	<i>Unassigned:</i>			
440 Teacher Development and Evaluations	\$ -	\$ -	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
441 Basic Skills Programs	\$ -	\$ -	\$ -	08 TRUST			
445 Career and Technical Programs	\$ -	\$ -	\$ -	Total Revenue	\$ 20,912	\$ 20,913	\$ (1)
448 Achievement and Integration	\$ -	\$ -	\$ -	Total Expenditures	\$ 29,971	\$ 29,972	\$ (1)
449 Safe Schools Crime Levy	\$ (22,528)	\$ (22,528)	\$ -	<i>Net Position:</i>			
451 QZAB Payments	\$ -	\$ -	\$ -	422 Net Position	\$ 68,437	\$ 68,437	\$ -
452 OPEB Liability Not Held in Trust	\$ -	\$ -	\$ -	20 INTERNAL SERVICE			
459 Basic Skills Ext Time	\$ 19,893	\$ 19,893	\$ -	Total Revenue	\$ -	\$ -	\$ -
467 LTFM	\$ 514,332	\$ 514,332	\$ -	Total Expenditures	\$ -	\$ -	\$ -
472 Medical Assistance	\$ -	\$ -	\$ -	<i>Net Position:</i>			
<i>Restricted:</i>				422 Net Position	\$ -	\$ -	\$ -
464 Restricted Fund Balance	\$ -	\$ -	\$ -	25 OPEB REVOCABLE TRUST			
<i>Committed:</i>				Total Revenue	\$ -	\$ -	\$ -
418 Committed for Separation	\$ -	\$ -	\$ -	Total Expenditures	\$ -	\$ -	\$ -
461 Committed Fund Balance	\$ -	\$ -	\$ -	<i>Net Position:</i>			
<i>Assigned:</i>				422 Net Position	\$ -	\$ -	\$ -
462 Assigned Fund Balance	\$ 179,053	\$ 179,053	\$ -	45 OPEB IRREVOCABLE TRUST			
<i>Unassigned:</i>				Total Revenue	\$ 8,994	\$ 8,956	\$ 38
422 Unassigned Fund Balance	\$ 2,719,675	\$ 2,719,671	\$ 4	Total Expenditures	\$ 409,593	\$ 409,593	\$ -
02 FOOD SERVICE				<i>Net Position:</i>			
Total Revenue	\$ 545,744	\$ 545,745	\$ (1)	422 Net Position	\$ -	\$ -	\$ -
Total Expenditures	\$ 581,067	\$ 581,067	\$ -	47 OPEB DEBT SERVICE			
<i>Nonspendable:</i>				Total Revenue	\$ 719,192	\$ 719,193	\$ (1)
460 Nonspendable Fund Balance	\$ 32,726	\$ 32,726	\$ -	Total Expenditures	\$ 717,850	\$ 717,850	\$ -
<i>Restricted:</i>				<i>Nonspendable:</i>			
452 OPEB Liability Not Held in Trust	\$ -	\$ -	\$ -	460 Nonspendable Fund Balance	\$ -	\$ -	\$ -
464 Restricted Fund Balance	\$ 133,275	\$ 133,276	\$ (1)	<i>Restricted:</i>			
<i>Unassigned:</i>				425 Bond Refunding	\$ -	\$ -	\$ -
463 Unassigned Fund Balance	\$ -	\$ -	\$ -	464 Restricted Fund Balance	\$ 207,392	\$ 207,392	\$ -
04 COMMUNITY SERVICE				<i>Unassigned:</i>			
Total Revenue	\$ 750,408	\$ 750,404	\$ 4	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
Total Expenditures	\$ 741,343	\$ 741,339	\$ 4				
<i>Nonspendable:</i>							
460 Nonspendable Fund Balance	\$ -	\$ -	\$ -				
<i>Restricted:</i>							
426 \$25 Taconite	\$ 31,340	\$ 31,340	\$ -				
431 Community Education	\$ (59,490)	\$ (59,490)	\$ -				
432 E.C.F.E.	\$ 135,268	\$ 135,268	\$ -				
440 Teacher Development and Evaluations	\$ -	\$ -	\$ -				
444 School Readiness	\$ 46,611	\$ 46,611	\$ -				
447 Adult Basic Education	\$ -	\$ -	\$ -				
452 OPEB Liability Not Held in Trust	\$ -	\$ -	\$ -				
464 Restricted Fund Balance	\$ 211	\$ 212	\$ (1)				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	\$ -	\$ -	\$ -				

SINGLE AUDIT AND OTHER REQUIRED REPORTS



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

Board of Education
Independent School District No. 381
Two Harbors, 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. 381 (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 28, 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2019-001 through 2019-003, that we consider to be material weaknesses.

Compliance and Other Matters

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

The District’s Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



CliftonLarsonAllen LLP

St. Cloud, Minnesota
October 28, 2019



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

Board of Education
Independent School District No. 381
Two Harbors, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the Independent School District No. 381's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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



CliftonLarsonAllen LLP

St. Cloud, Minnesota

October 28, 2019

**INDEPENDENT SCHOOL DISTRICT NO. 381
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

Federal Agency/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	Passed Through to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through Minnesota Department of Education:				
Child Nutrition Cluster:				
Non-Cash Assistance (Commodities):				
National School Lunch Program	10.555	1-0381-000	\$ 55,373	\$ -
Cash Assistance:				
School Breakfast Program	10.553	1-0381-000	30,767	-
National School Lunch Program	10.555	1-0381-000	151,784	-
Cash Rebate Program (Commodities)	10.555	1-0381-000	177	-
Total Child Nutrition Cluster			<u>238,101</u>	<u>-</u>
Total U.S. Department of Agriculture			238,101	-
U.S. DEPARTMENT OF EDUCATION				
Passed Through Minnesota Department of Education:				
Title I Grants for Local Educational Agencies	84.010	S010A180023A	193,142	-
Special Education Cluster:				
Special Education Grants to States	84.027	H027A180087	225,393	-
Special Education Preschool Grants	84.173	H027A180087	10,365	-
Total Special Education Cluster			<u>235,758</u>	<u>-</u>
Title IV, Part A - Safe and Drug Free Schools and Communities	84.186	S424A180024	2,620	-
Title II, Part A - Teacher and Principal Training and Recruiting	84.367	S367A18022	70,443	-
Special Education Infants and Families (Part H)	84.181	H027A180087	10,921	-
Passed Through Independent School District 709 - Duluth:				
Carl Perkins Vocational and Applied Technology	84.048	1-0709-000	19,057	-
Total U.S. Department of Education			<u>531,941</u>	<u>-</u>
Total Federal Awards			<u>\$ 770,042</u>	<u>\$ -</u>

Notes to Schedule of Expenditures of Federal Awards:

Note 1:

The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Independent School District No. 381.

Note 2:

The expenditures on this schedule are on the modified accrual basis of accounting, which is described in Note 1 to the basic financial statements of the District. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10% de minimis indirect costs rate as allowed under Uniform Guidance.

Note 3:

The total of CFDA #10.555 is \$207,334.



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 381
ISD #381 Lake Superior
Two Harbors, 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 *Governmental Auditing Standards* issued by the Comptroller of the United States, the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ISD #381 Lake Superior (the District), Minnesota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents and have issued our report thereon dated October 28, 2019.

The *Minnesota Legal Compliance Audit Guide for School Districts* contains seven main 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.

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*, except as described in the Schedule of Findings and Questioned Costs as item 2019-004. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The District's written response to the legal compliance finding identified in our audit is described in the Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

St. Cloud, Minnesota
October 28, 2019

**INDEPENDENT SCHOOL DISTRICT NO. 381
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

Section I – Summary of Auditors’ Results

Financial Statements

Type of auditor’s report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditor’s report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553 and 10.555	Child Nutrition Cluster
84.010	Title I

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

**INDEPENDENT SCHOOL DISTRICT NO. 381
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings

Finding 2019-001 – Financial Statement Preparation

Type of Finding: Material weakness in Internal Control Over Financial Reporting

Criteria: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements in accordance with generally accepted accounting principles.

Condition and Context: The District does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures are complete and presented in accordance with GAAP.

Cause: The District relied on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and the related footnote disclosures.

Possible Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the District's internal controls.

Repeat Finding: The finding was a repeat finding from the prior year identified as finding 2018-003.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

Views of responsible officials and planned corrective actions:

Contact Person: Sara Girard, Business Manager

Corrective Action Plan: A corrective action plan is in place.

Anticipated Completion Date: June 30, 2020

**INDEPENDENT SCHOOL DISTRICT NO. 381
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings (Continued)

Finding 2019-002 – Segregation of Duties

Type of Finding: Material weakness in Internal Control Over Financial Reporting

Criteria: A good system of internal accounting control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.

Condition and Context: The District has limited number of office personnel and accordingly, does not have adequate internal controls in certain areas, such as review of bank reconciliations and journal entries, because of a lack of segregation of duties.

Cause: The District's resources have not allowed for personnel to address this issue.

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

Repeat Finding: Not applicable.

Recommendation: When we recognize that the District may not be large enough to permit complete segregation of duties in all material respects for an effective system of internal controls, the functions should be reviewed to determine if additional segregation of duties is feasible and to improve efficiency and effectiveness of financial management of the District.

Views of responsible officials and planned corrective actions:

Contact Person: Sara Girard, Business Manager

Corrective Action Plan: A corrective action plan is in place.

Anticipated Completion Date: June 30, 2020

**INDEPENDENT SCHOOL DISTRICT NO. 381
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2019**

Section II – Financial Statement Findings (Continued)

Finding 2019-003 – Audit Adjustments

Type of Finding: Material weakness in Internal Control Over Financial Reporting

Criteria: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements in accordance with generally accepted accounting principles. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements on a timely basis.

Condition and Context: As part of the audit, we proposed material adjustments related to pension direct aid, fund balance, and unavailable revenue.

Cause: The District has limited number of staff.

Possible Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the District's internal controls.

Repeat Finding: The finding was a repeat finding from the prior year identified as finding 2018-001.

Recommendation: We recommend that District management and financial personnel continue to work on establishing a process to ensure all recording of related transactions to properly adjust financial statements at year-end.

Views of responsible officials and planned corrective actions:

Contact Person: Sara Girard, Business Manager

Corrective Action Plan: A corrective action plan is in place.

Anticipated Completion Date: June 30, 2020

INDEPENDENT SCHOOL DISTRICT NO. 381
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2019

Section III – Findings and Questioned Costs – Major Federal Programs

None noted

Section IV – Findings and Questioned Costs – Minnesota Legal Compliance

Finding 2019-004 – Lowest Bidder

Criteria: Minnesota Statutes §132B.52 subd. 1 requires that contracts must be awarded to the lowest responsible bidder, unless there were reasonable and appropriate reasons documented in the minutes for not awarding the lowest responsible bidder.

Condition and Context: The District did not award the bid to the lowest responsible bidder and did not document the reasoning.

Cause: Unknown.

Effect: The District was not in compliance with state statutes and could be overpaying for contracted services.

Recommendation: We recommend that District management be aware of the state statute and award bids to the lowest responsible bidder or document reasoning.

Views of responsible officials and planned corrective actions: There is no disagreement with the finding.