INDEPENDENT SCHOOL DISTRICT NO. 881
MAPLE LAKE, MINNESOTA

AUDITED FINANCIAL STATEMENTS

JUNE 30, 2019

SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants

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MAPLE LAKE, MINNESOTA
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INDEPENDENT SCHOOL DISTRICT NO. 881
BOARD OF EDUCATION AND ADMINISTRATION
FOR THE YEAR ENDED JUNE 30, 2019

BOARD OF EDUCATION

Name	Title	Term Expires
Chris Paumen	Chairperson	December 31, 2020
Joe Mavencamp	Vice-Chairperson	December 31, 2022
Bill Neumann	Treasurer	December 31, 2020
Shelley McAlpine	Clerk	December 31, 2020
Lowell Benson	Director	December 31, 2022
Joseph Paumen	Director	December 31, 2020
Dave Schroeder	Director	December 31, 2022

ADMINISTRATION

Name	Title
Mark Redemske	Superintendent
Kristi Anderson	Finance Manager

FINANCIAL SECTION

SCHLENNER WENNER & CO.
CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS CONSULTANTS
Professional Association

INDEPENDENT AUDITORS' REPORT

Report Date

Members of the Board of Education
Independent School District No. 881
Maple Lake, 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. 881, Maple Lake, Minnesota (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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 881, Maple Lake, Minnesota as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule, Schedule of Changes in District's Net OPEB Liability, Schedule of Money-Weighted Rate of Return on OPEB Plan Assets, Schedule of District's Proportionate Share of Net Pension Liability, and Schedule of District Pension Contributions 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 introductory section, combining nonmajor governmental funds financial statements, and the Uniform Financial Accounting and Reporting Standards Compliance Table are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated Report Date on our consideration of Independent School District No. 881's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 Independent School District No. 881's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated Report Date, on our consideration of Independent School District No. 881's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the District has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 881
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

As management of Independent School District No. 881 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2019.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $4,220,133 (net position). The unrestricted portion of net position is negative $7,553,079.

- The District's total net position increased by $3,564,903 as a result of current year operations.

- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $5,086,312, an increase of $1,055,029 in comparison with the prior year. Approximately 38 percent of this amount, $1,935,294, is available for spending at the District's discretion.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $1,950,277, or 20 percent of total General Fund expenditures.

- The District's total long-term liabilities decreased by $43,351 (0.5 percent) in the current fiscal year, excluding the change in the net pension liability and net OPEB liability.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

The major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain are summarized in the following table. The remainder of the overview section of the Management Discussion and Analysis highlights the structure and contents of each of the statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

	Government-Wide	**Fund Financial Statements**	
		Governmental Funds	**Fiduciary Funds**
Scope	Entire District (except fiduciary funds)	The activities of the District that are not fiduciary, such as regular instruction, support services, special education, building maintenance, food service, and community education	Activities the District operates in trust or for which the District is a fiscal agent
Required financial statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures, and Changes in Fund Balances	Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/deferred outflows/liability/deferred inflows information	All assets, deferred outflows, liabilities, and deferred inflows of resources both financial and capital short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; deferred inflows of resources recorded to defer unavailable assets; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, short-term and long-term
Type of outflow/inflow information	All revenue and expenses during the year, regardless of when cash is received or paid	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenue and expenses during the year, regardless of when cash is received or paid

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

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Government-Wide Financial Statements (Continued)

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include administration, district support services, regular instruction, vocational instruction, exceptional instruction, community education and services, instructional support services, pupil support services, sites and buildings, fiscal and other fixed cost programs, interest and other fiscal charges, and unallocated depreciation. The District currently does not report any business-type activities.

The government-wide financial statements start on page 16 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

The District maintains three individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Debt Service Fund and Building Construction Fund, all of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

The basic governmental fund financial statements start on page 18 of this report.

Fiduciary Funds

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

The basic fiduciary fund financial statements start on page 22 of this report.

Notes to the Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements start on page 24 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented as supplementary information. Combining fund statements start on page 65 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, for a net balance of $4,220,133 at the close of the most recent fiscal year.

A significant portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, site improvements, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although, the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Position
Table 1

	Governmental Activities		
	2019	2018	Increase (Decrease)
Assets			
Current and Other Assets	$ 9,199,056	$ 8,224,015	$ 975,041
Capital Assets	17,729,351	17,313,814	415,537
Total Assets	26,928,407	25,537,829	1,390,578
Deferred Outflows of Resources	6,835,525	9,067,509	(2,231,984)
Liabilities			
Current and Other Liabilities	1,310,569	1,295,185	15,384
Noncurrent Liabilities	15,447,182	26,356,007	(10,908,825)
Total Liabilities	16,757,751	27,651,192	(10,893,441)
Deferred Inflows of Resources	12,786,048	6,298,916	6,487,132
Net Position			
Net Investment in Capital Assets	9,075,893	9,222,852	(146,959)
Restricted	2,697,319	2,068,135	629,184
Unrestricted	(7,553,079)	(10,635,757)	3,082,678
Total Net Position	$ 4,220,133	$ 655,230	$ 3,564,903

An additional portion of the District's net position $2,697,319 represents resources that are subject to external restrictions on how they may be used. The balance of unrestricted net position is negative $7,553,079 at year end.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Changes in Net Position
The District's net position increased $3,564,903 during the most recent fiscal year. Key elements of this increase are as follows:

Changes in Net Position
Table 2

	Governmental Activities		
	2019	2018	Increase (Decrease)
Revenues			
Program Revenues:			
Charges for Services	$ 685,090	$697,496	$ (12,406)
Operating Grants and Contributions	1,717,241	1,692,162	25,079
Capital Grants and Contributions	-	185,763	(185,763)
General Revenues:			
Property Taxes	3,083,723	2,623,597	460,126
State Aid not Restricted to Specific Programs	6,592,503	6,758,801	(166,298)
Earnings on Investments	126,446	88,958	37,488
Loss on Sale of Assets	(4,402)	-	(4,402)
Miscellaneous	45,334	19,755	25,579
Total Revenues	12,245,935	12,066,532	179,403
Expenses			
Administration	429,403	659,227	(229,824)
District Support Services	365,050	372,925	(7,875)
Regular Instruction	2,632,723	5,810,605	(3,177,882)
Vocational Instruction	134,112	199,674	(65,562)
Exceptional Instruction	1,434,262	2,154,579	(720,317)
Community Education and Services	342,037	357,668	(15,631)
Instructional Support Services	502,502	560,928	(58,426)
Pupil Support Services	1,131,759	1,261,375	(129,616)
Sites and Buildings	959,390	822,407	136,983
Fiscal and Other Fixed Costs Programs	42,103	42,741	(638)
Interest and Other Fiscal Charges	225,182	370,484	(145,302)
Unallocated Depreciation	482,509	486,860	(4,351)
Total Expenses	8,681,032	13,099,473	(4,418,441)
Change in Net Position	3,564,903	(1,032,941)	4,597,844
Net Position - Beginning of Year	655,230	1,688,171	(1,032,941)
Net Position - End of Year	$ 4,220,133	$ 655,230	$ 3,564,903

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Changes in Net Position (Continued)

- The current year increase in net position was $3,564,903, compared to a decrease of $1,032,941 in the prior year. This change is a result of a 1.5 percent increase in revenues and a 33.7 percent decrease in expenses during fiscal year 2019.
- State aid not restricted to specific programs decreased $166,298, primarily due to changes in state funding provided for State-wide pension plans.
- Capital grants and contributions decreased $185,763, primarily due to a capital grant that was received in the prior year for the installation of solar panels.
- Property taxes increased $460,126 in comparison to the prior year due to changes in the amount levied.
- Expenses related to Regular Instruction and Exceptional Instruction decreased $3,177,882 and $720,317, respectively. Such decreases were primarily due to reductions in pension expense in the current year, which primarily resulted from changes in the actuarial assumptions being used by the Teachers Retirement Association.

Total and Net Cost of Governmental Activities
The net cost of governmental activities is their total costs less program revenues applicable to each category. The following table presents these total and net costs.

Total and Net Costs of Services
Table 3

	Total Cost of Services			Net Cost of Services		
	2019	2018	Increase (Decrease)	2019	2018	Increase (Decrease)
Administration	$ 429,403	$ 659,227	$ (229,824)	$ 429,403	$ 659,227	$ (229,824)
District Support Services	365,050	372,925	(7,875)	365,050	372,925	(7,875)
Regular Instruction	2,632,723	5,810,605	(3,177,882)	2,387,825	5,365,315	(2,977,490)
Vocational Instruction	134,112	199,674	(65,562)	133,259	194,540	(61,281)
Exceptional Instruction	1,434,262	2,154,579	(720,317)	299,851	1,031,511	(731,660)
Community Education and Services	342,037	357,668	(15,631)	24,175	49,165	(24,990)
Instructional Support Services	502,502	560,928	(58,426)	502,502	560,928	(58,426)
Pupil Support Services	1,131,759	1,261,375	(129,616)	561,055	674,374	(113,319)
Sites and Buildings	959,390	822,407	136,983	825,787	715,982	109,805
Fiscal and Other Fixed Costs Programs	42,103	42,741	(638)	42,103	42,741	(638)
Interest and Other Fiscal Charges	225,182	370,484	(145,302)	225,182	370,484	(145,302)
Unallocated Depreciation	482,509	486,860	(4,351)	482,509	486,860	(4,351)
Totals	$ 8,681,032	$ 13,099,473	$ (4,418,441)	$ 6,278,701	$ 10,524,052	$ (4,245,351)

Some significant items to note include the following:

- The net cost of services related to Regular Instruction decreased $2,977,490 (55.5 percent) primarily due to factors discussed in the previous section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Total and Net Cost of Governmental Activities (Continued)

- The net cost of services related to Exceptional Instruction decreased $731,660 (70.9 percent) primarily due to factors discussed in the previous section, as well as increases in State and Federal Aid applicable to this function.

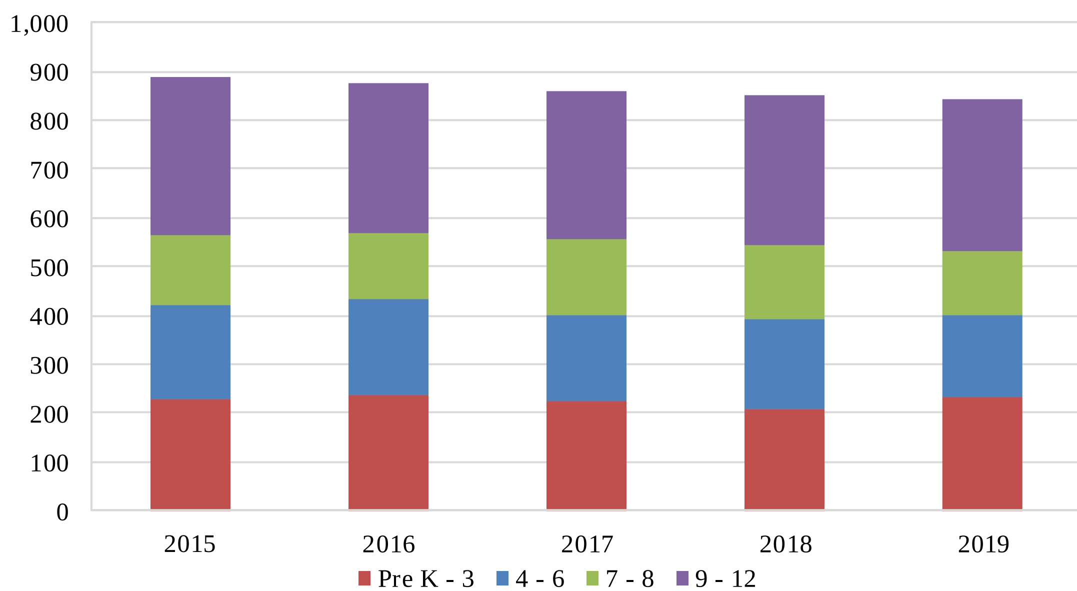
FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The majority of the financial aid received by the District is determined based on the number of students enrolled during the year. Therefore, fluctuations in enrollment have a significant impact on the financial health of the District. The following graphs show the trend in student enrollment counts over the past five years:

Student Enrollment (Average Daily Membership)

	2015	2016	2017	2018	2019
Pre K - 3	228	236	225	208	231
4 - 6	195	197	175	184	170
7 - 8	140	135	156	151	130
9 - 12	326	309	305	306	310
Total Students for Aid	889	877	861	849	841
Percentage Change	-2.41%	-1.35%	-1.82%	-1.39%	-0.94%

Student Enrollment (in ADM's)



As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

Governmental Funds

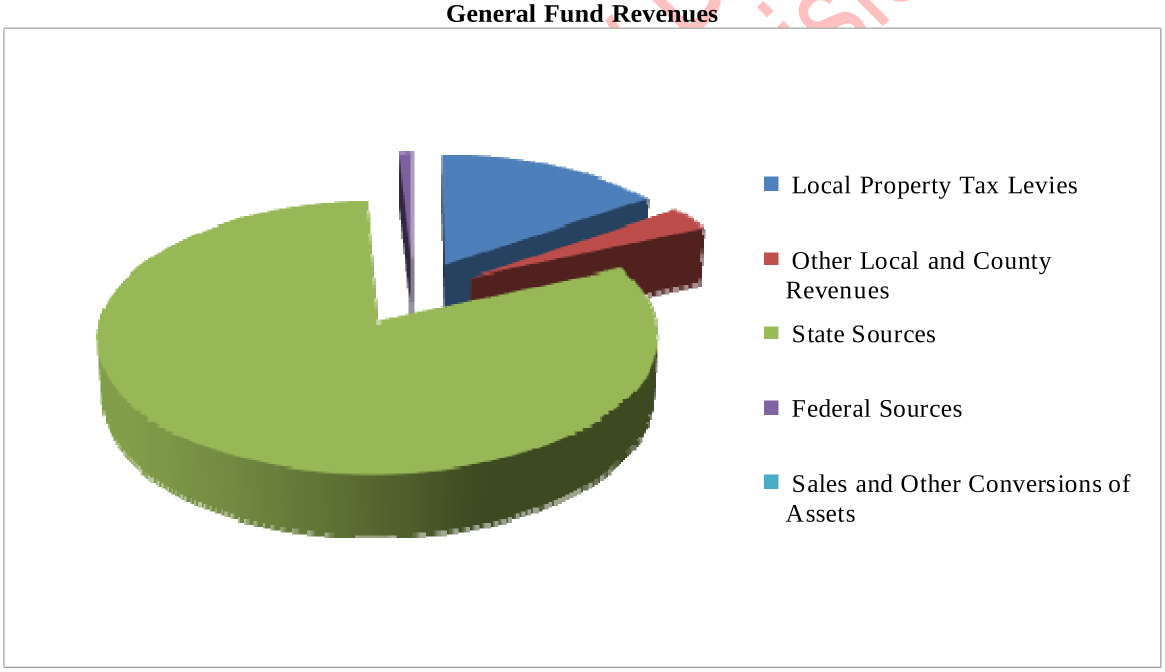
The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $5,086,312, an increase of $1,055,029 in comparison with prior year. The following is a summary of the District's major funds:

Major Funds	Fund Balance June 30, 2019	Fund Balance June 30, 2018	Increase (Decrease)
General	$ 2,978,193	$ 2,476,461	$ 501,732

The fund balance of the General Fund increased by $501,732. Revenues increased approximately 7.8 percent from the prior year, while expenditures increased approximately 2.4 percent.

General Fund Revenues

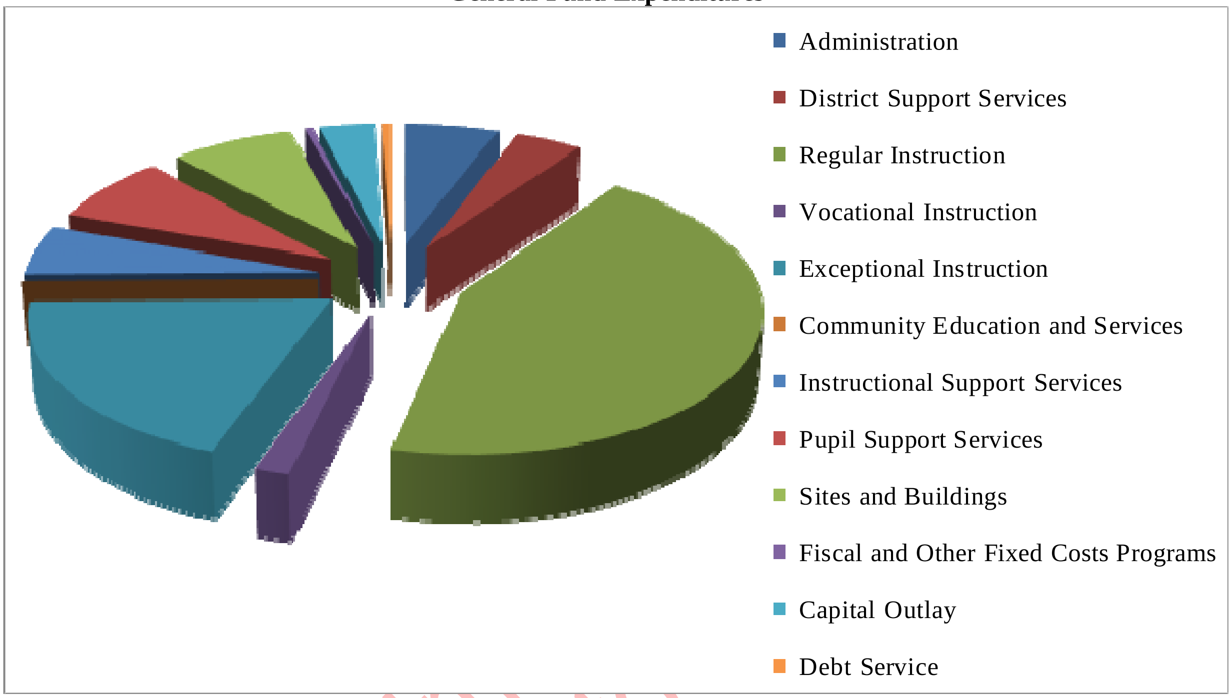


The District receives the vast majority of its funding in the General Fund from the State of Minnesota (81 percent), which is subject to fluctuation based on the number of pupils served by the District and changes in State legislation. In addition, the District receives approximately 15 percent of its General Fund revenues from local property tax levies.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

Governmental Funds (Continued)

General Fund Expenditures



A significant portion of the District's General Fund expenditures are used for regular, vocational, and exceptional instruction (65 percent). Expenditures for various support services total 17 percent, and the remaining 18 percent consists of expenditures for administration, sites and buildings and other items.

Major Funds	Fund Balance June 30, 2019	Fund Balance June 30, 2018	Increase (Decrease)
Debt Service	$ 352,161	$ 357,332	$ (5,171)

The Debt Service fund balance decreased by $5,171 during the year. Operations were comparable to that of the prior year.

Major Funds	Fund Balance June 30, 2019	Fund Balance June 30, 2018	Increase (Decrease)
Building Construction	$ 1,411,268	$ 864,593	$ 546,675

The Building Construction fund balance increased by $546,675, primarily due to the issuance of bonds in the current year to finance the District's building re-roofing project.

General Fund Budgetary Highlights

The District's General Fund budget was amended during the year. The revenues budget was increased by $141,717, and the expenditures budget was changed in several functions for an overall increase of $165,291 from original to final. The final budget called for expenditures of $9,860,282 and a decrease in fund balance of $18,620. Actual revenues and expenditures were approximately equal to budgeted amounts, with the exception of State revenues, which exceeded budgeted amounts.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2019, amounts to $17,729,351 (net of accumulated depreciation). This investment in capital assets includes land, land improvements, buildings and improvements, equipment, and vehicles. The total increase in the District's investment in capital assets for the current fiscal year was approximately 2 percent.

Major capital asset events during the current fiscal year included the purchase of a water softener, playground equipment, athletic scoreboard, technology equipment, and various building and site improvements.

Capital Assets Net of Depreciation
Table 4

	Governmental Activities		
	2019	2018	Increase (Decrease)
Land	$ 119,000	$ 119,000	$ -
Construction in Progress	731,954	-	731,954
Site Improvements	614,191	480,322	133,869
Buildings and Improvements	15,766,951	16,231,139	(464,188)
Equipment and Vehicles	497,255	483,353	13,902
Total	$ 17,729,351	$ 17,313,814	$ 415,537

Additional information on the District's capital assets can be found in Note 2.B. on page 34 of this report.

Long-Term Debt

At the end of the current fiscal year, the District had total long-term debt outstanding of $9,214,623, excluding the District's long-term net OPEB liability and net pension liability of $605,859 and $5,626,700, respectively. A summary of long-term debt activity for the year ended June 30, 2019 follows on the next page.

CAPITAL ASSETS AND DEBT ADMINISTRATION (Continued)

Long-Term Debt (Continued)

Long-Term Debt
Table 5

	Governmental Activities		
	2019	2018	Increase (Decrease)
G.O. Refunding Bonds	$ 5,450,000	$ 6,170,000	$ (720,000)
G.O. Capital Facilities Bonds	40,000	80,000	(40,000)
G.O. Facilities Maintenance Bonds	1,305,000	-	1,305,000
G.O. Taxable OPEB Bonds	555,000	1,145,000	(590,000)
G.O. Bonds	230,000	230,000	-
G.O. Taxable Bonds	715,000	715,000	-
Unamortized Premium	427,203	364,034	63,169
Capital Leases	486,255	531,927	(45,672)
Compensated Absences	6,165	7,964	(1,799)
Severance Payable	-	14,049	(14,049)
Total	$ 9,214,623	$ 9,257,974	$ (43,351)

The District's total debt decreased by $43,351 (0.5 percent) during the current fiscal year. Additional information on the District's long-term debt can be found in Note 2.C. on page 35 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's appointed and elected officials considered many factors when setting the fiscal year 2020 budget. These factors included the following:

- The 2019-2020 budget was created using the anticipated student counts, funding information available at the time of its adoption, staffing needs, the condition and needs of the building and grounds, transportation costs, and collective bargaining settlements.

At the time these financial statements were prepared and audited, the District was aware of the following existing conditions that could affect its financial health in the next year:

- The 2019-2020 budget was adopted prior to the end of the 2019 legislative session.
- 2019-2020 enrollments were estimates.

A subsequent budget will go to the Board using updated legislation, updated student counts, and collective bargaining settlements upon completion.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 District Office at 200 State Highway 55 East, Maple Lake, MN 55358.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 881
STATEMENT OF NET POSITION
JUNE 30, 2019

	Governmental Activities
ASSETS	
Cash and Investments	$ 6,565,586
Cash with Fiscal Agent	46,936
Property Tax Receivable	1,471,002
Accounts Receivable	50,946
Accrued Interest Receivable	6,005
Due from Other Minnesota School Districts	104,584
Due from Governmental Agencies	938,955
Prepaids	2,185
Inventory	12,857
Capital Assets not Being Depreciated	850,954
Capital Assets Being Depreciated (Net)	16,878,397
TOTAL ASSETS	26,928,407
DEFERRED OUTFLOWS OF RESOURCES	
OPEB	40,480
Pensions	6,795,045
TOTAL DEFERRED OUTFLOWS OF RESOURCES	6,835,525
LIABILITIES	
Accounts Payable	122,165
Construction Payable	32,832
Salaries Payable	925,555
Accrued Interest	100,349
Unearned Revenue	129,668
Noncurrent Liabilities:	
Debt Due Within One Year	1,205,852
Debt Due After One Year	8,008,771
Net OPEB Liability	605,859
Net Pension Liability	5,626,700
TOTAL LIABILITIES	16,757,751
DEFERRED INFLOWS OF RESOURCES	
Property Taxes Levied for Subsequent Years	2,882,413
OPEB	301,998
Pensions	9,601,637
TOTAL DEFERRED INFLOWS OF RESOURCES	12,786,048
NET POSITION	
Net Investment in Capital Assets	9,075,893
Restricted for:	
General Fund Operating Capital Purposes	536,107
General Fund State-Mandated Reserves	91,792
Building Construction	1,411,268
Lease	46,936
Community Service	344,690
Debt Service	266,526
Unrestricted	(7,553,079)
TOTAL NET POSITION	$ 4,220,133

See accompanying notes.

INDEPENDENT SCHOOL DISTRICT NO. 881
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense)/ Revenue
Governmental Activities:				
Administration	$ 429,403	$ -	$ -	$ (429,403)
District Support Services	365,050	-	-	(365,050)
Regular Instruction	2,632,723	167,041	77,857	(2,387,825)
Vocational Instruction	134,112	-	853	(133,259)
Exceptional Instruction	1,434,262	15,337	1,119,074	(299,851)
Community Education and Services	342,037	229,655	88,207	(24,175)
Instructional Support Services	502,502	-	-	(502,502)
Pupil Support Services	1,131,759	270,135	300,569	(561,055)
Sites and Buildings	959,390	2,922	130,681	(825,787)
Fiscal and Other Fixed Costs	42,103	-	-	(42,103)
Interest and Other Fiscal Charges	225,182	-	-	(225,182)
Unallocated Depreciation	482,509	-	-	(482,509)
Total Governmental Activities	$ 8,681,032	$ 685,090	$ 1,717,241	(6,278,701)
General Revenues:				
Property Taxes				3,083,723
State Aid not Restricted to Specific Programs				6,592,503
Earnings on Investments				126,446
Loss on Sale of Assets				(4,402)
Miscellaneous				45,334
Total General Revenues				9,843,604
CHANGE IN NET POSITION				3,564,903
NET POSITION - BEGINNING OF YEAR				655,230
NET POSITION - END OF YEAR				$ 4,220,133

See accompanying notes.

INDEPENDENT SCHOOL DISTRICT NO. 881
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

	General Fund	Debt Service Fund	Building Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	$ 3,720,759	$ 1,045,454	$ 1,443,188	$ 356,185	$ 6,565,586
Cash with Fiscal Agent	46,936	-	-	-	46,936
Property Taxes Receivable:					
Current	745,780	667,247	-	37,864	1,450,891
Delinquent	8,568	11,001	-	542	20,111
Interest Receivable	5,819	-	186	-	6,005
Accounts Receivable	49,380	-	1,566	-	50,946
Due from Other Minnesota School Districts	14,919	-	-	89,665	104,584
Due from Governmental Agencies	922,212	7,424	-	9,319	938,955
Prepaids	59	-	-	2,126	2,185
Inventory	-	-	-	12,857	12,857
TOTAL ASSETS	$ 5,514,432	$ 1,731,126	$ 1,444,940	$ 508,558	$ 9,199,056
LIABILITIES					
Accounts Payable	$ 118,576	$ 1,000	$ 840	$ 1,749	$ 122,165
Construction Payable	-	-	32,832	-	32,832
Accrued Payroll Liabilities	856,256	-	-	69,299	925,555
Unearned Revenue	118,452	-	-	11,216	129,668
Total Liabilities	1,093,284	1,000	33,672	82,264	1,210,220
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue:					
Delinquent Property Taxes	8,568	11,001	-	542	20,111
Property Taxes Levied for Subsequent Years	1,434,387	1,366,964	-	81,062	2,882,413
Total Deferred Inflows of Resources	1,442,955	1,377,965	-	81,604	2,902,524
FUND BALANCES					
Nonspendable	59	-	-	14,983	15,042
Restricted	674,835	352,161	1,411,268	344,690	2,782,954
Assigned	353,022	-	-	-	353,022
Unassigned	1,950,277	-	-	(14,983)	1,935,294
Total Fund Balances	2,978,193	352,161	1,411,268	344,690	5,086,312
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 5,514,432	$ 1,731,126	$ 1,444,940	$ 508,558	$ 9,199,056

See accompanying notes.

INDEPENDENT SCHOOL DISTRICT NO. 881
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019

Total Fund Balances - Governmental Funds		$ 5,086,312
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds:		
Capital Assets	$ 31,677,293	
Accumulated Depreciation	(13,947,942)	
Capital Assets (Net)		17,729,351
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 deferred inflows of resources in the funds:		20,111
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due:		(100,349)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds:		
Bond Principal Payable	(8,295,000)	
Bond Premium, Net of Accumulated Amortization	(427,203)	
Capital Lease Payable	(486,255)	
Compensated Absences	(6,165)	
		(9,214,623)
The net OPEB liability represents the present value of projected unfunded future postemployment benefits other than pensions, as determined by an actuary as of the most recent measurement date. Such liability and related balances do not represent the impending use of current financial resources and, therefore, are not reported in the funds:		
Net OPEB Liability	(605,859)	
Deferred Outflows - OPEB	40,480	
Deferred Inflows - OPEB	(301,998)	
		(867,377)
The net pension liability and related outflows/inflows represent the allocation of the pension obligations of the statewide plans to the District. Such balances are not reported in the funds:		
Net Pension Liability	(5,626,700)	
Deferred Outflows - Pensions	6,795,045	
Deferred Inflows - Pensions	(9,601,637)	
		(8,433,292)
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 4,220,133

See accompanying notes.

INDEPENDENT SCHOOL DISTRICT NO. 881
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund	Debt Service Fund	Building Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Local Property Tax Levies	$ 1,535,367	$ 1,474,218	$ -	$ 80,239	$ 3,089,824
Other Local and County Revenues	298,011	12,361	39,170	237,193	586,735
State Sources	8,147,850	74,255	-	112,358	8,334,463
Federal Sources	93,082	-	-	154,040	247,122
Sales and Other Conversion of Assets	-	-	-	270,135	270,135
TOTAL REVENUES	10,074,310	1,560,834	39,170	853,965	12,528,279
EXPENDITURES					
Current:					
Administration	553,147	-	-	-	553,147
District Support Services	393,298	-	-	-	393,298
Regular Instruction	4,197,855	-	-	-	4,197,855
Vocational Instruction	164,669	-	-	-	164,669
Exceptional Instruction	1,849,450	-	-	-	1,849,450
Community Education and Services	-	-	-	353,119	353,119
Instructional Support Services	546,424	-	-	-	546,424
Pupil Support Services	728,755	-	-	453,561	1,182,316
Sites and Buildings	720,777	-	116,430	-	837,207
Fiscal and Other Fixed Cost Programs	42,103	-	-	-	42,103
Capital Outlay	322,745	-	738,641	35,492	1,096,878
Debt Service:					
Principal	40,000	1,350,000	-	-	1,390,000
Interest and Other Charges	13,700	257,280	19,575	-	290,555
TOTAL EXPENDITURES	9,572,923	1,607,280	874,646	842,172	12,897,021
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	501,387	(46,446)	(835,476)	11,793	(368,742)
OTHER FINANCING SOURCES (USES)					
Bonds Issued	-	-	1,305,000	-	1,305,000
Premium on Bonds Issued	-	-	118,426	-	118,426
Sale of Equipment	345	-	-	-	345
Transfers In	-	41,275	-	-	41,275
Transfers Out	-	-	(41,275)	-	(41,275)
TOTAL OTHER FINANCING SOURCES (USES)	345	41,275	1,382,151	-	1,423,771
NET CHANGE IN FUND BALANCES	501,732	(5,171)	546,675	11,793	1,055,029
FUND BALANCES - BEGINNING	2,476,461	357,332	864,593	332,897	4,031,283
FUND BALANCES - ENDING	$ 2,978,193	$ 352,161	$ 1,411,268	$ 344,690	$ 5,086,312

INDEPENDENT SCHOOL DISTRICT NO. 881
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Net Change in Fund Balances - Governmental Funds		$ 1,055,029
Amounts reported for governmental activities in the Statement of Activities are different due to the following:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense:		
Capital Outlay Capitalized	$ 1,089,472	
Loss on Disposal of Asset	(4,747)	
Depreciation Expense	(669,188)	
		415,537
The issuance of long-term debt provides current financial resources to governmental funds while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The amounts below detail the effects of these differences in the treatment of long-term debt and related items:		
Proceeds from the Issuance of Bonds	(1,305,000)	
Premium on Bonds Issued	(118,426)	
Bond Principal Repayments	1,350,000	
Amortization of Bond Premiums	55,257	
Capital Lease Principal Repayments	45,672	
		27,503
Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered as "available" revenues in the governmental funds, and are instead counted as deferred tax inflows. They are, however, recorded as revenues in the Statement of Activities:		(6,101)
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		10,116
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Compensated Absences Payable	1,799	
Severance Payable	14,049	
		15,848
Certain liabilities do not represent the impending use of current resources. Therefore, the change in such liabilities and related deferrals are not reported in the governmental funds:		
Net Pension Liability and Deferred Outflows/Inflows of Resources	2,154,290	
Net OPEB Liability and Deferred Outflows/Inflows of Resources	(107,319)	
		2,046,971
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 3,564,903

See accompanying notes.

INDEPENDENT SCHOOL DISTRICT NO. 881
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2019

	Trust Funds	
	Private-Purpose	Employee Benefit
ASSETS		
Cash and Investments	$ 2,147	$ 899,426
Interest Receivable	-	24,973
TOTAL ASSETS	$ 2,147	$ 924,399
NET POSITION		
Held in Trust for Scholarships	$ 2,147	$ -
Held in Trust for Postemployment Benefits	-	924,399
TOTAL NET POSITION	$ 2,147	$ 924,399

Preliminary Draft
Subject to Revision

See accompanying notes.

INDEPENDENT SCHOOL DISTRICT NO. 881
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

	Trust Funds	
	Private-Purpose	Employee Benefit
ADDITIONS		
Investment Interest	$ 167	$ 24,514
Gifts and Contributions	7,570	-
TOTAL ADDITIONS	7,737	24,514
DEDUCTIONS		
Charges for Services	-	222
Contributions Paid	-	81,753
Scholarship(s) Awarded	20,800	-
TOTAL DEDUCTIONS	20,800	81,975
CHANGE IN NET POSITION	(13,063)	(57,461)
NET POSITION - BEGINNING	15,210	981,860
NET POSITION - ENDING	$ 2,147	$ 924,399

See accompanying notes.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. FINANCIAL REPORTING ENTITY

Independent School District No. 881 (the District) is an educational entity established by the State of Minnesota. The government of the District is directed by an elected seven-member Board of Education (the Board). The Board exercises legislative authority and determines all matters of policy. The Board appoints personnel responsible for the proper administration of all affairs relating to the District. The accompanying financial statements present the government entities for which the District is considered to be financially accountable.

The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the primary government. Based on these criteria, there are currently no entities considered to be component units of the District.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's Board has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in the basic financial statements. Separate audited financial statements and reports are presented following the District's audited financial statements and reports.

1.B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the primary government. For the most part, interfund activities have been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

1.C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

The financial statements of Independent School District No. 881 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting,* as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenses are classified by function for governmental activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character	Current (further classified by function)
	Capital Outlay
	Debt Service

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

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

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

The District reports the following major governmental funds:

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

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

The *Building Construction Fund* accounts for the resources accumulated and payments made for building construction.

Additionally, the government reports the following fund types:

The *Special Revenue Funds* account for the proceeds of specific revenue sources (other than expendable trust and major capital projects) that are legally restricted to expenditures for specified purposes.

The *Fiduciary Funds* consist of trust funds used for activity of the District's Scholarship Fund and to fund any future postemployment benefits payable from the District.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.D. USE OF ESTIMATES

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

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY

Deposits 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 participation by each of the funds. Temporary cash investments are stated at cost which approximates fair value. Investments in external investment pools are valued at the pool's share price.

See Note 2.A. for additional information related to Deposits and Investments.

Cash with Fiscal Agent

Cash with fiscal agent represents deposits with fiscal agents for the payment of bond principal and interest and the defeasance of debt at a future date. These bond transactions are discussed further in detail in Note 2.C.

Property Taxes Receivable

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

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

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

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 deferred in the fund financial statements because it is not known to be available to finance the operation of the District in the current year. For government-wide financial statements, no allowance for uncollectible taxes is considered necessary.

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)

Due from Other Governments

Amounts due from the Minnesota Department of Education, from the federal government through the Department of Education and from other governmental units for general education aids and reimbursements under various specific programs are reported at the estimated amounts to be received based on available information at the date of this report. In some instances, adjustments and proration by these agencies, which are dependent upon the amount of funds available for distribution and may result in differing amounts actually being received. Any such differences will be absorbed into operations of the subsequent period.

Prepaids

Prepaid expenses consist of amounts paid during the year ended June 30, 2019 which will benefit future periods. Included in this amount are supplies purchased for use in subsequent periods and insurance premiums applicable to future accounting periods.

Inventory

Inventory is recorded using the consumption method of accounting and consists 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.

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 $1,000 or more for capitalizing capital assets. The system for accumulation of fixed asset cost data does not provide the means for determining the percentage of assets valued at actual and those valued at estimated cost.

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

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

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

Accrued Payroll Liabilities

Salaries pertaining to the school year ended June 30, 2019, which are payable in July and August 2019, are accrued as of June 30, 2019, and are shown as a liability on the accompanying financial statements. Liabilities for payroll taxes, amounts withheld from payroll checks and benefits accrued are also included.

Unearned Revenue

Unearned revenue consists of local revenue received, but not yet earned. Such amounts typically consist of grants and entitlements received before eligibility requirements are met and prepaid pupil lunch balances.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)

Compensated Absences

Under the terms of union contracts, certain employees accrue vacation at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation and related benefits upon termination. Vacation pay is accrued in the district-wide financial statements when earned. Unused vacation pay is accrued in governmental fund financial statements only when it has matured due to employee termination or similar circumstances.

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums and discounts are deferred and are amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

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

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the District's OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's OPEB plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Net Pension Liability

The net pension liability represents the District's allocation of their pro-rata share of the Statewide General Employees Retirement Fund and Teachers Retirement Association net pension liabilities.

<u>PERA</u>

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

<u>TRA</u>

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)

Net Pension Liability (Continued)

TRA (Continued)

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

Interfund Transactions and Balances

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. If short-term in nature or incurred through goods and service type transactions, such interfund balances are reported as "due to/from other funds." Long-term interfund loans are reported as "advances to/from other funds." Interfund transactions and balances between governmental funds are eliminated in the Statement of Net Position.

Permanent reallocations of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the Statement of Activities, all interfund transfers between individual governmental funds have been eliminated. See additional information at Note 2.E.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The District reports deferred outflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds and OPEB plan in which District employees participate.

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The District reports property taxes levied for subsequent years as deferred inflows of resources in both the government-wide and governmental fund financial statements. The District reports delinquent property tax receivables as deferred inflows of resources in the governmental funds, in accordance with the modified accrual basis of accounting. In addition, the District reports deferred inflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds and OPEB plan in which District employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

See Notes 3 and 4 for additional information pertaining to the deferred outflows and deferred inflows recorded to account for OPEB and pension activities, respectively.

Fund Balance

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

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or they are legally or contractually required to be maintained intact. The nonspendable fund balance at June 30, 2019 consists of prepaid expenditures and inventory.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)

Fund Balance (Continued)

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

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

Assigned – Amounts that are neither restricted or committed, but are constrained by the District's intent to be used for specific purposes. The Board currently has delegated the authority to assign fund balances to the District's Superintendent and Finance Manager.

Unassigned – The residual classification for the General Fund and also negative residual amounts in other funds, if any. The District has formally adopted a policy under which it strives to maintain a minimum unassigned General Fund balance equal to approximately 1.5 months of operating expenditures.

When both restricted and unrestricted resources are available for use, it is the District's practice to first use restricted resources, and then use unrestricted resources as they are needed. If resources from more than one fund balance classification could be spent, the District will spend the resources from fund balance classifications in the following order: restricted, committed, assigned and unassigned in accordance with the District's policy.

See Note 2.D. for additional disclosures.

Net Position

Net position represents the difference between the sum of assets and deferred outflows of resources and the sum of liabilities and deferred inflows of resources. Net position is displayed in three components:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquiring the capital assets.

Restricted Net Position – Consists of net position restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

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

It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS

2.A. DEPOSITS AND INVESTMENTS

Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits in financial institutions designated by the School Board. Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). The District complies with such laws.

Authorized collateral in lieu of a corporate surety bond includes:

- United States Government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated “A” or better;
- A revenue obligation of a state or local government, with taxing powers, rated “AA” or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA” or better by Moody’s or Standard and Poor’s; or
- Time deposits insured by any federal agency.

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

At June 30, 2019, the District's deposits were not exposed to custodial credit risk. The District's deposits were sufficiently covered by federal depository insurance or by collateral held by the District’s agent in the District's name.

Investments

The District may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better; general obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. Under Minnesota Statutes, the District has expanded investment options for its fiduciary trust fund. The District does not have any investment policies that would further limit investment choices.

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.A. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The Minnesota School District Liquid Asset Fund and the MNTrust Investment Shares Portfolio are external investment pools not registered with the Securities Exchange Commission (SEC) that follow the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool shares. The investments in the Minnesota School District Liquid Asset Fund and the MNTrust Investment Shares Portfolio are not subject to the credit risk classifications as noted in GASB Statement No. 72.

Investment balances at June 30, 2019 are as follows:

Type of Investments	Credit Rating	Segmented Time Distribution	Fair Value
Non-Pooled Investments			
MNTrust Certificates of Deposit	N/A	Less than 6 months	$ 243,600
Pooled Investments			
Minnesota District Liquid Asset Fund	N/A	Less than 6 months	1,513
MNTrust Investment Shares Portfolio	N/A	Less than 6 months	4,761,018
MNTrust Term Series Investment Pool	N/A	Less than 6 months	600,000
MNTrust Gov't & Muni Securities	AA+	6 months to a year	74,669
MNTrust Gov't & Muni Securities	AA+	1 to 3 years	672,143
Totals			$ 6,352,943

The table above excludes investments of $890,099, which are held in fiduciary funds.

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

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes limit the District’s investments.

- Custodial credit risk is the risk that in the event of a failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District does not have a formal investment policy to address custodial credit risk, but typically limits its exposure by purchasing insured or registered investments.

- Concentration of Credit Risk is the risk associated with the magnitude of the District’s investments (considered five percent or more) in the investments of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District has no formal policy limiting the amounts that may be invested in any one issuer. At June 30, 2019, the District does not have a significant concentration of credit risk.

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.A. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District has no formal policy to address interest rate risk.

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

The District has the following recurring fair value measurements as of June 30, 2019:
- All of the District's pooled investments detailed on the prior page are valued using quoted market prices (level 1).
- MNTrust Certificates of Deposit detailed on the prior page are valued at $243,600 using significant other observable inputs (Level 2).

Deposits and Investments Summary

The following is a summary of total deposits and investments:

Carrying Amount of Deposits	$ 248,980
Investments	7,243,042
Cash with Fiscal Agent	46,936
Total Cash and Investments	$ 7,538,958

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

District-Wide	
Cash and Investments	$ 6,565,586
Cash with Fiscal Agent	46,936
Fiduciary	
Private-Purpose Trust Fund	2,147
Employee Benefit Trust Fund	899,426
Student Activity Accounts	24,863
Total Cash and Investments	$ 7,538,958

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.B. CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, not Being Depreciated				
Land	$ 119,000	$ -	$ -	$ 119,000
Construction in Progress	-	731,954	-	731,954
Total Capital Assets Not Being Depreciated	119,000	731,954	-	850,954
Capital Assets, Being Depreciated				
Site Improvements	1,194,988	177,837	-	1,372,825
Buildings and Improvements	27,221,571	79,722	4,911	27,296,382
Equipment and Vehicles	2,057,173	99,959	-	2,157,132
Total Capital Assets Being Depreciated	30,473,732	357,518	4,911	30,826,339
Less Accumulated Depreciation for				
Site Improvements	714,666	43,968	-	758,634
Buildings and Improvements	10,990,432	539,163	164	11,529,431
Equipment and Vehicles	1,573,820	86,057	-	1,659,877
Total Accumulated Depreciation	13,278,918	669,188	164	13,947,942
Total Capital Assets Being Depreciated, Net	17,194,814	(311,670)	4,747	16,878,397
Governmental Activities Capital Assets, Net	$ 17,313,814	$ 420,284	$ 4,747	$ 17,729,351

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.B. CAPITAL ASSETS (Continued)

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

Governmental Activities:		
Administration	$	166
District Support Services		90
Regular Instruction		17,694
Vocational Instruction		1,947
Exceptional Instruction		263
Community Education		535
Instructional Support Services		14,474
Pupil Support Services		272
Sites and Buildings		151,238
Unallocated Depreciation		482,509
Total Depreciation Expense - Governmental Activities	$	669,188

2.C. NONCURRENT LIABILITIES

General Obligation (G.O.) Bonds

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. Assets of the Debt Service Fund, together with scheduled future tax levies, are dedicated for the retirement of these obligations. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

There are a number of limitations and restrictions contained in the general obligation bond indentures.

The interest rates are fixed rates that may increase by a predetermined amount each year. District-wide interest and fiscal charges for 2019 total $280,439 on the Statement of Activities. Fund financial statement interest and fiscal charges for 2019 total $290,555. Interest expenses included in direct program expenses total $0; all bond interest and fees are included in interest and other fiscal charges.

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

Description	Original Issue Amount	Interest Rates	Final Maturity Date	Balance Outstanding
Governmental Activities				
G.O. Taxable OPEB Bonds, Series 2009A	1,340,000	3.00 - 5.00%	2/1/2021	$ 555,000
G.O. School Building Refunding Bonds, Series 2009B	2,500,000	2.50 - 4.00%	2/1/2022	770,000
G.O. Capital Facilities Bonds, Series 2010A	375,000	1.50 - 3.50%	2/1/2020	40,000
G.O. Crossover Refunding Bonds, Series 2016A	5,160,000	2.00 - 3.00%	2/1/2028	4,680,000
G.O. Bonds, Series 2018A	230,000	3.00%	2/1/2021	230,000
G.O. Taxable Bonds, Series 2018B	715,000	2.70 - 4.00%	2/1/2024	715,000
G.O. Facilities Maintenance Bonds, Series 2019A	1,305,000	3.00 - 5.00%	2/1/2030	1,305,000
	$ 11,625,000			$ 8,295,000

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.C. NONCURRENT LIABILITIES (Continued)

Capital Leases

The District occasionally enters into lease/purchase agreements as a means for financing the acquisition of new equipment. Collateral pledged under these agreements consists of the equipment acquired by the District through the lease/purchase agreements. Additional information, including the outstanding balance on the lease/purchase agreements at June 30, 2019, is as follows:

Description	Original Issue Amount	Interest Rates	Final Maturity Date	Balance Outstanding
Governmental Activities				
US Bank Lease-Purchase Agreement	$ 635,000	1.25 - 3.65%	8/1/2027	$ 410,000
Solar Array Capital Lease	84,737	0.00%	12/31/2029	76,255
	$ 719,737			$ 486,255

At June 30, 2019, the assets acquired with the capital leases above have a cumulative original cost of $876,410 and accumulated depreciation of $161,070, for a net carrying value of $715,340.

Debt Service Requirements

At June 30, 2019, estimated annual debt service requirements to maturity for the general obligation bonds are as follows:

	Governmental Activities		
Years Ending	G.O. Bonds		
June 30,	Principal	Interest	Total
2020	$ 1,160,000	$ 246,801	$ 1,406,801
2021	1,260,000	222,225	1,482,225
2022	1,300,000	179,175	1,479,175
2023	780,000	136,175	916,175
2024	795,000	116,075	911,075
2025-2029	2,845,000	258,200	3,103,200
2030	155,000	4,650	159,650
Total	$ 8,295,000	$ 1,163,301	$ 9,458,301

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.C. NONCURRENT LIABILITIES (Continued)

Debt Service Requirements (Continued)

At June 30, 2019, estimated annual debt service requirements to maturity for the capital leases are as follows:

Governmental Activities			
Years Ending	Capital Leases		
June 30,	Principal	Interest	Total
2020	$ 45,852	$ 12,750	$ 58,602
2021	46,113	11,650	57,763
2022	51,387	10,481	61,868
2023	51,673	9,131	60,804
2024	51,972	7,669	59,641
2025-2029	234,826	14,419	249,245
2030	4,432	-	4,432
Total	$ 486,255	$ 66,100	$ 552,355

Changes in Noncurrent Liabilities

Noncurrent liability activity (excluding the net OPEB liability and net pension liability) for the year ended June 30, 2019, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General Obligation Bonds	$ 8,340,000	$ 1,305,000	$ (1,350,000)	$ 8,295,000	$ 1,160,000
Unamortized Premium	364,034	118,426	(55,257)	427,203	-
Capital Leases	531,927	-	(45,672)	486,255	45,852
Compensated Absences	7,964	9,440	(11,239)	6,165	-
Severance Payable	14,049	-	(14,049)	-	-
Governmental Activities Noncurrent Liabilities	$ 9,257,974	$ 1,432,866	$ (1,476,217)	$ 9,214,623	$ 1,205,852

Bonds payable and capital leases are typically funded through the Debt Service Fund and General Fund, respectively. Severance payable and compensated absences are typically funded through the funds to which the respective employees' wages are allocated.

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.D. FUND BALANCE CLASSIFICATIONS

At June 30, 2019, governmental fund equity includes the following:

	General Fund	Debt Service Fund	Building Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Prepaids	$ 59	$ -	$ -	$ 2,126	$ 2,185
Inventory	-	-	-	12,857	12,857
Total Nonspendable	$ 59	$ -	$ -	$ 14,983	$ 15,042
Restricted for					
Operating Capital	$ 536,107	$ -	$ -	$ -	$ 536,107
Staff Development	28,776	-	-	-	28,776
Gifted and Talented	25,470	-	-	-	25,470
Long-Term Facility Maintenance	24,171	-	629,539	-	653,710
Medical Assistance	13,375	-	-	-	13,375
Lease	46,936	-	-	-	46,936
Debt Service Building	-	352,161	-	-	352,161
Construction	-	-	781,729	-	781,729
Community Education	-	-	-	59,612	59,612
Early Childhood and Family Education	-	-	-	105,746	105,746
School Readiness	-	-	-	135,350	135,350
Community Service	-	-	-	43,982	43,982
Total Restricted	$ 674,835	$ 352,161	$ 1,411,268	$ 344,690	$ 2,782,954
Assigned for					
Local Collaborative Time Study	$ 73,210	$ -	$ -	$ -	$ 73,210
Drivers Education	55,608	-	-	-	55,608
Q Comp	224,204	-	-	-	224,204
Total Assigned	$ 353,022	$ -	$ -	$ -	$ 353,022

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.D. FUND BALANCE CLASSIFICATIONS (Continued)

Restricted for Operating Capital – This amount represents funds to be used for the purchase, lease and maintenance of school facilities and equipment.

Restricted for Staff Development – This amount represents available resources restricted for professional growth of instructional staff members during their service to the school district.

Restricted for Gifted and Talented – This amount represents the unspent portion of general education aid revenue at year end restricted for programs for the gifted and talented.

Restricted for Long–Term Facility Maintenance – This amount represents restricted resources for long–term facility maintenance stipulated by the District's long–term facility maintenance plan.

Restricted for Medical Assistance – This amount represents available resources restricted to be used for Medical Assistance expenditures.

Restricted for Lease – This amount represents the balance of cash with fiscal agent to be used for lease payments.

Restricted for Debt Service – This amount represents restricted resources for debt service stipulated by constitution, external resource providers, or through enabling legislation.

Restricted for Building Construction – This amount represents resources to be used for building construction.

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

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

Restricted for School Readiness – This amount represents restricted resources for school readiness programs stipulated by constitution, external resource providers, or through enabling legislation.

Restricted for Community Service – This amount represents restricted resources for community service expenditures stipulated by constitution, external resource providers, or through enabling legislation.

Assigned for Local Collaborative Time Study – This amount represents fund balance assigned for a future local collaborative time study.

Assigned for Drivers Education – This amount represents fund balance assigned for driver’s education.

Assigned for Q Comp – This amount represents fund balance assigned for future Q Comp payments.

NOTE 2 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

2.E. INTERFUND TRANSACTIONS AND BALANCES

Operating transfers consist of the following for the year ended June 30, 2019:

		Transfers In
		Major Fund
	Transfers	Debt
Major Fund	Out	Service
Building Construction	$ 41,275	$ 41,275

Transfers are used to (a) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget require to expend them and to (b) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 3 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The District operates a single-employer defined benefit plan (the Plan), through which the District provides postretirement benefits to eligible retirees and their families. An irrevocable trust, established and operated under the provisions of *Minnesota Statute* 471.6175, is used to finance benefit obligations incurred by the plan. The assets of such trust are managed in accordance with *Minnesota Statute* 118A. The Plan does not issue a publicly available financial report.

Benefits Provided

The District offers continuing group health insurance coverage after retirement for qualifying District employees. Teachers and certain other District personnel who retire from active teaching may continue their single or family coverage, at their expense, through the District plan if they retire after reaching the age of 55 or greater with 12-15 years of uninterrupted service in the District. This option is allowed as long as the District continues to sponsor a group health plan. Benefit and eligibility provisions are established through negotiations between the District and the union representing the District's teachers and are renegotiated each two-year bargaining period. As of the most recent valuation date, there are 123 active participants, including 114 active employees and 9 retired participants.

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

Contributions

The District did not have any contractually required or actuarially determined contributions to the Plan as of June 30, 2019. The District has established an irrevocable trust to fund all future benefits paid under the Plan, and it is assumed that the District will be required to make no further contributions to the trust. Accordingly, the District did not make any direct contributions to the Plan during the year ended June 30, 2019. However, implicit contributions of $32,286 were calculated and have been disclosed as an addition to the Plan Fiduciary Net Position on page 42. Employees are not required to contribute to the OPEB plan.

NOTE 3 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Net OPEB Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources

At June 30, 2019, the District reported a net OPEB liability of $605,859 for the District's plan. The net OPEB liability was measured as of June 30, 2019, as determined by an actuarial valuation.

For the year ended June 30, 2019, the District recognized OPEB expense of $107,319. 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
Differences between expected and actual economic experience	$ -	$ 256,964
Changes in actuarial assumptions	40,480	35,023
Differences between projected and actual investment earnings	-	10,011
Total Deferred Outflows/Inflows	$ 40,480	$ 301,998

Deferred outflows and inflows of resources related to the Plan will be recognized in the District's OPEB expense as follows:

Year Ended June 30,	Pension Expense
2020	$ (54,152)
2021	$ (54,152)
2022	$ (55,515)
2023	$ (54,403)
2024	$ (43,296)

NOTE 3 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Changes in the Net OPEB Liability

The following table summarizes changes in the net OPEB liability for the year ended June 30, 2019:

Changes in Total OPEB Liability (TOL)		
Balance at July 1st	$	1,697,779
Service Cost		82,364
Interest Cost		56,878
Changes in Assumptions		48,576
Plan Changes		67,057
Difference between Expected amd Actual Experience		(308,357)
Benefit Payments		(114,039)
Balance at June 30th	$	1,530,258
Plan Fiduciary Net Position (FNP)		
Balance at July 1st	$	981,860
Employer Contributions		32,286
Projected Investment Return		12,764
Difference between Expected and Actual Experience		11,750
Total Additions		56,800
Benefit Payments		(114,039)
Administrative Expenses		(222)
Total Reductions		(114,261)
Balance at June 30th	$	924,399
Net OPEB Liability (Asset) - June 30th	$	605,859
Fiduciary Net Position as a percentage of the total OPEB Liability		60.41%
Covered Payroll	$	5,171,142
Net OPEB Liability / Covered Payroll		11.72%

NOTE 3 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Actuarial Assumptions

The following is a summary of pertinent actuarial assumptions and methods utilized, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information:	
Valuation Date	July 1, 2018
Measurement Date	June 30, 2019
Actuarial Cost Method	Entry Age, level percentage of pay.
Actuarial Assumptions:	
Discount Rate	2.90%
Salary Increases	3.00%
Inflation Rate	2.50%
Bond Yield	3.10%
Medical Trend Rate	6.50% (grading to 5.00% over 6 years).

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.

The long-term expected rate of return of the Plan's investments was determined using a building-block method in which best-estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if available) and by adding expected inflation. 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
Fixed Income	100%	1.30%

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

Changes in Actuarial Assumptions:

- The discount rate was changed from 3.30% to 2.90%.
- Healthcare trend rates and mortality tables were updated.

Changes in Plan Provisions:

- The Activity Director's eligibility to receive a GASB 75 post-employment subsidy was changed from age 55 with 12 years of service with the District to age 55 with 15 years of service with the District. The amount of the subsidy is now based on the same amount as active employees instead of the same amount as Teachers.
- A post-employment subsidy was added for Confidential Staff hired before July 1, 2016 who have attained age 55 with 15 years of service with the District. The amount of the subsidy equals the same contribution as active employees toward single medical coverage, frozen at retirement, and payable until the earlier of Medicare eligibility or a total of $35,000 is paid.

NOTE 3 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Net OPEB Liability Sensitivity

The following presents the net OPEB liability, calculated using the discount rate disclosed in the preceding section, as well as what the District's net OPEB 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:

Sensitivity of Net OPEB Liability at Current Single Discount Rate

	Rates	Amounts
1% Increase in Discount Rate	3.90%	$514,405
Current Discount Rate	2.90%	$605,859
1% Decrease in Discount Rate	1.90%	$699,158

The following presents the net OPEB liability, calculated using the healthcare cost trend rates disclosed in the preceding section, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

Sensitivity of Net OPEB Liability at Current Healthcare Cost Trend Rate

	Amounts
1% Increase in Healthcare Trend Rates	$765,366
Current Healthcare Trend Rates	$605,859
1% Decrease in Healthcare Trend Rates	$468,572

Concentrations

At June 30, 2019, the District's OPEB plan held various investments, which each represented more than 5 percent of the Plan's Fiduciary Net Position.

Type of Investments	Fair Value
Pooled Money Market Account	$ 34,799
Bank of the West Certificate of Deposit	240,800
CIT Bank/Onewest Bank Certificate of Deposit	109,200
First Internet Bank of Indiana Certificate of Deposit	152,000
Workers Credit Union Certificate of Deposit	117,000
T Bank, NA Certificate of Deposit	236,300
Totals	$ 890,099

Rate of Return

For the year ended June 30, 2019, the annual money-weighted rate of return on plan investments, net of investment expense, approximated 2.50 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE

4.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

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). PERA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan

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

Benefits Provided

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

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1.0 percent increase. If the General Employees Plan is at least 90 percent funded for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. 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.

Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019, and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2019 were $123,379. The District's contributions were equal to the required contributions as set by State Statute.

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Pension Costs

General Employees Fund Pension Costs

At June 30, 2019, the District reported a liability of $1,325,874 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $43,491. 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. The District's proportionate share was 0.0239 percent at the end of the measurement period and 0.0246 percent for the beginning of the period.

District's proportionate share of the net pension liability:	$1,325,874
State of Minnesota's proportionate share of the net pension liability associated with the District	43,491
Total	$1,369,365

For the year ended June 30, 2019, the District recognized pension expense of $65,720 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional $10,149 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 36,075	$ 39,479
Changes in actuarial assumptions	129,304	151,963
Differences between projected and actual investment earnings	-	136,892
Changes in proportion	8,120	41,289
Contributions paid to PERA subsequent to the measurement date	123,379	-
Total	$ 296,878	$ 369,623

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Pension Costs (Continued)

The $123,379 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:

Year Ended June 30,	Pension Expense Amount	
2020	$	32,458
2021	$	(80,257)
2022	$	(120,652)
2023	$	(27,673)

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:

Assumptions	Rates
Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

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

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 and plan provisions occurred in 2018:

General Employees Fund

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Actuarial Assumptions (Continued)

- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36%	5.10%
International Stocks	17%	5.30%
Bonds (Fixed Income)	20%	0.75%
Alternative Assets (Private Markets)	25%	5.90%
Cash	2%	0.00%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability in 2018 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability

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:

Sensitivity Analysis
Net Pension Liability at Different Discount Rates

	Rates	Amounts
1% Lower	6.50%	$2,154,715
Current Discount Rate	7.50%	$1,325,874
1% Higher	8.50%	$641,689

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Pension Plan Fiduciary Net Position

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

4.B. TEACHERS RETIREMENT ASSOCIATION

Plan Description

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

Educators employed in Minnesota's public elementary and secondary school, charter schools, and certain other TRA-covered educational institutions maintained by the State are required to be TRA members (except those employed by St. Paul schools or Minnesota State colleges and universities). Educators first hired by Minnesota State may elect either TRA coverage or coverage through Minnesota State's Individual Retirement Account Plan (IRAP) within one year of eligible employment.

Benefits Provided

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

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

Tier I Benefits

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

With these provisions:

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

(b) 3 percent per year early retirement reduction factor for all years under normal retirement age.

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

or

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Benefits Provided (Continued)

Tier II Benefits

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

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

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

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

Contribution Rate

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

	June 30, 2017		June 30, 2018		June 30, 2019	
	Employee	Employer	Employee	Employer	Employee	Employer
Basic	11.00%	11.50%	11.00%	11.50%	11.00%	11.71%
Coordinated	7.50%	7.50%	7.50%	7.50%	7.50%	7.71%

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

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

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Contribution Rate (Continued)

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

Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information:	
Valuation date	July 1, 2018
Experience study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial Assumptions:	
Investment rate of return	7.5%
Price inflation	2.50%
Wage growth rate	2.85% for 10 years and 3.25%, thereafter
Projected salary increase	2.85% to 8.85% for 10 years and 3.25% to 9.25%, thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.
Mortality Assumptions:	
Pre-retirement:	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability:	RP-2014 disabled retiree mortality table, without adjustment.

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

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Actuarial Assumptions (Continued)

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

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

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

Changes in actuarial assumptions since the 2017 valuation:

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

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. This is an increase from the discount rate at the prior measurement date of 5.12 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions 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).

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Net Pension Liability

At June 30, 2019, the District reported a liability of $4,300,826 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.0685 percent at the end of the measurement period and 0.0742 percent for the beginning of the year.

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

District's proportionate share of net pension liability	$4,300,826
State's proportionate share of the net pension liability associated with the District	$404,034

For the year ended June 30, 2019, the District recognized pension expense of negative $3,131,335. It also recognized negative $281,990 as pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 52,054	$ 93,157
Changes in assumptions	6,142,636	7,461,530
Differences between projected and actual investment earnings	-	318,633
Changes in proportion	-	1,358,694
Contributions made to TRA subsequent to the measurement date	303,477	-
Total Deferred Outflows/Inflows	$ 6,498,167	$ 9,232,014

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

Year Ended June 30,	Pension Expense
2020	$ 236,428
2021	$ 155,661
2022	$ (147,368)
2023	$ (1,930,090)
2024	$ (1,351,955)

NOTE 4 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

4.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Pension Liability Sensitivity

The following presents the net pension liability of TRA calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50 percent) or one percentage point higher (8.50 percent) than the current rate.

Sensitivity of Net Pension Liability (NPL) to Changes in the Discount Rate

1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
$6,825,393	$4,300,826	$2,218,074

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

Pension Plan Fiduciary Net Position

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

NOTE 5 OTHER INFORMATION

5.A. COMMITMENTS AND CONTINGENCIES

Federal and State Programs

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

Building Renovations

During the current year, the District entered into a contract to replace and repair the school's roof. As of June 30, 2019, the total remaining commitment under this contract amounts to $612,413.

5.B. RISK MANAGEMENT – CLAIMS AND JUDGMENTS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage these risks, the District purchases commercial insurance. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years. The District is also self-insured for state reemployment compensation insurance.

NOTE 5 OTHER INFORMATION (Continued)

5.C. OTHER EMPLOYEE BENEFITS

Defined Contribution Plan

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the Plan). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive an District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District's contributions to the plan total $75,404 for the year ended June 30, 2019.

5.D. NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED

The Governmental Accounting Standards Board (GASB) has issued GASB Statement 84, which provides clarification regarding the identification of fiduciary activities and guidance as to how such activities should be reported. The new standard requires all governments to re-evaluate relationships that are potentially fiduciary in nature, using a defined set of criteria prescribed by the standard. Activities no longer meeting the criteria to be reported as fiduciary will be reported as general operations of the District. This standard is effective for reporting periods beginning after December 15, 2018.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 881
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual Amounts Budgetary	Variance with Final Budget
	Original	Final	Basis	Over (Under)
REVENUES				
Local Property Tax Levies	$ 1,543,572	$ 1,546,572	$ 1,535,367	$ (11,205)
Other Local and County Revenues	256,768	286,340	298,011	11,671
State Sources	7,820,118	7,924,975	8,147,850	222,875
Federal Sources	79,487	83,775	93,082	9,307
TOTAL REVENUES	9,699,945	9,841,662	10,074,310	232,648
EXPENDITURES				
Current:				
District and School Administration	554,414	546,032	553,147	7,115
District Support Services	396,609	398,666	393,298	(5,368)
Regular Instruction	4,349,522	4,344,340	4,197,855	(146,485)
Vocational Instruction	155,211	164,967	164,669	(298)
Exceptional Instruction	1,858,939	1,884,280	1,849,450	(34,830)
Instructional Support Services	548,562	567,497	546,424	(21,073)
Pupil Support Services	746,130	829,267	728,755	(100,512)
Site, Buildings and Equipment	841,673	786,283	720,777	(65,506)
Fiscal and Other Fixed Cost Programs	44,500	43,500	42,103	(1,397)
Capital Outlay	145,731	241,750	322,745	80,995
Debt Service:				
Principal	40,000	40,000	40,000	-
Interest and Other Charges	13,700	13,700	13,700	-
TOTAL EXPENDITURES	9,694,991	9,860,282	9,572,923	(287,359)
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,954	(18,620)	501,387	520,007
OTHER FINANCING SOURCES				
Sale of Equipment	-	-	345	345
NET CHANGE IN FUND BALANCES	$ 4,954	$ (18,620)	501,732	$ 520,352
FUND BALANCE - BEGINNING			2,476,461	
FUND BALANCE - ENDING			$ 2,978,193	

INDEPENDENT SCHOOL DISTRICT NO. 881
SCHEDULE OF CHANGES IN DISTRICT'S NET OPEB LIABILITY
LAST TEN YEARS (Presented Prospectively)

	2019	2018	2017
Changes in Total OPEB Liability (TOL)			
Balance at July 1st	$ 1,697,779	$ 1,732,160	$ 1,650,871
Service Cost	82,364	86,084	91,819
Interest Cost	56,878	48,413	47,136
Changes in Assumptions	48,576	(52,535)	-
Plan Changes	67,057	-	-
Difference between Expected and Actual Experience	(308,357)	-	-
Benefit Payments	(114,039)	(116,343)	(57,666)
Balance at June 30th	$ 1,530,258	$ 1,697,779	$ 1,732,160
Plan Fiduciary Net Position (FNP)			
Balance at July 1st	$ 981,860	$ 1,048,521	$ 1,076,046
Employer Contributions	32,286	30,798	22,971
Projected Investment Return	12,764	13,631	7,170
Difference between Expected and Actual Experience	11,750	5,564	-
Total Additions	56,800	49,993	30,141
Benefit Payments	(114,039)	(116,343)	(57,666)
Administrative Expenses	(222)	(311)	-
Total Reductions	(114,261)	(116,654)	(57,666)
Balance at June 30th	$ 924,399	$ 981,860	$ 1,048,521
Net OPEB Liability - June 30th	$ 605,859	$ 715,919	$ 683,639
Plan Fiduciary Net Position / Total OPEB Liability	60.41%	57.83%	60.53%
Covered Payroll	$ 5,171,142	$ 5,383,268	$ 5,226,474
Net OPEB Liability / Covered Payroll	11.72%	13.30%	13.08%

Note: The schedule is provided prospectively beginning with the District's fiscal year ended June 30, 2017 and is intended to show a ten year trend. Additional years will be reported as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 881
SCHEDULE OF MONEY-WEIGHTED RATE OF RETURN ON OPEB PLAN ASSETS
LAST TEN YEARS (Presented Prospectively)

For the Year Ended June 30	Annual Money-Weighted Rate of Return, Net of Investment Expense
2019	2.50%
2018	1.80%
2017	0.70%

Note: The schedule is provided prospectively beginning with the District's fiscal year ended June 30, 2017 and is intended to show a ten year trend. Additional years will be reported as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 881
SCHEDULE OF DISTRICT'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY
LAST TEN YEARS (Presented Prospectively)

For the Measurement Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the District (a+b)	District's Covered Payroll (c)	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
Public Employees Retirement Association							
2018	0.0239%	$ 1,325,874	$ 43,491	$ 1,369,365	$ 1,609,360	85.1%	79.5%
2017	0.0246%	$ 1,570,448	$ 19,787	$ 1,590,235	$ 1,598,493	99.5%	75.9%
2016	0.0244%	$ 1,981,159	$ 25,855	$ 2,007,014	$ 1,515,253	132.5%	68.9%
2015	0.0250%	$ 1,295,630	$ -	$ 1,295,630	$ 1,463,570	88.5%	78.2%
2014	0.0279%	$ 1,310,602	$ -	$ 1,310,602	$ 1,432,753	91.5%	78.7%
Teachers Retirement Association							
2018	0.0685%	$ 4,300,826	$ 404,034	$ 4,704,860	$ 3,680,091	127.8%	78.1%
2017	0.0742%	$ 14,811,666	$ 1,432,277	$ 16,243,943	$ 4,000,707	406.0%	51.6%
2016	0.0757%	$ 18,056,256	$ 1,812,414	$ 19,868,670	$ 3,956,507	502.2%	44.9%
2015	0.0777%	$ 4,806,513	$ 589,358	$ 5,395,871	$ 3,908,681	138.0%	76.8%
2014	0.0875%	$ 4,031,937	$ 283,776	$ 4,315,713	$ 3,986,998	108.2%	81.5%

Note: The schedule is provided prospectively beginning with the District's fiscal year ended June 30, 2015 (June 30, 2014 measurement date) and is intended to show a ten year trend. Additional years will be reported as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 881
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
LAST TEN YEARS (Presented Prospectively)

For the Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
Public Employees Retirement Association					
2019	$ 123,379	$ 123,379	$ -	$ 1,645,053	7.5%
2018	$ 120,731	$ 120,731	$ -	$ 1,609,747	7.5%
2017	$ 119,887	$ 119,887	$ -	$ 1,598,493	7.5%
2016	$ 113,644	$ 113,644	$ -	$ 1,515,253	7.5%
2015	$ 109,913	$ 109,913	$ -	$ 1,463,570	7.5%
Teachers Retirement Association					
2019	$ 303,477	$ 303,477	$ -	$ 3,936,148	7.7%
2018	$ 284,185	$ 284,185	$ -	$ 3,789,133	7.5%
2017	$ 300,053	$ 300,053	$ -	$ 4,000,707	7.5%
2016	$ 296,738	$ 296,738	$ -	$ 3,956,507	7.5%
2015	$ 292,544	$ 292,544	$ -	$ 3,908,681	7.5%

Note: The schedule is provided prospectively beginning with the District's fiscal year ended June 30, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND

2018 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Assumptions

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.00 percent to 3.00 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.00 percent per year with a provision to increase to 2.50 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.00 percent and not more than 1.50 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability and 3.00 percent for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent per year thereafter.

Changes in Plan Assumptions

- The State's special funding contribution increased from $6 million to $16 million.

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all future years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND (Continued)

2015 Changes

Changes in Actuarial Assumptions

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

Changes in Plan Provisions

- On January 1, 2015 the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by $1.1 billion and increased the fiduciary plan net position by $892 million. Upon consolidation, state and employer contributions were revised; the State's contribution of $6 million, which meets the special funding situation definition, is due September 2015.

NOTE 2 TEACHERS RETIREMENT ASSOCIATION

2018 Changes

Changes in Actuarial Assumptions

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

2017 Changes

Changes in Actuarial Assumptions

- The cost of living adjustment (COLA) was assumed to increase from 2.00 percent annually to 2.50 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.50 percent, but remain at 2.00 percent for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.40 percent to 0.00 percent, the vested inactive load increased from 4.00 percent to 7.00 percent and the non-vested inactive load increased from 4.00 percent to 9.00 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.

NOTE 2 TEACHERS RETIREMENT ASSOCIATION (Continued)

2017 Changes (Continued)

Changes in Actuarial Assumptions (Continued)

- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

2016 Changes

Changes in Actuarial Assumptions

- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2.00 percent for all future years.
- The price inflation assumption was lowered from 3.00 percent to 2.75 percent.
- The general wage growth and payroll growth assumptions were lowered from 3.75 percent to 3.50 percent.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP-2014 white collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP-2015 scale.
- The post-retirement mortality assumption was changed to the RP-2014 white collar annuitant table, male rates set back 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
- The post-disability mortality assumption was changed to the RP-2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes

Changes in Actuarial Assumptions

- The annual COLA for the June 30, 2015, valuation assumed 2.00 percent. The prior year valuation used 2.00 percent with an increase to 2.50 percent commencing in 2034.
- The discount rate used to measure the total pension liability was 8.00 percent. This is a decrease from the discount rate at the prior measurement date of 8.25 percent.

Changes in Plan Provisions

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

NOTE 3 OTHER POSTEMPLOYMENT BENEFIT PLAN

2019 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 3.30% to 2.90%.
- Healthcare trend rates and mortality tables were updated.

Changes in Plan Provisions

- The Activity Director's eligibility to receive a GASB 75 post-employment subsidy was changed from age 55 with 12 years of service with the District to age 55 with 15 years of service with the District. The amount of the subsidy is now based on the same amount as active employees instead of the same amount as Teachers.
- A post-employment subsidy was added for Confidential Staff hired before July 1, 2016 who have attained age 55 with 15 years of service with the District. The amount of the subsidy equals the same contribution as active employees toward single medical coverage, frozen at retirement, and payable until the earlier of Medicare eligibility or a total of $35,000 is paid.

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 2.75% to 3.30%.

2017 Changes

Changes in Actuarial Assumptions

- The discount rate was changed from 3.00% to 2.75%.
- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality table was updated from RP 2000 projected to 2014 with Scale BB to the RP- 2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.
- The withdrawal table for all employees and retirement table for only employees eligible to retire with Rule of 90 also were updated.
- The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 74/75.

NOTE 4 EXPENDITURES IN EXCESS OF BUDGET

Actual expenditures in the General Fund did not exceed budgeted amounts for the year ended June 30, 2019.

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 881
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2019

	Special Revenue Funds		Total
	Food Service	Community Service	Total Nonmajor Governmental Funds
ASSETS			
Cash and Investments	$ 14,998	$ 341,187	$ 356,185
Property Taxes Receivable:			
Current	-	37,864	37,864
Delinquent	-	542	542
Due from Other Minnesota School Districts	-	89,665	89,665
Due from Governmental Agencies	-	9,319	9,319
Prepaids	2,126	-	2,126
Inventory	12,857	-	12,857
TOTAL ASSETS	$ 29,981	$ 478,577	$ 508,558
LIABILITIES			
Accounts Payable	$ -	$ 1,749	$ 1,749
Accrued Payroll Liabilities	18,765	50,534	69,299
Unearned Revenue	11,216	-	11,216
Total Liabilities	29,981	52,283	82,264
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue:			
Delinquent Property Taxes	-	542	542
Property Taxes Levied for Subsequent Years	-	81,062	81,062
Total Deferred Inflows of Resources	-	81,604	81,604
FUND BALANCES			
Nonspendable for:			
Prepaids	2,126	-	2,126
Inventory	12,857	-	12,857
Restricted for:			
Community Education	-	59,612	59,612
Early Childhood and Family Education	-	105,746	105,746
School Readiness	-	135,350	135,350
Community Service	-	43,982	43,982
Unassigned	(14,983)	-	(14,983)
Total Fund Balances	-	344,690	344,690
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 29,981	$ 478,577	$ 508,558

INDEPENDENT SCHOOL DISTRICT NO. 881
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Special Revenue Funds		Total Nonmajor
	Food Service	Community Service	Governmental Funds
REVENUES			
Local Property Tax Levies	$ -	$ 80,239	$ 80,239
Other Local and County Revenues	2,021	235,172	237,193
State Sources	22,877	89,481	112,358
Federal Sources	154,040	-	154,040
Sales and Other Conversions of Assets	270,135	-	270,135
TOTAL REVENUES	449,073	404,892	853,965
EXPENDITURES			
Current:			
Community Education and Services	-	353,119	353,119
Pupil Support Services	447,370	6,191	453,561
Capital Outlay	1,796	33,696	35,492
TOTAL EXPENDITURES	449,166	393,006	842,172
NET CHANGE IN FUND BALANCES	(93)	11,886	11,793
FUND BALANCES - BEGINNING	93	332,804	332,897
FUND BALANCES - ENDING	$ -	$ 344,690	$ 344,690

INDEPENDENT SCHOOL DISTRICT NO. 881
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2019

01 GENERAL FUND	Audited	UFARS	Difference
Total Revenue	10,074,310	10,074,311	(1)
Total Expenditures	9,572,923	9,572,925	(2)
Non Spendable:			
460 Non Spendable Fund Balance	59	59	-
Restricted/Reserve:			
403 Staff Development	28,776	28,776	-
406 Health & Safety	-	-	-
407 Capital Projects Levy	-	-	-
408 Cooperative Revenue	-	-	-
413 Project Funded by COP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maint	-	-	-
423 Certain Teacher Programs	-	-	-
424 Operating Capital	536,107	536,107	-
426 $25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning & Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alt. Programs	-	-	-
436 St. Approved Alt. Program	-	-	-
438 Gifted & Talented	25,470	25,470	-
440 Teacher Development & Eval	-	-	-
441 Basic Skills Programs	-	-	-
448 Achievement & Integration	-	-	-
449 Safe Schools Levy	-	-	-
450 Prekindergarten	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liab Not in Trust	-	-	-
453 Unfunded Sev. & Retirement	-	-	-
459 Basic Skills Ext Time	-	-	-
467 LTFM	24,171	24,171	-
472 Medical Assistance	13,375	13,375	-
Restricted:			
464 Restricted Fund Balance	46,936	46,936	-
475 Title VII - Impact Aid	-	-	-
476 PILT	-	-	-
Committed:			
418 Committed for Separation	-	-	-
461 Committed Fund Balance	-	-	-
Assigned:			
462 Assigned Fund Balance	353,022	353,022	-
Unassigned:			
422 Unassigned Fund Balance	1,950,277	1,950,276	1
02 FOOD SERVICE			
Total Revenue	449,073	449,075	(2)
Total Expenditures	449,166	449,166	-
Non Spendable:			
460 Non Spendable Fund Balance	14,983	14,983	-
Restricted/Reserve:			
452 OPEB Liab. Not in Trust	-	-	-
Restricted:			
464 Restricted Fund Balance	-	-	-
Unassigned:			
463 Unassigned Fund Balance	(14,983)	(14,982)	(1)
04 COMMUNITY SERVICE			
Total Revenue	404,892	404,891	1
Total Expenditures	393,006	393,008	(2)
Non Spendable:			
460 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
426 $25 Taconite	-	-	-
431 Community Education	59,612	59,612	-
432 E.C.F.E.	105,746	105,746	-
440 Teacher Development & Eval	-	-	-
444 School Readiness	135,350	135,350	-
447 Adult Basic Education	-	-	-
452 OPEB Liab. Not in Trust	-	-	-
Restricted:			
464 Restricted Fund Balance	43,982	43,981	1
Unassigned:			
463 Unassigned Fund Balance	-	-	-

06 BUILDING CONSTRUCTION	Audited	UFARS	Difference
Total Revenue	39,170	39,170	-
Total Expenditures	874,646	874,644	2
Non Spendable:			
460 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
407 Capital Projects Levy	-	-	-
413 Projects Funded by COP	-	-	-
467 LTFM	629,539	629,539	-
Restricted:			
464 Restricted Fund Balance	781,729	781,730	(1)
Unassigned:			
463 Unassigned Fund Balance	-	-	-
07 DEBT SERVICE			
Total Revenue	888,233	888,232	1
Total Expenditures	963,172	963,172	-
Non Spendable:			
460 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
425 Bond Refundings	-	-	-
433 Max Effort Loan			
451 QZAB Payments	-	-	-
467 LTFM	-	-	-
Restricted:			
464 Restricted Fund Balance	306,777	306,777	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-
08 TRUST			
Total Revenue	7,737	7,737	-
Total Expenditures	20,800	20,800	-
422 Net Assets	2,147	2,147	-
20 INTERNAL SERVICE			
Total Revenue	-	-	-
Total Expenditures	-	-	-
422 Net Assets	-	-	-
25 OPEB REVOCABLE TRUST FUND			
Total Revenue	-	-	-
Total Expenditures	-	-	-
422 Net Assets	-	-	-
45 OPEB IRREVOCABLE TRUST FUND			
Total Revenue	24,514	24,514	-
Total Expenditures	81,975	81,975	-
422 Net Assets	924,399	924,399	-
47 OPEB DEBT SERVICE FUND			
Total Revenue	672,601	672,601	-
Total Expenditures	644,108	644,108	-
Non Spendable:			
460 Non Spendable Fund Balance	-	-	-
Restricted:			
425 Bond Refundings	-	-	-
464 Restricted Fund Balance	45,384	45,384	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-

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*

Report Date

Members of the Board of Education
Independent School District No. 881
Maple Lake, 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. 881 (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Independent School District No. 881's basic financial statements, and have issued our report thereon dated Report Date.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 881'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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Responses,* we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiency described in the accompanying *Schedule of Findings and Responses* to be a material weakness: 2008-001.

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. We consider the following deficiency described in the accompanying *Schedule of Findings and Responses* to be a significant deficiency: 2008-002.

St. Cloud 320.251.0286 | Little Falls 320.632.6311 | Albany 320.845.2940 | Maple Lake 320.963.5414 | Monticello 763.295.5070

Compliance and Other Matters

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

District's Response to Findings

Independent School District No. 881's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses* and *Corrective Action Plans*. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

INDEPENDENT AUDITORS' REPORT ON
MINNESOTA LEGAL COMPLIANCE

Report Date

Members of the Board of Education
Independent School District No. 881
Maple Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 881, Maple Lake, Minnesota (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated Report Date.

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as described in the *Schedule of Findings and Responses* as item 2019-001. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 881
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL STATEMENT FINDINGS

Finding 2008-001 — Limited Segregation of Duties

Condition: During our audit we reviewed procedures over cash receipts, cash disbursements, payroll and financial reporting and found the District to have limited segregation of duties over those transaction cycles.

Criteria: Internal control that supports the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties. In other words, no one person had control over two or more of these responsibilities.

Cause: Limited number of staff members.

Effect: The existence of limited segregation of duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Recommendation: Although the number of staff members may not be large enough to eliminate this deficiency, we recommend that the District evaluate current procedures and segregate where possible and implement compensating controls. It is important that the Board is aware of this condition and monitor all financial information.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the recommendation. See corresponding Corrective Action Plan.

Finding 2008-002 — Financial Statement Preparation

Condition: Schlenner Wenner & Co. drafted the audited financial statements and related footnote disclosures for the District. It is management's responsibility to provide for the preparation of financial statements and the auditors' responsibility to determine the fairness of the presentation. This deficiency could result in a material misstatement that could have been prevented or detected by management.

Criteria: Internal controls over financial reporting should be in place to provide for the preparation of financial statements on an annual basis.

Cause: The District's staff does not possess the expertise to prepare financial statements internally. This is not unusual for an organization of your size.

Effect: The inability to internally prepare the District's financial statements can result in undetected errors in financial reporting.

Recommendation: We recommend that management review a draft of the financial statements in detail for accuracy. During review we recommend a disclosure checklist be utilized to ensure all required disclosures are presented and the District should agree the financial statement numbers to their accounting software. The District may not have the ability to eliminate this finding.

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2008-002 **Financial Statement Preparation** (Continued)

Views of Responsible Officials and Planned Corrective Actions: The District will continue to have the auditor assist in preparation of the financial statements. The District will continue to document an annual review of the audited financial statements by having the auditor meet with the District personnel to review the financial statements and related footnote disclosures.

LEGAL COMPLIANCE FINDINGS

Finding 2019-001 **Deposits in Excess of Insured Limits**

Condition: The District held deposits in an account with a balance in excess of FDIC limits without sufficient collateral pledged.

Criteria: In accordance with MN Statute § 118A.03, subd. 1 & 3, the District is required obtain a bond or collateral which, when computed at its market value, shall be at least ten percent more than the amount of deposits held by the District in excess of deposit insurance.

Cause: The District had deposits that exceeded FDIC limits that occurred in the last few days of the June 30, 2019 fiscal year. The District subsequently identified and resolved the issue resulting from outstanding payments not yet cleared by the bank.

Effect: The failure to timely identify when deposits did not have sufficient pledged collateral resulted in temporary non-compliance with the requirements set forth in Minnesota Statutes.

Recommendation: We recommend the District implement a process of reviewing bank account balances on a regular basis and making corrective actions as necessary.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the recommendation. See corresponding Corrective Action Plan.

INDEPENDENT SCHOOL DISTRICT NO. 881
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL STATEMENT FINDINGS

Finding 2008-001 Limited Segregation of Duties

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   The District currently has the following procedures in place:
   - The Board of Education reviews the monthly invoices and approves the expenditures.
   - The District utilizes purchase orders which are approved by the Superintendent.

   The District will review current procedures and implement additional controls where possible.

3. Official Responsible
   Mr. Mark Redemske, Superintendent, is the official responsible for ensuring corrective action.

4. Planned Completion Date
   The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.

5. Plan to Monitor Completion
   The Board of Education will be monitoring the Corrective Action Plan.

Finding 2008-002 Financial Statement Preparation

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   The District will continue to have the auditor prepare the financial statements; however, the District will document the annual review of the financial statements and related footnote disclosures.

3. Official Responsible
   Mr. Mark Redemske, Superintendent, is the official responsible for ensuring corrective action.

4. Planned Completion Date
   The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.

5. Plan to Monitor Completion
   The Board of Education will be monitoring the Corrective Action Plan

INDEPENDENT SCHOOL DISTRICT NO. 881
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED JUNE 30, 2019

LEGAL COMPLIANCE FINDINGS

Finding 20019-001 Deposits in Excess of Insured Limits

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   Subsequent to year-end, the District has ensured sufficient collateral has been pledged on all depository accounts.

3. Official Responsible
   Mr. Mark Redemske, Superintendent, is the official responsible for ensuring corrective action.

4. Planned Completion Date
   June 30, 2019.

5. Plan to Monitor Completion
   The Board of Education will be monitoring the Corrective Action Plan.

STUDENT ACTIVITY ACCOUNTS

INDEPENDENT AUDITORS' REPORT ON
STUDENT ACTIVITY ACCOUNTS

Report Date

Members of the Board of Education,
Advisors, and Students
Independent School District No. 881
Maple Lake, Minnesota

Report on the Financial Statement

We have audited the accompanying combining statement of cash receipts and disbursements of the Student Activity Accounts of Independent School District No. 881, Maple Lake, Minnesota, (the District) for the year ended June 30, 2019, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the cash basis of accounting described in Note 2 of the notes to the student activity accounts financial statement; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

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

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

Basis for Qualified Opinion

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Consequently, it was not practicable for us to extend our audit of such cash collections beyond the amounts recorded, and we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effect of the matter described in the Basis for Qualified Opinion paragraph, the financial statement referred to above presents fairly, in all material respects, the cash transactions of the student activity accounts of Independent School District No. 881, Maple Lake, Minnesota for the year ended June 30, 2019 in accordance with the cash basis of accounting as described in Note 2 of the notes to the student activity accounts financial statement.

Basis of Accounting

We draw attention to Note 2 of the notes to the student activity accounts financial statement, which describes the basis of accounting. The financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 881
COMBINING STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
OF THE STUDENT ACTIVITY ACCOUNTS
FOR THE YEAR ENDED JUNE 30, 2019

Fund	Balance July 01, 2018	Receipts	Disbursements	Interest Allocation	Balance June 30, 2019
Annual	$ 6,262	$ 2,905	$ 3,189	$ 7	$ 5,985
Band	5,871	6,741	4,472	9	8,149
Choir	325	-	50	-	275
Class of 2019	1,146	1,832	2,978	-	-
Class of 2020	-	2,696	2,686	-	10
Interest	-	28	28	-	-
Sixth Grade Fundraiser	2	21,809	21,287	1	525
Spanish Club	14,437	19,474	28,791	6	5,126
Student Council	5,131	6,063	6,406	5	4,793
Totals	$ 33,174	$ 61,548	$ 69,887	$ 28	$ 24,863

INDEPENDENT SCHOOL DISTRICT NO. 881
NOTES TO STUDENT ACTIVITY ACCOUNTS FINANCIAL STATEMENT
JUNE 30, 2019

1. Student Activity Accounts transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor are they required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by the students, under the guidance of a staff member or other adult.

2. The accompanying financial statement has been prepared on the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under that basis, the only asset recognized is cash, and no liabilities are recognized. All transactions are recognized as either cash receipts or disbursements, and non-cash transactions are not recognized. The cash basis differs from accounting principles generally accepted in the United States of America primarily because the effects of outstanding dues and obligations for assessments unpaid at the date of the financial statement are not included in the financial statement.

INDEPENDENT AUDITORS' REPORT ON
STUDENT ACTIVITY COMPLIANCE

Report Date

Members of the Board of Education,
Advisors, and Students
Independent School District No. 881
Maple Lake, Minnesota

We have audited the combining statement of cash receipts and disbursements of the Student Activity Accounts of Independent School District No. 881, Maple Lake, Minnesota (the District), for the year ended June 30, 2019, and have issued our report thereon dated Report Date.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Manual for Activity Fund Accounting*, issued by the Minnesota Department of Education.

The *Manual for Activity Fund Accounting* provides uniform financial accounting and reporting standards (UFARS) for student activities. Compliance with UFARS is the responsibility of the District's management. We have performed auditing procedures to test compliance with the provisions of this manual. However, our objective was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

During the completion of our audit procedures, nothing came to our attention indicating non-compliance with the requirements referred to above.

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

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

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