INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
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INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
LAMBERTON, MINNESOTA
ANNUAL FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
FISCAL YEAR ENDED JUNE 30, 2019

INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
SCHOOL BOARD AND ADMINISTRATION
LAMBERTON, MINNESOTA

SCHOOL BOARD	POSITION	TERM ENDS
William Rogotzke	Chairperson	December 2022
Ronald Kelsey	Vice Chair	December 2020
John Hansen	Treasurer	December 2022
Chad Stavnes	Clerk	December 2020
Kelly Pfarr	Member	December 2022
Craig Myers	Member	December 2020
Alex Pankonin	Member	December 2020

ADMINISTRATION	
Todd Lee	Superintendent
Phil Goetstouwers	Principal

FINANCIAL SECTION

Kinner & Company Ltd

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Members of the School Board of the
Independent School District No. 2884

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, of the Independent School District No. 2884, Lamberton, Minnesota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Independent School District No. 2884, Lamberton, Minnesota's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 2884, Lamberton, Minnesota, as of June 30, 2019, and the respective changes in financial position, and the respective budgetary comparison for the General and Community Service Funds, 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 and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 2884, Lamberton, Minnesota's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated November 15, 2019, on our consideration of the Independent School District No. 2884, Lamberton, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Independent School District No. 2884, Lamberton, Minnesota's internal control over financial reporting and compliance.

Kinner + Company Ltd.

Kinner & Company Ltd.
Certified Public Accountants

November 15, 2019

REQUIRED SUPPLEMENTARY INFORMATION

Management's Discussion and Analysis

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

This section of Independent School District No. 2884's (District) annual financial report presents management's discussion of the District's financial performance during the fiscal year ending June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follows this section. The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments.* Certain comparative information between the current year (FY 2019) and the prior year (FY 2018) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

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

- Net position in the Statement of Net Position increased by $1,342,012 from the prior year (deficit $1,855,010 in fiscal 2018 to deficit $512,998 in fiscal 2019).

- Overall revenues in the Statement of Activities were $6,342,947 while overall expenses totaled $5,000,935.

- The fund balances in the General Fund increased $649,774 to $3,670,264. The fund balance in the Food Service Fund increased $49,916 to $192,166. The fund balance in the Community Service Fund increased $1,575 to a deficit of $65,304.

- Long-term debt payments were $111,531 ($106,485 in principal reduction and $5,046 of interest payments and fiscal charges). The District did not obtain any new long-term debt during the year.

- Capital asset additions totaled $104,703.

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS

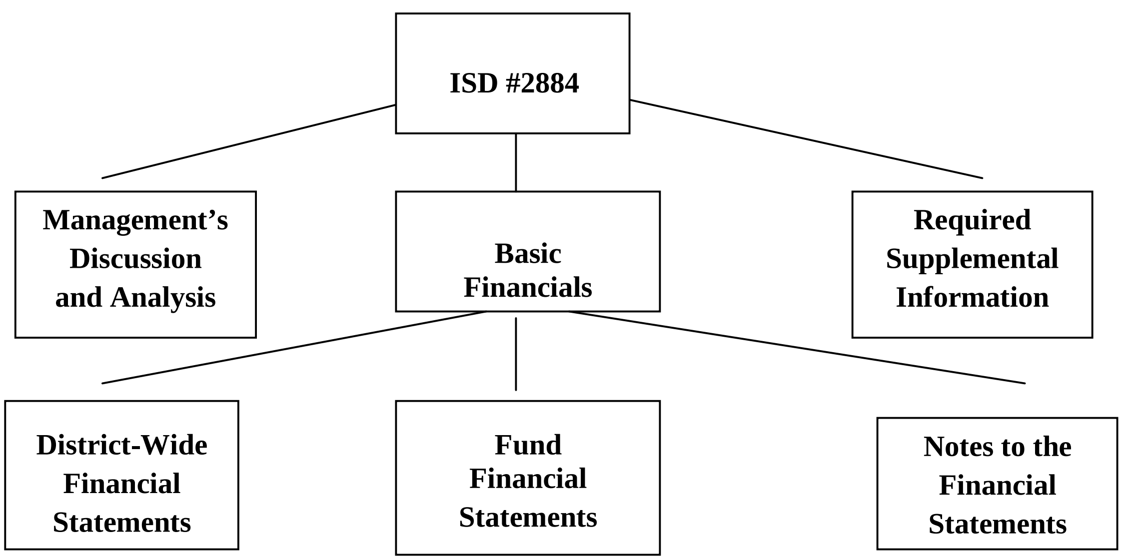
The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements and notes to the financial statements, and the other supplementary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

- The government-wide financial statements, including the Statement of Net Position and the Statement of Activities, provide both short-term and long-term information about the District's overall financial status.

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

The statements include a section of budgetary comparison information that further explains and supports the financial statements with a comparison of the district's budget for the year. The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

The diagram below shows how the various parts of this annual report are arranged and related to one another.



The major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

Major Features of the Government-wide and Fund Financial Statements

		Fund Financial Statements	
	Government-wide Statements	**Governmental Funds**	**Proprietary Funds**
Scope	Entire Primary Government	The activities of the District that are not proprietary, such as the General Fund	Activities the District operates similar to private businesses,
Required Financial Statements	-Statement of Net Position -Statement of Activities	-Balance Sheet -Statement of Revenues, Expenditures, and Changes in Fund Balances	-Balance Sheet -Statement of Revenues, Expenditures, and Changes in Fund Balances -Statement of Cash Flows
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual account and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid

GOVERNMENT-WIDE STATEMENTS

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

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the government-wide financial statements, the District's activities are all shown in one category titled governmental activities. The District's basic services are reported here, including regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's funds – focusing on its most significant or "major" funds – rather than the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes, such as a Fiduciary Fund used to manage scholarship money.

The District has two kinds of funds:

- Governmental funds – The District's basic services are included in governmental funds, which generally focus on: 1) how cash and other financial assets that can readily be converted to cash flow in and out, and 2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, additional information (reconciliation schedules) follows the governmental funds statements that explain the relationship (or differences) between these two types of financial statement presentations.

FUND FINANCIAL STATEMENTS (CONTINUED)

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS)

NET POSITION

The District's combined net position were deficit $512,998 and deficit $1,855,010 on June 30, 2019 and 2018, respectively which is an increase of $1,342,012 from the previous year largely due to a decrease in net pension liability related to pensions. A summary of the District's net position is as follows:

Condensed Statement of Net Position	June 30, 2019	June 30, 2018	Percentage Change
Current and Other Assets	$5,469,742	$4,616,137	18.5%
Capital Assets	1,825,416	1,922,842	-5.1%
Total Assets	7,295,158	6,538,979	11.6%
Deferred Outflows of Resources	2,094,977	3,895,266	-46.2%
Long-term Liabilities	3,802,224	9,110,012	-58.3%
Other Liabilities	550,304	578,513	-4.9%
Total Liabilities	4,352,528	9,688,525	-55.1%
Deferred Inflows of Resources	5,550,605	2,600,730	113.4%
Net Position			
Net Investment in Capital Assets	1,706,387	1,697,328	0.5%
Restricted	478,029	315,603	51.5%
Unrestricted	(2,697,414)	(3,867,941)	-30.3%
Total Net Position	($512,998)	($1,855,010)	-72.3%

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (GOVERNMENT-WIDE FINANCIAL STATEMENTS)

CHANGE IN NET POSITION

A summary of the District's revenues and expenses is as follows:

Condensed Statement of Activities	June 30, 2019	June 30, 2018	Percentage Change
Revenues			
Program Revenues			
Charges for service	$213,261	$252,492	-15.5%
Operating grants and contributions	1,237,223	1,074,104	15.2%
Capital grants and contributions	25,130	-	0.0%
General Revenues			
Property taxes	982,524	885,545	11.0%
Unallocated Aid	3,773,252	3,465,875	8.9%
Other	111,557	101,977	9.4%
Total Revenues	6,342,947	5,779,993	9.7%
Expenses			
Administrative and district support	377,628	548,930	-31.2%
Regular, vocational, special education instruction	3,217,905	4,955,108	-35.1%
Instructional support services	77,563	99,272	-21.9%
Pupil support services	479,982	471,024	1.9%
Sites and buildings	455,462	514,726	-11.5%
Fiscal and other cost programs	29,953	29,230	2.5%
Food services	231,266	222,753	3.8%
Community services	126,130	139,662	-9.7%
Other	5,046	8,060	-37.4%
Total Expenses	5,000,935	6,988,765	-28.4%
Changes in Net Position	1,342,012	(1,208,772)	-211.0%
Net Position - July 1	(1,855,010)	(646,238)	
Net Position - June 30	($512,998)	($1,855,010)	-72.3%

The District's total revenues consisted of program revenues of $1,475,614, property taxes of $982,524, unallocated aids of $3,773,252, and miscellaneous revenues of $111,557. Total expenses of $5,000,935 consisted primarily of student instructional costs (64%).

- The users of the District's programs paid for 4%, or $213,261, of the total costs.
- The federal and state governments subsidized certain programs with grants and contributions. This totaled $1,237,223, or 25% of the total costs.
- Most of the District's net cost of services ($3,525,321), however, was paid for by state taxpayers based on the statewide education aid formula and by District taxpayers.

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

Figure A-1 Sources of Independent School District No. 2884 Revenues for Fiscal Year 2019

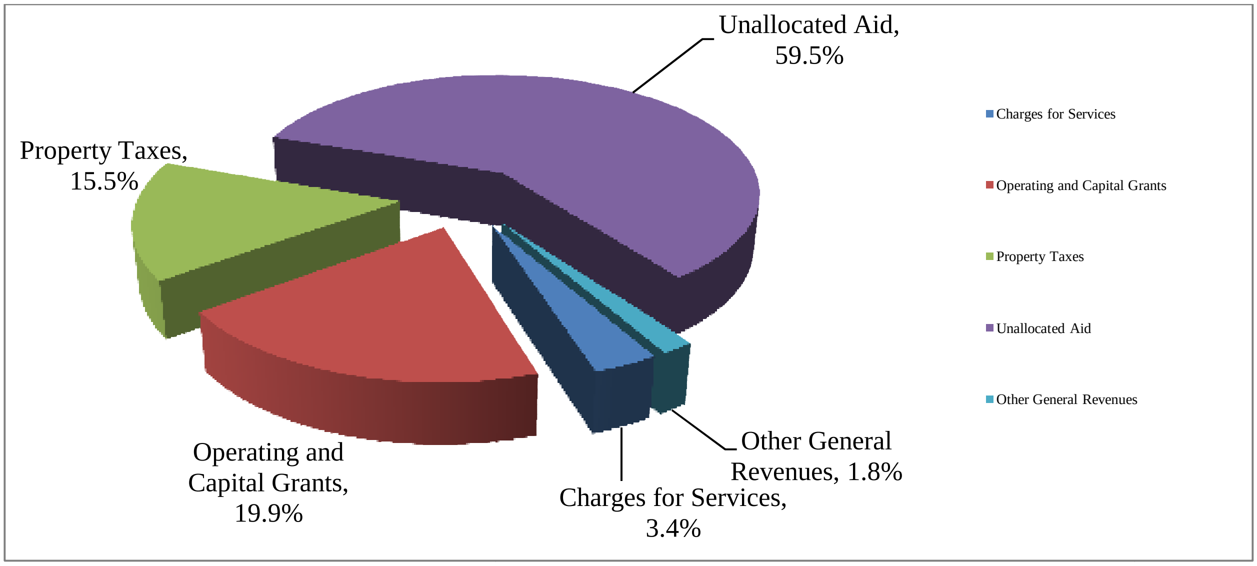
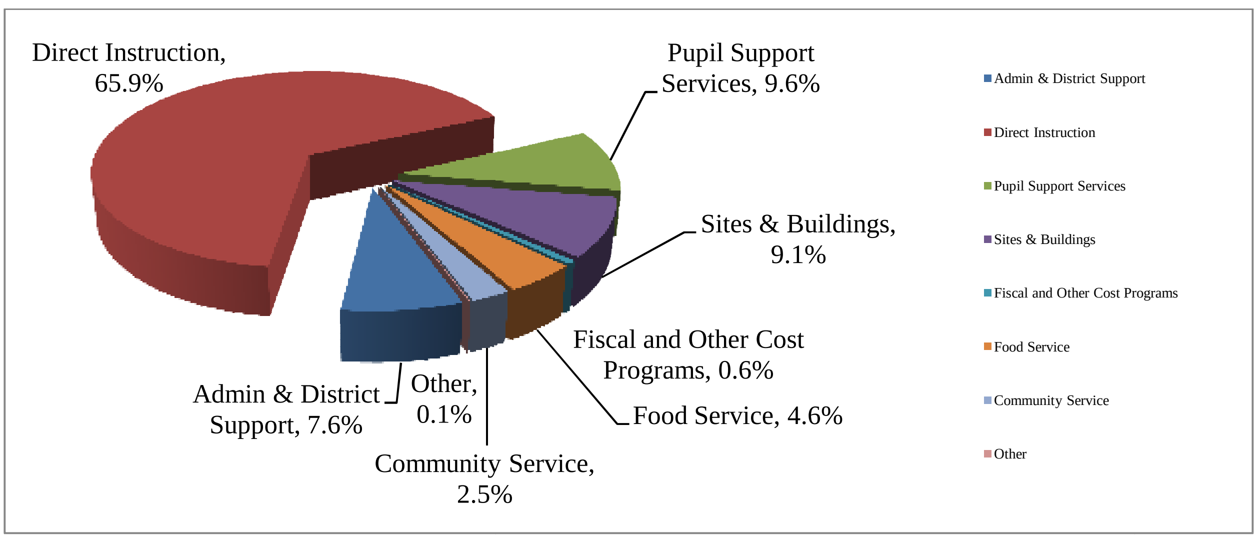


Figure A-2 Independent School District No. 2884 Expenditures for Fiscal Year 2019



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

FUND BALANCE

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of $3,797,126. This was up from $3,095,861 at the end of the prior year, an increase of $701,265. The increase in the General Fund occurred primarily due to an increase relating to levies and state aids. Community Service Fund increased by $1,575 primarily due to decreased expenditures for purchased services. The Food Service Fund increased by $49,916 due to excess revenues over expenditures.

REVENUES AND EXPENDITURES

Revenues of the District's governmental funds totaled $6,172,367 which was an increase of 7% from the previous year total of $5,765,315. Total expenditures were $5,481,614 which was an increase of 2% from the previous year total of $5,375,976. A summary of the revenues and expenditures reported on the governmental financial statements is as follows:

ANALYSIS OF INDIVIDUAL FUNDS

	Fiscal Year 2019			
	Revenue	Expenditures	Other Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	$5,755,712	$5,116,450	$10,512	$649,774
Food Service Fund	288,226	238,310	-	49,916
Community Service Fund	128,429	126,854	-	1,575
Total	$6,172,367	$5,481,614	$10,512	$701,265

	Fiscal Year 2018			
	Revenue	Expenditures	Other Sources (Uses)	Fund Balance Increase (Decrease)
General Fund	$5,349,153	$5,015,359	$763	$334,557
Food Service Fund	273,179	221,648	-	51,531
Community Service Fund	142,983	138,969	-	4,014
Total	$5,765,315	$5,375,976	$763	$390,102

GENERAL FUND

The General Fund is used by the District to record the primary operations of providing educational services to students from kindergarten through grade twelve. Pupil transportation activities, capital purchases, and major maintenance projects are also included in the General Fund.

Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue including operating levy referendum and the property tax shift also involves an equalized mix of property tax and state aid revenue.

The following schedule presents a summary of General Fund revenues and other financing sources:

	Year Ended 6/30/2019	Year Ended 6/30/2018	Amount Change	Percentage Change
Local Sources				
Property Taxes	$942,510	$849,344	$93,166	11.0%
Tuition and Contracts	16,769	12,535	4,234	33.8%
Other Local Sources	102,959	105,884	(2,925)	-2.8%
State Sources	4,448,677	4,164,646	284,031	6.8%
Federal Sources	178,798	180,319	(1,521)	-0.8%
Interest	63,487	30,718	32,769	106.7%
Other	2,512	5,707	(3,195)	-56.0%
Total Revenues	5,755,712	5,349,153	406,559	7.6%
Other Financing Sources				
Insurance Proceeds	10,139	763	9,376	1228.8%
Sale of Assets	373	-	373	0.0%
Total Revenues and Other Financing Sources	$5,766,224	$5,349,916	$416,308	7.8%

In summary, the 2018-2019 General Fund revenues and other financing sources increased by $416,308, or 7.8%, from the previous year. Basic general education revenue is determined by a per student funding formula. Other state-authorized revenue involves an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue.

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund expenditures and other financing uses:

	Year Ended 6/30/2019	Year Ended 6/30/2018	Amount Change	Percentage Change
Salaries	3,016,651	2,913,773	$102,878	3.5%
Employee Benefits	858,791	809,346	49,445	6.1%
Purchased Services	617,426	536,013	81,413	15.2%
Supplies and Materials	306,506	248,395	58,111	23.4%
Capital Expenditures	165,740	354,378	(188,638)	-53.2%
Other Expenditures	39,805	41,585	(1,780)	-4.3%
Principal and Interest	111,531	111,869	(338)	-0.3%
Total Expenditures	5,116,450	5,015,359	101,429	2.0%
Other Financing Sources				
Transfers to Other Funds	-	-	-	0%
Total Expenditures and Other Financing Uses	5,116,450	5,015,359	$ 101,429	2.0%

The 2018-2019 General Fund expenditures and other financing uses increased by $101,429, or 2%, from the previous year. Majority of the increases related to purchased services and supplies and materials. These will fluctuate year to year based on the needs of the District.

After deducting statutory restricted fund balances, committed fund balances, and assigned fund balances, the unassigned fund balance increased $517,974, or 17% to $3,558,976. The District closely monitors the General Fund unassigned fund balance through its budgeting process throughout the year.

GENERAL FUND BUDGETARY ANALYSIS

The District is required to adopt an operating budget prior to the beginning of its fiscal year (July 1). Over the course of the year, the District revised the annual operating budget once. The budget amendment usually falls into two categories:

- Implementing budgets for specially funded projects, which may include grants, adjusting staffing and various instructional building allocations based on enrollment, and budgeting for certain unspent funds that are required to be carried over from fiscal year 2018.

- Changes in appropriations for significant unbudgeted costs.

The District's final budget for the General Fund anticipated that revenues would exceed expenditures by $454,798. The actual results for the year show that the revenues exceeded the expenditures by $649,774.

- Actual revenues were $5,755,712 or 7% greater than budget due to the District receiving more general education aid and special education aid than expected, as well as additional interest income.

- Actual expenditures were $5,116,450 or 4% greater than budgeted largely due to more salaries and employee benefits than anticipated.

FOOD SERVICE FUND

In 2018-2019, the total revenues for the Food Service Fund were $288,226 and expenditures were $238,310, resulting in a fund balance increase of $49,906. The fund balance of the Food Service Fund is $192,166 as of June 30, 2019.

COMMUNITY SERVICE FUND

In 2018-2019, the total revenues for the Community Service Fund were $128,429 and total expenditures were $126,854, resulting in a fund balance increase of $1,575. The Community Service Fund balance as of June 30, 2019 is a deficit of $65,304.

TRUST FUND

There were additions in the Trust Fund of $1,000 during the fiscal year and there were of deductions $497. As of June 30, 2019, the net position is $7,789.

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

CAPITAL ASSETS AND DEBT ADMINSTRATION

CAPITAL ASSETS

As of June 30, 2019, the District had capital assets of $1,825,416 (net of accumulated depreciation) representing a broad range of capital assets, including school buildings and improvements, computer and audio-visual equipment, and other equipment for instructional, support and administrative purposes. Total depreciation expense for the year was $187,539. Additional information about the District's capital assets can be found in Note 3 to the financial statements.

Capital Assets	6/30/2019	6/30/2018	Amount Change	Percentage Change
Non-depreciable	$97,233	$103,467	($6,234)	-6.0%
Site Improvements	134,100	112,322	21,778	19.4%
Building	2,751,524	2,751,524	(0)	0.0%
Equipment	2,071,817	2,032,929	38,888	1.9%
Eligible Pupil Transportation	772,246	798,863	(26,617)	-3.3%
Less: Accumulated Depreciation	(4,001,504)	(3,876,263)	(125,241)	3.2%
Total Net Capital Assets	$1,825,416	$1,922,842	(97,427)	-5.1%

DEBT ADMINISTRATION

As of June 30, 2019 the District has outstanding debt of $225,556 which consists of notes payable. The District also had various other long-term liabilities as detailed in Notes 8 and 9 to the financial statements.

The District continues to pay its scheduled debt payments, retiring $106,485 of debt in the year ending June 30, 2019.

Outstanding Long-Term Debt	6/30/2019	6/30/2018
Notes Payable	119,029	225,514
Less: Current Portion	(73,743)	(106,485)
Total Long Term Debt	$45,286	$119,029

Additional information about the District's long-term liabilities can be found in Note 5 to the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Red Rock Central comprises the communities of Storden, Jeffers, Sanborn, Lamberton and the surrounding land totaling approximately 344 square miles. Being a small rural school we have great challenges in meeting the needs of our students, staff and communities not often associated with larger and more urban schools. With fewer and fewer farmers on the land and often less opportunities for young families, we see declining enrollments as a huge challenge. We also have, for various reasons, more students who have open enrolled out of our schools than the number that enroll in. This year we are maintaining our enrollment and as we look at the future numbers we see that our enrollments have stabilized, at least as far as projections go. At Red Rock Central we have always strived to do more with less, and looking at our successes in Academic Awards and test scores we have been doing an excellent job. Attracting future hires will also present difficulties as we feel some of our veteran staff may soon be retiring.

The 2018-19 school year saw the Red Rock Central Secondary be named a Blue Ribbon High School, the only high school in the state of Minnesota. It was quite an honor and we strive to be known as the "Best in the Southwest".

As always, in a small rural school, money is a huge concern. Limiting expenditures as best we can is only part of the equation. Our school must be creative in finding new and stable streams of money through levies and hopefully new state funding. The bottom line for the Red Rock Central School is the care and education of our children and this has been the number one priority since our beginning. We take the trust that our communities have placed in us very seriously and will strive to remain financially sound for years to come.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the district's citizens, taxpayers, customers, and investors and creditors with a general overview of the district's finances and demonstrate the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Superintendent's Office, Independent School District No. 2884, PO Box 278, 100 6th Avenue East, Lamberton, Minnesota 56152.

BASIC FINANCIAL STATEMENTS

Independent School District No. 2884
Statement of Net Position
June 30, 2019

	Primary Government	
	Governmental Activities	Total
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 4,188,208	$ 4,188,208
Property Taxes Receivable- Current	508,322	508,322
Property Taxes Receivable - Delinquent	22,797	22,797
Accounts Receivable	493	493
Due from Minnesota Department of Education	576,002	576,002
Due from Federal - Department of Education	18,961	18,961
Due from Other MN Districts	594	594
Inventory	1,195	1,195
Total Current Assets	5,316,572	5,316,572
Noncurrent Assets		
Nondepreciable	97,233	97,233
Depreciable, Net	1,728,183	1,728,183
*Internal Balances**	153,170	--
Total Assets	7,295,158	7,141,988
DEFERRED OUTFLOWS OF RESOURCES		
Related to OPEB	85,408	85,408
Related to Pensions	2,009,569	2,009,569
Total Deferred Outflows of Resources	2,094,977	2,094,977
LIABILITIES		
Current Liabilities		
Salaries Payable	241,568	241,568
Accounts Payable	13,165	13,165
Due to Other School Districts	29,840	29,840
Due to Other Governmental Units	401	401
Payroll Deduction Payable	191,587	191,587
Current Portion of Long-Term Debt	73,743	73,743
Total Current Liabilities	550,304	550,304
Noncurrent Liabilities		
OPEB Liability	667,158	667,158
Net Pension Liability	2,936,610	2,936,610
Noncurrent Portion of Long-Term Debt	45,286	45,286
*Internal Balances**	153,170	--
Total Liabilities	4,352,528	4,199,358
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Years	1,020,088	1,020,088
Related to Pensions	4,530,517	4,530,517
Total Deferred Inflows of Resources	5,550,605	5,550,605
NET POSITION		
Net Investment in Capital Assets	1,706,387	1,706,387
Restricted	478,029	478,029
Unrestricted	(2,697,414)	(2,697,414)
Total Net Position	$ **(512,998)**	$ **(512,998)**

* Amounts have been eliminated in total column

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2884
Statement of Activities
For the Year Ended June 30, 2019

		Program Revenues			Net (Expense) Revenue Primary Government	
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Total**
Primary Government						
Governmental Activities:						
Administration	$ 377,628	$ 2,824	$ --	$ --	$ (374,804)	$ (374,804)
District Support Services	123,280	12,651	--	--	(110,629)	(110,629)
Elementary and Secondary Regular Instruction	2,466,890	55,216	745,230	20,000	(1,646,444)	(1,646,444)
Vocational Education Instruction	163,456	--	--	--	(163,456)	(163,456)
Special Education Instruction	464,279	--	269,285	--	(194,994)	(194,994)
Instructional Support Services	77,563	--	--	--	(77,563)	(77,563)
Pupil Support Services	479,982	--	--	--	(479,982)	(479,982)
Sites and Buildings	455,462	--	--	5,130	(450,332)	(450,332)
Fiscal and Other Fixed Cost Programs	29,953	--	--	--	(29,953)	(29,953)
Food Service	231,266	118,249	165,072	--	52,055	52,055
Community Service	126,130	24,321	57,636	--	(44,173)	(44,173)
Interest and Fiscal Charges on LT Debt	5,046	--	--	--	(5,046)	(5,046)
Total Governmental Activities	5,000,935	213,261	1,237,223	25,130	(3,525,321)	(3,525,321)
Total Primary Government	$ 5,000,935	$ 213,261	$ 1,237,223	$ 25,130	$ (3,525,321)	$ (3,525,321)

	Governmental Activities	Total
General Purpose Revenues:		
Revenues		
Local Property Tax Levies	982,524	982,524
Other Local and County Sources	39,844	39,844
Unallocated Aid	3,773,252	3,773,252
Other	3,082	3,082
Interest	68,631	68,631
Total General Revenues	4,867,333	4,867,333
Change in Net Position	**1,342,012**	**1,342,012**
Net Position at Beginning of Period	(1,855,010)	(1,855,010)
Net Position at End of Period	$ **(512,998)**	$ **(512,998)**

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2884
Balance Sheet
Governmental Funds
June 30, 2019

	General	Special Revenue: Community Services	Special Revenue: Non-Major Food Service	Total Governmental Funds
ASSETS				
Cash and Cash Equivalents	$ 3,866,462	$ 117,370	$ 204,376	$ 4,188,208
Property Taxes Receivable- Current	489,815	18,507	--	508,322
Property Taxes Receivable - Delinquent	21,639	1,158	--	22,797
Accounts Receivable	493	--	--	493
Due from Minnesota Department of Education	572,848	3,154	--	576,002
Due from Federal - Department of Education	18,961	--	--	18,961
Due from Other MN Districts	594	--	--	594
Inventory	--	--	1,195	1,195
Advances to Other Funds	153,170	--	--	153,170
Total Assets	5,123,982	140,189	205,571	5,469,742
DEFERRED OUTFLOWS OF RESOURCES				
Aggregated deferred outflows	--	--	--	--
Total Assets and Deferred Outflows of Resources	**$ 5,123,982**	**$ 140,189**	**$ 205,571**	**$ 5,469,742**
LIABILITIES				
Salaries Payable	$ 217,178	$ 11,095	$ 13,295	$ 241,568
Accounts Payable	12,956	99	110	13,165
Due to Other School Districts	29,840	--	--	29,840
Due to Other Governmental Units	401	--	--	401
Payroll Deduction Payable	191,587	--	--	191,587
Advances from Other Funds	--	153,170	--	153,170
Total Liabilities	451,962	164,364	13,405	629,731
DEFERRED INFLOWS OF RESOURCES				
Property Taxes Levied for Subsequent Years	980,117	39,971	--	1,020,088
Unavailable Revenue- Delinquent Property Taxes	21,639	1,158	--	22,797
Total Liabilities and Deferred Inflows of Resources	1,453,718	205,493	13,405	1,672,616
FUND BALANCE				
Nonspendable	--	--	1,195	1,195
Restricted	98,095	(65,304)	190,971	223,762
Committed	13,193	--	--	13,193
Unassigned	3,558,976	--	--	3,558,976
Total Fund Balance	3,670,264	(65,304)	192,166	3,797,126
Total Liabilities, Deferred Inflows of Resources and Fund Balance	**$ 5,123,982**	**$ 140,189**	**$ 205,571**	**$ 5,469,742**

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2884
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2019

Total Fund Balance - Governmental Funds	$	3,797,126
Revenue deferred in governmental fund statements if not received within sixty days.		22,797
Capital assets are capitalized in the Statement of Net Position and depreciated in the Statement of Activities. These are expensed when acquired in the Statement of Revenues, Expenditures, and Changes in Fund Balance.		1,825,416
Long- term debt reflected on Statement of Net Position not in governmental funds balance sheet.		(119,029)
Other Postemployment Benefits Payable are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.		(667,158)
Net pension liability is not due and payable in the current period from current financial resources, and therefore are not reported in the funds.		(2,936,610)
Pension related deferred inflows are not due and payable in the current period from current financial resources, and therefore are not reported in funds.		(4,530,517)
Pension related deferred outflows are not available to pay for current period expenditures and therefore are deferred in the funds.		2,009,569
OPEB related deferred outflows are not available to pay for current period expenditures and therefore are deferred in the funds.		85,408
Total Net Position-Governmental Funds	$	**(512,998)**

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2884
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019

		Special Revenue		
	General	Community Services	Non-Major Food Service	Total Governmental Funds
Revenues				
Local Property Tax Levies	$ 942,510	$ 39,376	$ --	$ 981,886
Other Local and County Sources	119,581	24,321	1,540	145,442
State Sources	4,448,677	60,018	20,965	4,529,660
Federal Sources	178,798	--	144,107	322,905
Other	2,659	2,935	118,249	123,843
Interest	63,487	1,779	3,365	68,631
Total Revenues	5,755,712	128,429	288,226	6,172,367
Expenditures				
Administration	401,715	--	--	401,715
District Support Services	125,783	--	--	125,783
Elementary and Secondary Regular Instruction	2,715,412	--	--	2,715,412
Vocational Education Instruction	190,200	--	--	190,200
Special Education Instruction	509,214	--	--	509,214
Instructional Support Services	77,529	--	--	77,529
Pupil Support Services	424,334	--	--	424,334
Sites and Buildings	463,434	--	--	463,434
Fiscal and Other Fixed Cost Programs	29,953	--	--	29,953
Food Service	--	--	235,694	235,694
Community Service	--	118,622	--	118,622
Interest and Fiscal Charges on LT Debt	5,046	--	--	5,046
Capital Outlay	173,830	8,232	2,616	184,678
Total Expenditures	5,116,450	126,854	238,310	5,481,614
Excess of Revenues Over (Under) Expenditures	639,262	1,575	49,916	690,753
Other Financing Sources (Uses)				
Gain (Loss) on Disposals of Capital Assets	373	--	--	373
Insurance Proceeds	10,139	--	--	10,139
Transfers from other funds	--	--	--	--
Transfers to other funds	--	--	--	--
Net Other Financing Sources (Uses)	10,512	--	--	10,512
Net Change in Fund Balance	**649,774**	**1,575**	**49,916**	**701,265**
Fund Balance at Beginning of Period	3,020,490	(66,879)	142,250	3,095,861
Fund Balance at End of Period	**$ 3,670,264**	**$ (65,304)**	**$ 192,166**	**$ 3,797,126**

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2884
Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balance with Statement of Activities
For the Year Ended June 30, 2019

Total Net Change in Fund Balances - Governmental Funds	$	701,265
Capital assets expensed as capital outlay in governmental fund statements, capitalized as capital assets in Statement of Net Position.		103,203
Principal payments on long-term expensed in governmental fund statements, treated as reductions of outstanding debt in Entity wide statements.		106,485
Revenue earned but not collected within sixty days deferred in governmental fund statements, recognized as revenue in Statement of Activities.		638
Depreciation expense reflected in entity wide statements, not reflected in governmental fund statements.		(187,539)
The net effect of various transactions involving capital assets (i.e. Sales, trade-ins, and contributions) is to increase net position.		(13,090)
In the statement of activities, certain postemployment benefits are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the Amount financial resources used (essentially, the amounts actually paid).		26,869
Governmental funds recognize pension contributions as expenditures at the time of payment whereas the statement of activities factors in items related to pensions on a full accrual perspective.		604,181
Changes in Net Position-Governmental Funds	$	**1,342,012**

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2884
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance Over (Under)
	Original	Final	Actual	Final to Actual
Revenues				
Local Sources:				
Levy	$ 752,217	$ 915,856	$ 920,524	$ 4,668
County Apportionment	14,919	14,919	14,914	(5)
Miscellaneous County Tax Revenues	10,000	10,000	7,072	(2,928)
Other Local and County Sources:				
Tuition and Fees- School Districts	5,000	1,000	4,169	3,169
Tuition and Fees - Patrons	12,000	12,000	12,600	600
Student Activities Admissions	35,000	35,000	37,665	2,665
Interest	15,000	30,000	63,487	33,487
Rent	900	1,900	1,713	(187)
Gifts and Bequest	15,000	15,000	59,828	44,828
Miscellaneous	51,700	3,700	3,753	53
State Sources:				
General Education Aid	3,874,049	3,871,572	4,059,461	187,889
Endowment Fund Apportionment	14,877	15,685	17,173	1,488
Homestead/Ag Market Value Credit	9,834	14,094	13,967	(127)
Disparity Reduction Aid	7,560	7,908	7,908	--
Abatement Aid	521	176	228	52
Shared Time Aid	--	6,683	6,683	--
Special Education Aid	228,000	228,000	275,449	47,449
Integration Aid & Levy	33,392	33,121	33,258	137
Long-Term Facilities Maintenance Aid	168,247	--	--	--
Other State Aid	26,986	26,760	34,550	7,790
Federal Sources:				
Improving the Academic Achievement of the Disadvantaged	85,000	87,032	75,651	(11,381)
Teacher and Principal Training and Recruiting	26,671	17,943	12,943	(5,000)
Small, Rural Education Achievement Program	17,000	--	21,392	21,392
Other Federal Aid	40,800	40,800	68,812	28,012
Other:				
Sale of Materials	3,500	3,500	2,512	(988)
Total Revenues	5,448,173	5,392,649	5,755,712	363,063
Other Financing Sources				
Sale of Capital Assets	--	--	373	373
Insurance Proceeds	--	--	10,139	10,139
Total Revenues and Other Financing Sources	5,448,173	5,392,649	5,766,224	373,575

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2884
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund - Continued
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance Over (Under)
	Original	**Final**	**Actual**	**Final to Actual**
Expenditures				
Administration:				
Salaries	266,236	257,760	258,060	(300)
Employee Benefits	88,496	83,631	94,204	(10,573)
Purchased Services	23,503	30,503	40,225	(9,722)
Supplies and materials	4,345	6,345	5,237	1,108
Other Expenditures	6,835	6,835	4,784	2,051
District Support Services:				
Salaries	43,261	43,473	45,452	(1,979)
Employee Benefits	14,382	14,403	14,103	300
Purchased Services	52,546	52,546	65,433	(12,887)
Capital Expenditures	60,000	--	--	--
Other Expenditures	2,550	2,550	--	2,550
Elementary and Secondary Regular Instruction:				
Salaries	1,927,638	1,875,236	1,871,543	3,693
Employee Benefits	606,264	532,306	536,217	(3,911)
Purchased Services	157,310	154,720	178,928	(24,208)
Supplies and Materials	82,611	110,290	128,499	(18,209)
Capital Expenditures	39,202	65,702	74,490	(8,788)
Other Expenditures	21,161	21,161	1,820	19,341
Vocational Education:				
Salaries	138,281	138,343	138,342	1
Employee Benefits	48,817	51,245	51,858	(613)
Special Education Instruction:				
Salaries	284,761	268,251	329,683	(61,432)
Employee Benefits	59,780	73,439	84,635	(11,196)
Purchased Services	87,541	102,541	93,771	8,770
Supplies and Materials	1,036	7,536	7,620	(84)
Instructional Support Services:				
Salaries	44,326	41,507	47,606	(6,099)
Employee Benefits	6,849	6,397	8,051	(1,654)
Purchased Services	26,094	16,089	19,253	(3,164)
Supplies and Materials	5,444	5,444	2,619	2,825
Capital Expenditures	--	--	1,445	(1,445)

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2884
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund - Continued
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance Over (Under)
	Original	**Final**	**Actual**	**Final to Actual**
Pupil Support Services:				
Salaries	179,156	191,156	214,299	(23,143)
Employee Benefits	38,163	44,165	45,360	(1,195)
Purchased Services	74,808	74,808	66,856	7,952
Supplies and Materials	43,360	43,360	64,618	(21,258)
Capital Expenditures	--	60,000	40,669	19,331
Other Expenditures	1,040	1,040	33,201	(32,161)
Sites and Buildings:				
Salaries	133,665	127,765	111,666	16,099
Employee Benefits	37,054	36,160	24,363	11,797
Purchased Services	158,034	143,734	123,007	20,727
Supplies and Materials	91,428	91,428	97,913	(6,485)
Capital Expenditures	1,500	16,500	49,136	(32,636)
Fiscal and Other Fixed Cost Programs:				
Principal	107,231	107,231	106,485	746
Interest Expense	5,117	5,117	5,046	71
Purchased Services	27,134	27,134	29,953	(2,819)
Total Expenditures	4,996,959	4,937,851	5,116,450	(178,599)
Other Financing Uses				
Total Expenditures and Other Financing Uses	4,996,959	4,937,851	5,116,450	(178,599)
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	451,214	454,798	649,774	194,976
Net Change in Fund Balance	**451,214**	**454,798**	**649,774**	**194,976**
Fund Balance at Beginning of Period	3,020,490	3,020,490	3,020,490	--
Fund Balance at End of Period	$ **3,471,704**	$ **3,475,288**	$ **3,670,264**	$ **194,976**

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2884
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
Community Services
For the Year Ended June 30, 2019

	Budgeted Amounts			Variance
	Original	Final	Actual	Over (Under) Final to Actual
Revenues				
Local Sources:				
Levy	$ 38,992	$ 39,331	$ 39,376	$ 45
Miscellaneous County Tax Revenues	1,000	1,000	1,335	335
Other Local and County Sources:				
Tuition and Fees - Patrons	21,000	21,000	24,321	3,321
Interest	500	500	1,779	1,279
Miscellaneous	--	--	1,600	1,600
State Sources:				
Homestead/Ag Market Value Credit	1,546	1,535	1,521	(14)
Disparity Reduction Aid	1,189	861	861	--
School Readiness Aid	17,700	17,700	17,699	(1)
Other State Aid	40,208	38,550	39,937	1,387
Total Revenues	122,135	120,477	128,429	7,952
Other Financing Sources				
Total Revenues and Other Financing Sources	122,135	120,477	128,429	7,952
Expenditures				
Salaries	79,929	102,910	77,839	25,071
Employee Benefits	20,807	22,684	17,498	5,186
Purchased Services	3,426	4,202	19,363	(15,161)
Supplies and Materials	2,886	5,650	3,846	1,804
Capital Expenditures	--	5,000	8,232	(3,232)
Other Expenditures	--	--	76	(76)
Total Expenditures	107,048	140,446	126,854	13,592
Other Financing Uses				
Total Expenditures and Other Financing Uses	107,048	140,446	126,854	13,592
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	15,087	(19,969)	1,575	21,544
Net Change in Fund Balance	**15,087**	**(19,969)**	**1,575**	**21,544**
Fund Balance at Beginning of Period	(66,879)	(66,879)	(66,879)	--
Fund Balance at End of Period	**$ (51,792)**	**$ (86,848)**	**$ (65,304)**	**$ 21,544**

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2884
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2019

	Private Purpose Trust	
	Trust	
ASSETS		
Cash and Cash Equivalents	$	7,789
Total Assets		7,789
DEFERRED OUTFLOWS OF RESOURCES		
Aggregated deferred outflows		--
Total Deferred Outflows of Resources		--
LIABILITIES		
Total Liabilities		--
DEFERRED INFLOWS OF RESOURCES		
Aggregated deferred inflows		--
Total Deferred Inflows of Resources		--
NET POSITION		
Held in Trust	$	**7,789**

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2884
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2019

	Trust
Additions	
Other	$ 1,000
Total Additions	1,000
Deductions	
Trust Fund	497
Total Deductions	497
Change in Net Position	**503**
Net Position at Beginning of Period	7,286
Net Position at End of Period	$ **7,789**

The notes to the financial statements are an integral part of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Independent School District No. 2884 was formed and operates pursuant to applicable Minnesota laws and statutes. The governing body consists of school board members elected by voters of the District to serve staggered terms.

A. Basis of Presentation

The financial statements of Independent School District No. 2884 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as U.S. generally accepted accounting principles for state and local governments.

This financial report has been prepared in conformity with GASB Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, issued in June 1999.

B. Financial Reporting Entity

Independent School District No. 2884 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

Accounting principles generally accepted in the United States of America (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units – entities for which the District is financially accountable.

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

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School 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 School 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 these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

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

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

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

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

D. Measurement Focus and Basis of Accounting

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

1. **Revenue Recognition** - Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

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

The District reports unearned revenue on its statement of net position and its governmental funds balance sheet. Unearned revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when the District receives resources before it has a legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and combined balance sheet and revenue is recognized.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of Governmental Accounting Standards Board (GASB).

It is generally the District's policy to use restricted resources first, then unrestricted resources as they are needed when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds

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

Governmental Funds

General Fund - The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, health and safety projects, and disabled accessibility projects. The main sources of revenue are state and federal aids and property taxes.

Food Service Special Revenue Fund - The Food Service Special Revenue Fund accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches or snacks in connection with school activities. Revenues for the Food Service Fund are generated from user fees, federal reimbursements, and state credits.

Community Service Special Revenue Fund - The Community Service Special Revenue Fund accounts for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs or other similar services. Revenues for the Community Service Fund are generated primarily from user fees, local property taxes, federal reimbursements, and state credits.

Fiduciary Funds

Private-Purpose Trust Fund – The Private-Purpose Trust Fund is used to account for trust arrangements under which principal and income benefits individuals, private organizations, or other governments. This fund accounts for gifts and bequests that are to be used for scholarships.

GASB Statement No. 34 specifies that the accounts and activities of each of the District's most significant governmental funds (termed "major funds") be reported in separate columns on the fund financial statements. Other non-major funds can be reported in total. The General Fund and the Community Service Fund are the only major funds by definition.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, and Community Service Funds. The approved budget is published in summary form in the District's legal newspaper by November 30 of each year. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

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

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

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

F. Cash and Investments

Cash and investments included balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. State statutes authorize the District to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances. Investments are reported at fair value.

Cash and investments as of June 30, 2019 are comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF). The MSDLAF is an external investment pool, not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under Rule 2.a.7. The fair value of the position in the pool is the same as the value of the pool shares.

The District has formal policies in place to address custodial credit risk for deposits as well as interest rate risk, credit risk, concentration of credit risk, and custodial credit risk for investments.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Receivables

Receivables represent amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. Amounts due from the State of Minnesota 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, may result in differing amounts actually being received. Any such differences will be absorbed into operations of the subsequent period. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are delinquent property taxes receivable, which are generally immaterial.

H. Inventories

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

I. Prepayments

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption. There are no prepaid items as of June 30, 2019.

J. Property Taxes

The Board of Education annually adopts a tax levy and certifies it to the County in December for collection in the following year. The County is responsible for collecting all property taxes for the District. These taxes attach an enforceable lien on taxable property within the District on January 1 and are payable by the property owners in May and October of each year. The taxes collected by the County Treasurer and tax settlements are made to the District periodically throughout the year.

Statutory funding formulas determine the majority of the District revenue in the General and Special Revenue Funds. This revenue is divided between property taxes and State aids by the legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the “tax shift.” The remaining portion of taxes collectible in 2019 is recorded as unearned revenue (property taxes levied for subsequent year). Taxes payable on qualifying property, as defined by Minnesota statutes, are partially reduced by a market value credit aid. The credits are paid to the District by the State in lieu of taxes levied against the property.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes (Continued)

Taxes that remain unpaid are classified as delinquent taxes receivable. In the fund financial statements, revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not available to finance the operations of the District in the current year. In the district-wide financial statements no allowance for uncollectible taxes has been provided as such amounts are not expected to be material. The tax shift for fiscal year 2019 was $121,983.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflows of resources (revenue) until that time.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of $1,000 for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

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

M. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued, bond premiums and discounts, as well as issuance costs, will be expensed in the current year.

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. Principal payments are reported as debt service expenditures.

N. Compensated Absences

Employees who are employed on a twelve month basis and forty hour week will accrue vacation as follows:

1-9 years	2 weeks of vacation
10-19 years	3 weeks of vacation
20+ years	4 weeks of vacation

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Compensated Absences (Continued)

Secretarial positions and custodians will accrue twelve days of sick leave per year accumulative to 85 days. Secretaries who work less than full-time will be allotted sick leave based on a prorated time and benefits but no vacation days will be allowed. At the beginning of every school year all twelve-month secretaries and custodians will accrue four personal days. The carryover of personal days from one year to the next is not allowed.

Educational assistants and kitchen personnel shall accrue nine days of sick leave per year accumulative to 65 days. Assistants and kitchen personnel will accrue three personal days. One of those days can be carried over to the next year for an accumulative of four days. Bus drivers will accrue nine days of sick leave per school year accumulative to 50 days. Bus drivers will accrue three personal days. One of those days can be carried over to the next year for an accumulative of four days. Personnel working for ten months out of the year will be allotted a percentage of sick and personal days.

Certified: At the beginning of each school year each teacher shall be credited with fifteen days sick leave. Unused sick leave days may accumulate to a maximum of 105 days of sick leave per teacher. The District shall furnish to each teacher a written statement at the beginning of each school year setting forth the total days cumulative per teacher. The teacher shall refund to the district any used but unearned sick leave pay, (one and two thirds days per month or the proper fraction based on total weeks of employment) should their contract be terminated or they resign before the end of the school year. When a teacher reaches the maximum number of sick days (105), unused sick leave shall be reimbursed at the rate of $15.00 per day, and will be sent to the Minnesota Post Retirement Self Health Insurance Care Savings Plan. For any teacher leaving the system, this shall be included in the final check which the teacher receives. Teachers will accrue three personal days. One of those days can be carried over to the next year for an accumulative of four days. Teachers can sell up to two personal days per year at the teachers' current rate of pay and will be sent to the Minnesota Post Retirement Self Health Insurance Care Savings Plan.

Principal: The principal receives no vacation and shall accrue fifteen days of sick leave per year accumulative to 105 days.

Superintendent: The superintendent accrues twenty days of vacation per year accumulative to 30 days. Upon retirement, any unused vacation will be paid at a rate of $200 and can be sent to the Health Care Savings Plan account if requested. The superintendent will accrue fifteen days of sick leave accumulative to 100 days. The superintendent will also accrue three days of personal leave. One of those days can be carried over to the next year for an accumulative of four days.

The liability for accumulated vacation and sick leave for governmental fund types, which represents normal accumulations, is not material and is not recorded in the financial statements. The current portion of accrued vacation and sick leave pay, which would be liquidated with expendable available resources, is not material.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Employee Benefits

Non-Certified Health Insurance: The District shall contribute the sum of $8,700 for those persons selecting the HSA Family Policy or $7,800 for those selecting another school sponsored health insurances option for the 2018-2019 school year towards health insurance for all twelve month employees. Employees working at least ten and a half months but less than twelve months either as a secretary or custodian will be eligible for health insurance on a prorated basis. The District will contribute $25 per month for all twelve month employees to the State's Health Care Savings Plan. Employees will at least match the District's contribution. The School Board will provide a $25,000 term life insurance policy through the district for all employees who are assigned an average of twenty or more hours per week throughout the school year.

Certified Health Insurance: The District shall contribute the sum of $8,700 for those persons selecting the HSA Family Policy or $7,800 for those selecting another school sponsored health insurance option during the 2018-2019 school year for all full time teachers employed by the District who qualify for and are enrolled in the school district group health and hospitalization plan. These funds will only be available towards the cost of the health insurance premium. Any additional cost of the premium shall be borne by the employee and paid by payroll deduction or any additional option agreed to with the central office of the District. Teachers who apply for early retirement will be eligible to remain in the existing group health and hospitalization insurance program and will remain eligible for board contribution equal to $3,000 per year until the teacher qualifies for Medicare. However, if the teacher is reemployed and is offered health insurance with the new job, this coverage provided by the District will be dropped. This health coverage will be paid according to the following chart based on years of service with the District and former schools that comprise Independent School District No. 2884.

10 years=50%	15 years=75%	20 years & greater= 100%

Principal and Superintendent Health Insurance: The principal and superintendent and their dependents shall be eligible for the District's hospitalization insurance plan at the District's expense. The District will provide the principal with $75,000 in-house life insurance coverage. The District will also provide the superintendent with $100,000 term life insurance at a cost of not more than $500 annually. The principal is also entitled to the early retirement health insurance coverage as noted above.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Risk Management

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

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

Q. Fund Balance

The District implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance – consists of amounts that cannot be spent because it is not in spendable form or are legally or contractually required to be maintained intact, such as inventory or prepaid items.

- Restricted fund balance – consists of amounts related to externally imposed constraints established by creditors, grantors or contributors, bondholders, laws and regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

- Committed fund balance - consists of amounts that are constrained for specific purposes that are internally imposed by formal action (resolution) of the School Board. To be reported as committed, amounts cannot be used for any other purpose unless the School Board removes or changes that specified use by taking the same type of action it employed to previously commit those amounts.

- Assigned fund balance – consists of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, assigned amounts represent intended uses established by the School Board itself or by an official to which the School Board delegates the authority.

- Unassigned fund balance – consists of amounts that are available for any purpose. Positive amounts are reported only in the general fund. It also reflects negative residual amounts in other funds.

If resources from more than one fund balance classification could be spent, the District will strive to spend resources from fund balance classifications in the following order: restricted, committed, assigned, and unassigned as determined by the School Board.

The District has not formally adopted a fund balance policy for the General Fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Net Position

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

S. Use of Estimates

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

T. Pensions

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk - For deposits is the risk that, in the event of failure of a depository financial institution, the District will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits. As of June 30, 2019, the District's bank balance was not exposed to custodial credit risk because it was insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the School Board, all of which are members of the Federal Reserve System. The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is included in the combined balance sheet as "Cash and Investments".

Minnesota Statutes require that all deposits be secured by a bank guaranty bond or 110% of collateral valued at market or par, whichever is lower, less the amount covered by the Federal Deposit Insurance Corporation (FDIC).

Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust department of a commercial bank or other financial institution not owned or controlled by the depository.

At June 30, 2019, the District's deposits had a carrying amount of $666,672 maintained in various accounts.

At June 30, 2019, the District also held shares in the MSDLAF which is an external investment pool that is not registered with SEC. Its investments are valued at amortized cost, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of instruments. The MSDLAF is rated AAA by Standard & Poor's and the amortized cost at June 30, 2019 was $3,529,175.

The following table represents the District's cash and cash equivalents balance at June 30, 2019:

Cash/Investment Type	Credit Rating	Average Maturities	Percentage of Total	Fair Value
Pooled Cash and Investments:				
Petty Cash	N/A	N/A	0.00%	$ 150
Checking Accounts	N/A	N/A	10.87%	456,222
Savings Account	N/A	N/A	5.02%	210,450
MSDLAF	AAA	N/A	84.11%	3,529,175
Total				$ 4,195,997

NOTE – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)
Cash and cash equivalents as presented in the June 30, 2019 financials statements:

Statement of Net Position:	
Cash and Investments	$ 4,188,208
Statement of Fiduciary Net Position:	
Cash and Investments	7,789
Total	$ 4,195,997

B. Investments
Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District's investment policy states that investments will be managed in a manner to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District's investment policy states the District may invest its available funds in those instruments specified in Minnesota Statutes or any other law governing the investment of school district funds. The District's investments in Minnesota School District Liquid Asset Fund (MSDLAF) are rated AAA by Standard & Poor's.

Concentration of Credit Risk – Concentration of credit is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District's investment policy does not state the maximum percentage of the District's investment portfolio that may be invested in a single type of investment instrument.

Custodial Credit Risk – For an investment, this is the risk that, in the even of failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District will minimize investment custodial credit risk by permitting brokers that obtained investments for the District to hold them only to the extent there is SIPC and excess SIPC coverage available. Securities purchased that exceed available SIPC coverages shall be transferred to the District's custodian.

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

- direct obligations or obligations guaranteed by the United States or its agencies
- shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen 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

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

- banker's acceptances of United States banks eligible for purchase by the Federal Reserve System
- commercial paper issued by the United States banks, corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less
- guaranteed investment contracts guaranteed by United State commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories
- repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

NOTE 3 – CAPITAL ASSETS

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

Capital Assets Not Being Depreciated	Balance 7-1-2018	Additions	Deletions	Balance 6-30-2019
Land	$97,233	$0	$0	$97,233
Construction in Progress	6,234	0	6,234	0
Total Capital Assets Not Being Depreciated	103,468	0	6,234	97,233
Capital Assets Being Depreciated				
Site Improvements	112,322	21,778	0	134,100
Buildings	2,751,524	0	0	2,751,524
Equipment	2,032,929	46,990	8,102	2,071,817
Vehicles	798,863	42,169	68,787	772,246
Total Capital Assets Being Depreciated	5,695,639	110,937	76,889	5,729,687
Less Accumulated Depreciation For:				
Land Improvements	82,074	2,911		84,985
Buildings	1,675,949	53,837		1,729,786
Equipment	1,536,702	72,159	3,285	1,605,576
Vehicles	581,539	58,632	59,013	581,158
Total Accumulated Depreciation	3,876,264	187,539	62,298	4,001,505
Total Capital Assets Being Depreciated, Net	1,819,374	(76,602)	14,591	1,728,182
Governmental Activities Capital Assets, Net	$1,922,842	($76,602)	$20,825	$1,825,416

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of $187,539 for the year ended June 30, 2018 was charged to the following governmental functions:

Administration	$	470
Elementary and Secondary Regular Instruction		49,478
Special Education		1,092
Instructional Support Services		36
Pupil Support		61,429
Sites, Buildings, and Equipment		53,958
Unallocated		20,365
Community Education		710
Total Depreciation Expense – Governmental Activities	$	187,539

The Governmental Accounting Standards Board (GASB) has issued Statement No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*. This statement requires the District to report the effects of capital asset impairments in its financial statements when they occur rather than as a part of ongoing depreciation expense for the capital asset or upon disposal of the capital asset. No impairments were noted during fiscal year 2019.

NOTE 4 – SHORT-TERM DEBT

The District did not obtain any short-term debt in 2019.

NOTE 5 – LONG-TERM LIABILTIES

<u>Description of Long-Term Debt</u>

<u>Notes Payable</u>
On July 2, 2013, the District borrowed $390,000 from a bank to purchase equipment and buses with an interest rate of 2.5%. The final payment is due on August 1, 2020.

NOTE 5 – LONG-TERM LIABILTIES (CONTINUED)

Description of Long-Term Debt (Continued)

Notes Payable
On July 3, 2013, the District borrowed $360,000 from a bank to purchase equipment and to construct a Fab lab with an interest rate of 2.5%. The final payment is due on August 1, 2019.

Changes in Long-Term Debt
The following is a summary of the long-term debt transactions of the District for the year ended June 30, 2019:

	Balance 7/1/2018	Additions	Reductions	Balance 6/30/2019	Due Within One Year
Notes Payable	225,514		106,485	119,029	73,743
Total Long-Term Debt	225,514	-	106,485	119,029	73,743
Less: current portion				73,743	
Noncurrent				$ 45,286	

For the year ended June 30, 2019 the District paid $5,046 of interest.

NOTE 5 – LONG-TERM LIABILTIES (CONTINUED)

Minimum Debt Payments
Minimum annual principal and interest payments to retire long-term debt:

Year Ending June 30	Principal	Interest	Total
2020	73,743	2,003	75,746
2021	45,286	867	46,153
Total	$ 119,029	$ 2,870	$ 121,899

The general fund is typically used to liquidate other long-term liabilities.

Bonds Authorized But Unissued
At June 30, 2019, there were no long-term bonds authorized but unissued.

NOTE 6 – RESTRICTED FUND BALANCES

Certain portions of fund balances are restricted based on state requirements to track special program funding, to provide for funding of certain long-term liabilities, or as required by other outside parties. A description of deficit balance restrictions is included herein since the District has specific statutory authority to levy taxes for such deficits.

Restricted, Committed, and Assigned fund balances at June 30, 2019 are as follows:

A. Restricted for Safe Schools – Crime Levy
   Represents available resources in the General Fund dedicated exclusively for safe schools. The balance consists of the total amount levied for this purpose over the years less any expenditures made since levying began.

B. Restricted for Staff Development
   Represents available resources in the General Fund that are used to provide for staff development programs in accordance with state statutes.

C. Restricted for Health and Safety
   Represents available resources in the General Fund that are to be used only to provide for the removal of hazardous substances and other state approved life or health safety projects.

NOTE 6 – RESTRICTED FUND BALANCES (CONTINUED)

D. Restricted for Long-Term Facility Maintenance (LTFM)
Represents available resources in the General Fund dedicated exclusively for the long-term maintenance of the facility.

E. Restricted for Gifted and Talented
Represents available resources in the General Fund dedicated exclusively for the gifted and talented program in accordance with state statutes.

F. Restricted for Community Education
Represents accumulated resources available to provide general community education programming.

G. Restricted for Early Childhood and Family Education
Represents accumulated resources available to provide services for early childhood and family education programming.

H. Restricted for School Readiness
Represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

I. Restricted for Other Purposes
Represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

J. Committed for Separation and Retirement Benefits
Represents funds that have been constrained for the use of separation and retirement benefits.

NOTE 7 – FUND BALANCES

Portions of the District's fund balance are nonspendable, restricted due to legal restrictions, committed by Board action, assigned by District management, or unassigned. The following is a summary of fund balance components as of June 30, 2019.

	General Fund	Community Services	Food Services	Total Governmental Funds
Nonspendable				
Inventory	$ -	$ -	$ 1,195	$ 1,195
Restricted				
Staff Development	145,324	-	-	145,324
Safe Schools - Crime Levy	(68,498)	-	-	(68,498)
Long-Term Facility Maintenance (LTFM)	(20,666)	-	-	(20,666)
Gifted & Talented	32,525	-	-	32,525
Community Education	-	(54,394)	-	(54,394)
Early Childhood Family Education	-	96,407	-	96,407
School Readiness	-	(112,184)	-	(112,184)
Other Purposes	9,410	4,867	190,971	205,248
Total Restricted	98,095	(65,304)	190,971	223,762
Committed				
Separation & Retirement Benefits	13,193	-	-	13,193
Unassigned	3,558,976	-	-	3,558,976
Total Fund Balance	$ 3,670,264	$ (65,304)	$ 192,166	$ 3,797,126

The District is reporting negative restricted fund balances for Safe Schools, LTFM, Community Education and School Readiness at June 30, 2019. Minnesota Statutes require the District to report a deficit in the restricted fund balance, when applicable, in order to permit the statutory revenue formula calculations. These deficits will be offset with future operating tax levies and are reported within unrestricted net position on the government-wide financial statements.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

The District adopted the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. The District engaged an actuary to determine the District's liability for postemployment benefits other than pensions as of July 1, 2018 for fiscal year ending June 30, 2019, with the District's next actuarial report to be done for FY 2020.

A. Plan Description

The District's defined benefit OPEB plan, provides OPEB for certain retired employees under a single-employer fully-insured plan. The District provides benefits for retirees as required by state statute. Active employees who retire from the District when eligible to receive a retirement benefit from the Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA) and do not participate in any other health benefits program providing similar coverage, will be eligible to continue coverage with respect to both themselves and their eligible dependent(s) under the District's health benefits program. Retirees are required to pay 100% of the total premium cost. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement 75.

B. Funding Policy

Contribution requirements are negotiated between the District and union representatives. The eligibility for, amount of, duration of, and District's contribution to the cost of the benefits provided varies by contract and date of retirement. The District has historically funded the OPEB benefits on a pay- as-you-go basis. Under GASB Statement No. 75, plan sponsors may set up a trust and pre-fund the benefits. There is no requirement to pre-fund benefits. For fiscal year 2019, the District contributed $85,408 to the plan.

C. Employees Covered by Benefit Terms

At June 30, 2017, the following employees were covered by the benefit terms:

Active Employees	66
Retirees Receiving Payments	7
Spouses Receiving Payments	1
Total Covered Employees	74

D. Total OPEB Liability

The District's total OPEB liability of $667,158 was measured as of July 1, 2018, and was determined by an actuarial valuation as of that date.

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

E. Actuarial Assumptions and Other Inputs

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increase	3.00%
Discount Rate	3.40%
Medical Trend	6.25% as of July 1, 2018 grading to 5.00% over 5 years

The discount rate was based on the estimated yield of 20-Year AA-rate municipal bonds.

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.

The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2016 – July 1, 2017.

F. Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 7/1/2017 (Reporting Date 6/30/2018)	$ 680,265
Changes for the Year:	
Service Cost	35,414
Interest	23,125
Benefit Payments	(71,646)
Net Changes	(13,107)
Balance at 7/1/2018 (Reporting Date 6/30/2019)	$ 667,158

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

F. Changes in the Total OPEB Liability (continued)

Method Changes:

The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB Statement No. 75.

Assumption Changes:

1. The health care trend rates were changed to better anticipate short term and long term medical increases.

2. The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.

3. The discount rate was changed from 3.50% to 3.40%.

Plan Changes:

1. A special agreement was added for one teacher where the District will pay the full premium to Medicare eligibility instead of $3,000 per year.

2. A subsidized post-retirement medical benefit was added for the Superintendent of $6,000 per year to Medicare eligibility.

G. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.40 percent) or one percentage point higher (4.40 percent) than the current discount rate:

	1% Decrease (2.4%)	Discount Rate (3.4%)	1% Increase (4.4%)
Total OPEB Liability	$ 694,424	$ 667,158	$ 640,494

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

H. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.25 percent decreasing to 4.00 percent) or one percentage point higher (7.25 percent decreasing to 6.00 percent) than the current healthcare cost trend rates:

	1% Decrease (5.25% Decreasing to 4.00%)	Healthcare Cost Trend Rates (6.25% Decreasing to 5.00%)	1% Increase (7.25% Decreasing to 6.00%)
Total OPEB Liability	$ 628,281	$ 667,158	$ 712,092

I. OPEB Expense, Deferred Outflows, and Deferred Inflows Related to OPEB

For the year ended June 30, 2019, the District recognized OPEB expense of $58,539. 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
Liability Gains/Losses	$0	$0
Assumption Changes	0	0
Investment Gains/Losses	0	0
Employer Contributions	85,408	0
Total	$85,408	$0

There are no amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB to be recognized in OPEB expense in future years.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATEWIDE

A. Plan Descriptions

The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by the Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA). PERA's and TRA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*, Chapters 353, 354 and 356. PERA's and TRA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan

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

2. Teachers Retirement Fund (TRA)

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

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

B. Benefits Provided

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

B. Benefits Provided (Continued)

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

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.

Benefit increases are provided to benefit recipients each January. General Employees Plan benefit recipients receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). [Note: 1/1/19 increase was 1.4%] A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

2. TRA Benefits

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.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

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 as described:

Tier I Benefits

	Step Rate Formula	Percentage
Basic	1st ten years	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1st ten years if service years are up to July 1, 2006	1.2 percent per year
	1st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are up 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 factors for all years under normal retirement age.
c. Unreduced benefits for early retirement under Rule-of-90 (age plus allowable service equals 90 or more).

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for coordinated members and 2.7 percent per year for basic members is applied. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for coordinated members and 2.7 for basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to 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 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.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

B. Benefits Provided (Continued)

Tier 2 Benefits **(Continued)**

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 which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

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

C. Contributions

Minnesota Statutes Chapters 353 and 354 set the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature.

1. <u>General Employees Fund Contributions</u>

Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.50% for Coordinated Plan members. The District's contributions to the General Employees Fund for the years ended June 30, 2019, June 30, 2018 and June 30, 2017 were $50,670, $51,394 and $47,694, respectively. The District's contributions were equal to the required contributions as set by the state statute.

2. <u>TRA Contributions</u>

Per Minnesota Statutes, Chapter 354 sets the contribution rates for the 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 District's contributions to TRA for the plans fiscal years ended June 30, 2019, June 30, 2018 and June 30, 2017 were $165,018, $155,969 and $152,175, respectively. The District's contributions were equal to the required contributions for each year as set by state statute.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

C. Contributions (Continued)

2. TRA Contributions (Continued)

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary 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

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

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2019, the District reported a liability of $565,854 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 Districted totaled $18,500. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2019, the District's proportionate share was 0.0102% at the end of the measurement period and .0099% for the beginning of the period.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

District's proportionate share of the net pension liability	$565,854
State of Minnesota's proportionate share of the net pension Liability associated with the District	$18,500

General Employees Fund Pension Costs

For the year ended June 30, 2019, the District recognized pension expense of $31,282 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional $4,314 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 from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 14,556	$ 16,017
Changes in actuarial assumptions	52,474	62,300
Net difference between projected and actual investment earnings	0	55,963
Changes in proportion	14,365	14,509
Contributions paid to PERA subsequent to the measurement date	50,670	0
Total	$132,065	$148,789

$50,670 reported as deferred outflows of resources related to pensions resulting from the district contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2020	$13,109
2021	($28,382)
2022	($40,312)
2023	($11,810)

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

D. Pension Costs (Continued)

1. TRA Pension Costs

On June 30, 2019 the District reported a liability of $2,370,756 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.0377% at the end of the measurement period and 0.0377% for the beginning of the period.

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

District's proportionate share of net pension liability	$ 2,370,756
State's proportionate share of the net pension liability	222,785

For the year ended June 30, 2019, the District recognized pension expense of ($1,621,560). It also recognized $155,489 as a decrease to 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 economic experience	$ 0	$ 40,674
Changes in actuarial assumptions	1,706,223	3,900,857
Net difference between projected and actual investment earnings	0	173,076
Changes in proportion	6,262	267,122
Contributions paid to TRA subsequent to the measurement date	165,018	0
Total	$1,877,503	$4,381,729

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

D. Pension Costs (Continued)

Deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2020	$168,468
2021	($1,497,932)
2022	($1,254,381)
2023	($85,399)

E. Actuarial Assumptions

General Employees Fund

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

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

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

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.

The following changes in actuarial assumptions occurred:

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.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

E. Actuarial Assumptions (Continued)

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

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

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

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

E. Actuarial Assumptions (Continued)

TRA

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation date	July 1, 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.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

E. Actuarial Assumptions (Continued)

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

The target allocation and best estimate of geometric real rates of return for each major asset class are summarized on page 61 (same rates as PERA).

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.

NOTE 9 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

F. Discount Rate

General Employees Plan

The discount rate used to measure the total pension liability was 7.5 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 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.

TRA

The discount rate used to measure the total pension liability was 7.5 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 2018 contribution rate, contributions from school districts will be made at the 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 9 – DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the General Employees Fund net pension liability:	$919,585	$565,854	$273,859
District's proportionate share of the TRA pension liability:	$3,762,380	$2,370,756	$1,222,675

H. Pension Plan Fiduciary Net Position

Detailed information about each defined benefit pension plan's fiduciary net position is available in a separately-issued PERA and TRA financial reports. The PERA report may be obtained on the Internet at www.mnpera.org. TRA's report can be obtained at www.MinnesotaTRA.org, or by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000; or by calling 651-296-2409 or 800-657-3669.

NOTE 10 – COMPENSATION – ANNUITY MATCHING PLAN

The District will provide matching 403(b) tax-sheltered annuity plan as allowed under Minnesota Statute Section 356.74. For the purposes of contribution, the annual contribution year shall be considered to extend from September 1 through August 31 each twelve months. In accordance with Minnesota Statute 356.24, the District agrees to match up to $1,650 annually, payable in twelve monthly installments of up to $137.50 per month to a District approved 403(b) company for all full time teachers. Part time teachers will receive a pro-rated match based on the percentage of their employment. Teachers planning to retire within five years of this contract shall convert the total monthly matching annuity amounts from the District plus their own to the Minnesota Post Retirement Self Health Insurance Care Savings Plan. Teachers may contribute more than the match to their Minnesota Post Retirement Health Insurance Savings Plan. The cost to the District for this plan for the 2018-2019 year was $66,790.

NOTE 10 – COMPENSATION – ANNUITY MATCHING PLAN (Continued)

The principal will be eligible to participate in the District's tax-sheltered annuity plan established pursuant to District policy up to matching $2,000 per year.

The District shall contribute $2,000 a year to the tax-sheltered annuity plan of the superintendent as authorized by Minnesota Statute 123.35.

The District provides no additional postemployment benefits.

NOTE 11 – LEASE COMMITMENTS

The District leases copier equipment under the terms of an operating lease agreement with terms in excess of one year. Annual aggregate lease payments remaining under the terms of this operating lease agreement as of June 30, 2019 are as follows:

Year Ending June 30,	Total
2020	7,967
2021	9,162
2022	10,537
2023	12,117
2024	2,322
Total	$ 42,105

Total operating lease rental expenditures of approximately $7,824 for the fiscal year ending June 30, 2019.

NOTE 12 – CONTINGENCIES

Litigation
The District is not involved in any litigation as of the date of this report.

Federal and State Grants
The District has received Federal and State grants and aids in current and past years for specific purposes that are subject to review and audit by the grantor agencies or their designee. Such audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. The District administration believes such disallowances, if any, will be immaterial.

NOTE 13 – SALARIES PAYABLE AND PAYROLL DEDUCTIONS PAYABLE

Contracts for teachers' salaries are payable in twelve monthly installments beginning in September. At fiscal year end, two months of salary expense remains to be paid under current contracts. In order to match that salary expense with the fiscal year in which it was earned, the expense and corresponding liability are posted to the accounts on June 30.

NOTE 14 – DEFICIT FUND BALANCES

The Community Service Fund had a deficit fund balance of $65,304 at June 30, 2019.

NOTE 15 – INTERFUND BALANCES AND OPERATING TRANSFERS

At June 30, 2019, the following inter-fund balances were owed between funds:

Advances from	Advances to	Amount	Purpose
General Fund	Community Service	$ 153,170	To cover cash deficit

The inter-fund balances will not be paid off within a year.

During fiscal year 2019 there were no operating transfers.

NOTE 16 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Excess of Expenditures over Budget

Budgetary control for governmental funds is established by each fund's total appropriations. The General Fund had $178,599 excess expenditures over budget.

NOTE 17 – RECENTLY ISSUED GASB STATEMENTS

GASB Statement No. 84, Fiduciary Activities (issued January 2017)—This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. This standard becomes effective for the District in fiscal year 2020. Management is currently in the process of evaluating the impact of this Statement on the District's financial statements.

NOTE 17 – RECENTLY ISSUED GASB STATEMENTS (Continued)

GASB Statement No. 87, Leases (issued June 2017)**—**The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provision of the contract. This standard becomes effective for the District in fiscal year 2021. Management is currently in the process of evaluating the impact of this Statement on the District's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 2884
SCHEDULE OF CHANGES IN
TOTAL OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2019

Total OPEB Liability		**2019**
Service Cost	$	35,414
Interest		23,125
Benefit Payments		(71,646)
Net Change in Total OPEB Liability		(13,107)
Total OPEB Liability - Beginning		680,265
Total OPEB Liability - Ending	$	667,158
Covered-Employee Payroll	$	2,553,495
Total OPEB Liability as a percentage of Covered-Employee Payroll		26.13%

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND

Measurement Date	District's Proportion (Percentage) of the Net Pension Liability (Asset)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) 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-Employee Payroll (c)	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a+b/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2018	0.0102%	$565,854	$18,500	$584,354	$675,599	86.49%	79.50%
June 30, 2017	0.0099%	632,009	7,924	639,933	685,245	93.39%	75.90%
June 30, 2016	0.0101%	820,070	10,782	830,852	635,926	130.65%	68.90%
June 30, 2015	0.0108%	559,712	0	559,712	629,581	88.90%	78.20%
June 30, 2014	0.0114%	535,515	0	535,515	632,966	84.60%	78.70%

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
TEACHERS RETIREMENT ASSOCIATION (TRA)

Measurement Date	District's Proportion (Percentage) of the Net Pension Liability (Asset)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) 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)	Employer's Covered-Employee Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a+b/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2018	0.0377%	$2,370,756	222,785	$2,593,541	$2,085,387	124.37%	78.07%
June 30, 2017	0.0377%	7,525,604	726,696	8,252,300	2,079,579	396.83%	51.57%
June 30, 2016	0.0387%	9,230,738	926,877	10,157,615	2,029,003	500.62%	44.88%
June 30, 2015	0.0405%	2,505,326	0	2,505,326	2,014,893	124.34%	76.80%
June 30, 2014	0.0477%	2,197,982	0	2,197,982	2,176,542	100.99%	81.50%

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
PUBLIC EMPLOYEES GENERAL EMPLOYEES RETIREMENT FUND

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)
June 30, 2019	$50,670	$50,670	-	$675,599	7.50%
June 30, 2018	51,394	51,394	-	685,245	7.50%
June 30, 2017	47,695	47,695	-	635,926	7.50%
June 30, 2016	47,219	47,219	-	629,581	7.50%
June 30, 2015	46,705	46,705	-	632,966	7.38%

Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
SCHEDULE OF DISTRICT'S CONTRIBUTIONS
TEACHERS RETIREMENT ASSOCIATION (TRA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)
June 30, 2019	$156,404	$156,404	-	$2,085,387	7.50%
June 30, 2018	155,968	155,968	-	2,079,579	7.50%
June 30, 2017	152,175	152,175	-	2,029,003	7.50%
June 30, 2016	151,117	151,117	-	2,014,893	7.50%
June 30, 2015	154,355	154,355	-	2,058,067	7.50%

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019

1. DEFINED BENEFIT PENSION PLANS

Public Employees Retirement Association

2019 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 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.
- 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.

2018 Changes:

Changes in Actuarial Assumptions:

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

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019

1. DEFINED BENEFIT PENSION PLANS (Continued)

Public Employees Retirement Association (Continued)

2017 Changes:

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2023 and 2.5 percent thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2016 Changes:

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

1. DEFINED BENEFIT PENSION PLANS (Continued)

Teachers Retirement Association

2019 Changes:

Change of Assumptions

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

2018 Changes:

Change of Assumptions

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

1. DEFINED BENEFIT PENSION PLANS (Continued)

Teachers Retirement Association (Continued)

2017 Changes:
The discount rate used to measure the total pension liability was 4.66 percent. This is a decrease from the discount rate at the prior measurement date of 8.00 percent. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2052 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01 percent was applied to periods on and after 2052, resulting in a SEIR of 4.66 percent.

2016 Changes:
Change of benefit terms: The DTRFA was merged into TRA on June 30, 2015.

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

OTHER REQUIRED REPORTS

Kinner & Company Ltd

Certified Public Accountants

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

Members of the Board of
Independent School District No. 2884

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 2884, Lamberton, Minnesota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Independent School District No. 2884's basic financial statements and have issued our report thereon dated November 15, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Independent School District No. 2884, Lamberton, Minnesota'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 Independent School District No. 2884, Lamberton, Minnesota's internal control. Accordingly, we do not express an opinion on the effectiveness of the Independent School District No. 2884, Lamberton, Minnesota's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Prior and Current Findings and Responses, as item 2019-001, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Independent School District No. 2884, Lamberton, Minnesota'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.*

Independent School District No. 2884's Response to Findings

The Independent School District No. 2884, Lamberton, Minnesota's response to the findings identified in our audit is described in the accompanying Schedule of Prior and Current Findings and Responses. The Independent School District No. 2884, Lamberton, Minnesota'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.

Minnesota Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 2884 failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts.* However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

Purpose of this Report

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

Kinner + Company Ltd.

Kinner & Company Ltd
Certified Public Accountants

November 15, 2019

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
SCHEDULE OF PRIOR AND CURRENT FINDINGS AND RESPONSES
JUNE 30, 2019

STATUS OF PRIOR AUDIT FINDINGS AND RECOMMENDATIONS

2018-001: A material weakness was reported due to the lack of segregation of duties within the organization. The finding continues to exist and has been restated as Finding 2019-001.

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
SCHEDULE OF PRIOR AND CURRENT FINDINGS AND RESPONSES
JUNE 30, 2019

CURRENT AUDIT FINDING AND RECOMMENDATION

Finding 2019-001: The District does not maintain an adequate segregation of duties among its accounting personnel.

Condition: Due to the limited number of accounting office personnel within the District, segregation of the accounting functions necessary to ensure adequate internal accounting control is not always possible. Management is aware of the risks associated with the lack of segregation of duties and has implemented various oversight procedures. No further segregation is possible without the hiring of additional staff and current budgetary considerations do not allow for this. This finding was reported during the prior fiscal year as well.

Effect: This could affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause: The District has limited staff in the accounting department. The same employee is performing multiple accounting functions.

Criteria: One basic objective of internal control is to provide for segregation of incompatible duties. In other words, responsibilities should be separated among employees so that a single employee is not able to authorize a transaction, record the transaction in accounts, and maintain responsibility for custody of the asset resulting from the transaction.

Recommendation: Since we acknowledge that it is not economically feasible for the District to hire additional staff, we recommend the District continue to monitor financial activity. We also recommend the School Board review and approve all bills, as well as approve bank reconciliations, which should be documented by initialing the bank reconciliation.

Corrective Action Plan (CAP):

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

2. <u>Actions Planned in Response to Finding</u>
   The following segregation of duties are presently in place:
   - The School Board reviews and approves all bills
   - The School Board and/or other personnel periodically review various expenditure reports for amounts, classifications and comparison to budget.

   Due to limited personnel, it is not practical to implement a complete segregation of duties. However, the District will continue to review its procedures to determine if any improvements can be made using the limited personnel available.

Finding 2019-001: The District does not maintain an adequate segregation of duties among its accounting personnel (continued).

3. Official Responsible for Ensuring Correction Action Plan
   The superintendent is responsible to carry out the plan.

4. Planned Completion Date for the Corrective Action Plan
   The corrective action will be implemented by June 30, 2019.

5. Plan to Monitor Completion of Corrective Action Plan
   The Board of Education is responsible to monitor the corrective action. The monitoring will be documented by the superintendent.

COMPLIANCE TABLE

INDEPENDENT SCHOOL DISTRICT NO. 2884
RED ROCK CENTRAL
LAMBERTON, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2019

		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				
Total Revenue*		5,765,851	5,765,852	(1)
Total Expenditures*		5,116,450	5,116,451	(1)
Non Spendable:				
460	Non Spendable Fund Balance			-
Restricted/Reserved:				
403	Staff Development	145,324	145,324	-
406	Health and 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			-
426	$25 Taconite			-
427	Disabled Accessibility			-
428	Learning and Development			-
434	Area Learning Center			-
435	Contracted Alt. Programs			-
436	State Approved Alt. Programs			-
438	Gifted and Talented	32,525	32,525	-
440	Teacher Development and Eval			-
441	Basic Skills Programs			-
448	Achievement and Integration			-
449	Safe Schools Levy	(68,498)	(68,498)	-
450	Prekindergarten			-
451	QZAB Payments			-
452	OPEB Liabilities not in Trust			-
453	Unfunded Sev and Retirement Levy			-
459	Basic Skills Ext Time	4,066	4,066	-
467	LTFM	(20,666)	(20,666)	-
472	Medical Assistance	5344	5,344	-
Restricted:				
464	Restricted Fund Balance			-
475	Title VII - Impact Aid			-
476	PILT			-
Committed:				
418	Committed for Separation	13,193	13,193	-
461	Committed Fund Balance			-
Assigned:				
462	Assigned Fund Balance			-
Unassigned:				
422	Unassigned Fund Balance	3,558,976	3,558,975	1
Reconciliation of General Ledger		14,552,565	14,552,566	(1)
02 FOOD SERVICE				
Total Revenue*		288,226	288,225	1
Total Expenditures*		238,310	238,309	1
Nonspendable:				
460	Non Spendable Fund Balance	1,195	1,195	-
Restricted/Reserved:				
452	OPEB Liabilities not in Trust			-
Reserved:				
464	Restricted Fund Balance	190,971	190,971	-
Unassigned:				
463	Unassigned Fund Balance		-	-
Reconciliation of Food Service		718,702	718,700	2
04 COMMUNITY SERVICE				
Total Revenue*		128,429	128,428	1
Total Expenditures*		126,854	126,852	2
Nonspendable:				
460	Non Spendable Fund Balance			-
Restricted/Reserved:				
426	$25 Taconite			-
431	Community Education	(54,393)	(54,393)	-
432	Early Childhood Family Education	96,407	96,407	-
440	Teacher Development and Eval			-
444	School Readiness	(112,184)	(112,184)	-
447	Adult Basic Education			-
452	OPEB Liabilities not in Trust			-
Restricted:				
464	Restricted Fund Balance	4,867	4,867	-
Unassigned:				
463	Unassigned Fund Balance			-
Reconciliation of Community Service Activity		189,980	189,977	3

		Audit	UFARS	Audit - UFARS
06 BUILDING CONSTRUCTION				
Total Revenue*				-
Total Expenditures*				-
Non Spendable:				
460	Non Spendable Fund Balance			-
Restricted/Reserved:				
407	Capital Projects Levy			-
413	Projects Funded by Cop			-
467	LTFM			-
Restricted:				
464	Restricted Fund Balance			-
Unassigned:				
463	Unassigned Fund Balance			-
Reconciliation of Building Construction		-	-	-
07 DEBT SERVICE				
Total Revenue*				-
Total Expenditures*				-
Non Spendable:				
460	Non Spendable Fund Balance			-
Restricted/Reserved:				
425	Bond Refunding			-
433	Max Effort Loan			-
451	QZAB Payments			
467	LTFM			
Restricted:				
464	Restricted Fund Balance			-
Unassigned:				
463	Unassigned Fund Balance			-
Reconciliation of Debt Service		-	-	-
08 TRUST				
Total Revenue*		1,000	1,000	-
Total Expenditures*		497	497	-
Unassigned:				
422	Net Assets	7,789	7,789	-
Reconciliation of Trust		9,286	9,286	-
20 INTERNAL SERVICE				
Total Revenue*				-
Total Expenditures*				-
Unassigned:				
422	Net Assets			-
Reconciliation of Internal Service		-	-	-
25 OPEB REVOCABLE TRUST				
Total Revenue*				-
Total Expenditures*				-
Unassigned:				
422	Net Assets			-
Reconciliation of OPEB revocable Trust		-	-	-
45 OPEB IRREVOCABLE TRUST				
Total Revenue*				-
Total Expenditures*				-
Unassigned:				
422	Net Assets			-
Reconciliation of OPEB Irrevocable Trust		-	-	-
47 OPEB DEBT SERVICE				
Total Revenue*				-
Total Expenditures*				-
Non Spendable:				
460	Non Spendable Fund Balance			-
Restricted:				
425	Bond Refunding			-
464	Restricted Fund Balance			-
Unassigned:				
463	Unassigned Fund Balance			-
Reconciliation of OPEB Debt Service		-	-	-

* Does not include fund transfers