



Financial Statements
June 30, 2019

**Independent School
District No. 2168**
New Richland, Minnesota

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Independent School District No. 2168

New Richland, Minnesota

List of Elected School Officials (Unaudited)

June 30, 2019

School Board

| <u>Name</u> | <u>Position</u> | <u>Term Expires</u> |
|----------------|------------------|---------------------|
| Rick Schultz | Chairperson | 2022 |
| Dan Schmidt | Vice Chairperson | 2020 |
| Karen Flatness | Clerk | 2020 |
| Travis Routh | Treasurer | 2022 |
| Luke Routh | Member | 2022 |
| Neil Schlaak | Member | 2020 |
| Rich Mueller | Member | 2022 |

Administration

| | |
|----------------------|------------------|
| Dale Carlson | Superintendent |
| Karla Christopherson | Business Manager |



Independent Auditor's Report

Members of the School Board
Independent School District No. 2168
New Richland, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2168, New Richland, Minnesota (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The introductory section, combining fund schedules, uniform financial accounting and reporting standards compliance table, and the schedule of changes in the student activity cash balances are presented for purposes of additional analysis and are not a required part of the financial statements.

The combining fund schedules, uniform financial accounting and reporting standards compliance table, and schedule of changes in the student activity cash balances are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the Legal Compliance Audit Guide prepared by the Office of the State Auditor pursuant to Minn. Stat. §6.65, we have also issued a report dated October 1, 2019 on our consideration of the District's compliance with aspects of the provisions of the Minnesota Legal Compliance Audit Guide for School Districts. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with the Office of the State Auditor's Minnesota Legal Compliance Audit Guide for School Districts in considering the District's compliance with certain regulatory requirements pursuant to Minn. Stat. §6.65.



Mankato, Minnesota

October 1, 2019

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

NRHEG

This section of Independent School District No. 2168 – NRHEG Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of a reporting model that is required by the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Statement No. 34 contains significant requirements that enhance financial reporting. These requirements are also designed to make annual reports easier for the public to understand and more useful to stakeholders. Specifically, Statement No. 34 establishes reporting requirements that include additional financial statements, expanded disclosure, and supplemental information, including this MD&A, which contains certain comparative information between the current fiscal year and the prior fiscal year.

FINANCIAL HIGHLIGHTS

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

- Overall revenues were \$11,306,894 while overall expenditures totaled \$9,300,172.
- The district's overall fund balance decreased by \$38,127.
- The District's net outstanding long-term debt decreased by \$512,102 or 16.05 percent.

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 other required reports. The basic financial statements include two kinds of statements that present different views of the District:

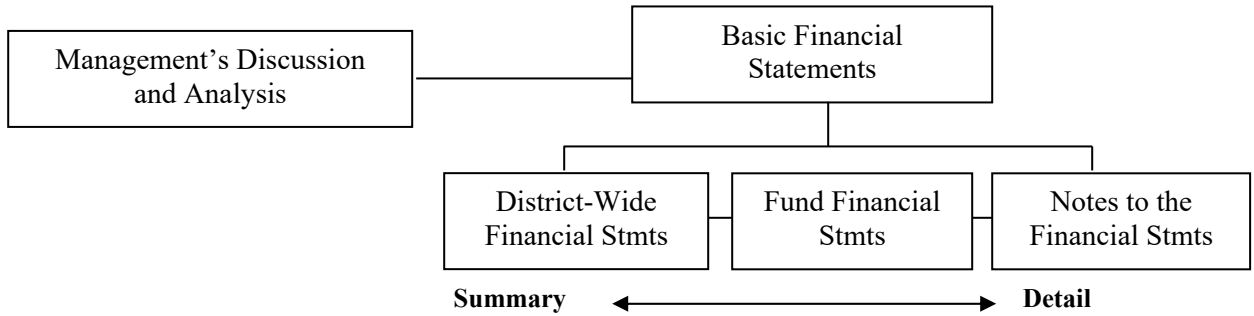
- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's overall financial status.
- The remaining statements are *fund-financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom resources belong.

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 relate to one another.

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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



| Fund Financial Statements | | | |
|--|--|---|---|
| | District-Wide | Governmental Funds | Fiduciary Funds |
| Scope | Entire District (except fiduciary funds) | The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance | Instances in which the District administers resources on behalf of someone else, such as scholarship programs |
| Required financial statements | <ul style="list-style-type: none"> • Statement of Net Position • Statement of Activities | <ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures, and Changes in Fund Balances | <ul style="list-style-type: none"> • Statement of fiduciary net position |
| Accounting Basis and Measurement Focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial focus | Accrual accounting and economic resources focus |
| Type of Asset/Liability Information | All assets and liabilities, both financial and capital, short-term and long-term | Generally assets expected to be used up and liabilities that come during the year or soon thereafter; no capital assets or long-term liabilities included | All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can |
| 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 the related liability is due and payable | All additions and deductions during the year, regardless of when cash is received or paid |

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

District-wide Statements

The District-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows/inflows of resources, and liabilities. 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 District-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets, deferred outflows/inflows of resources, and liabilities – are one way to measure the District's financial health or position.

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

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

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

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

Fund Financial Statements

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

The District has two kinds of funds:

Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or difference) between them.

Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others. 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. The District's fiduciary activities (consisting only of agency funds held for others) are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

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

Net Position

The District's net position was \$4,012,981 on June 30, 2019. This represents an increase when compared to the \$2,006,259 balance on June 30, 2018.

Statement of Net Position
June 30, 2019 and 2018

| | 2019 | 2018 |
|----------------------------------|--------------|--------------|
| Assets | | |
| Current assets | \$ 4,755,486 | \$ 4,849,142 |
| Capital assets | 12,225,508 | 12,605,238 |
| Total assets | 16,980,994 | 17,454,380 |
| Deferred outflows of Resources | 7,316,242 | 9,705,312 |
| Liabilities | | |
| Other liabilities | 825,209 | 1,434,092 |
| Long-term liabilities | 8,874,720 | 19,806,448 |
| Total liabilities | 9,699,929 | 21,240,540 |
| Deferred Inflows of Resources | 10,556,770 | 3,912,893 |
| Net Position | | |
| Net investment in capital assets | 9,778,538 | 9,949,173 |
| Restricted for specific purposes | 573,908 | 424,511 |
| Unrestricted | (6,311,909) | (8,367,425) |
| Total net position | \$ 4,040,537 | \$ 2,006,259 |

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

Change in Statement of Activities

Statement of Revenues, Expenses and Changes in Net Position
June 30, 2019 and 2018

| | 2019 | 2018 |
|--|--------------|--------------|
| Revenues | | |
| Program revenues | | |
| Charges for service | \$ 675,214 | \$ 717,893 |
| Operating grants and contributions | 19,918 | 20,805 |
| General | | |
| Property taxes | 1,327,291 | 1,352,621 |
| Aids and payments from state and other | 9,092,995 | 8,789,890 |
| Miscellaneous revenues | 219,032 | 146,791 |
| Total revenues | 11,334,450 | 11,028,000 |
| Expenses | | |
| Administration | 654,677 | 606,642 |
| District support services | 279,255 | 328,128 |
| Regular instruction | 3,438,534 | 6,664,466 |
| Vocational instruction | 230,174 | 224,850 |
| Special education instruction | 1,738,533 | 1,703,274 |
| Community education and services | 241,156 | 229,554 |
| Instructional support services | 375,518 | 416,819 |
| Pupil support services | 1,369,533 | 1,464,999 |
| Sites and buildings | 887,318 | 1,007,137 |
| Fiscal and other fixed-cost programs | 85,474 | 118,275 |
| Total expenses | 9,300,172 | 12,764,144 |
| Change in Net Position | 2,034,278 | (1,736,144) |
| Net Position - Beginning | 2,006,259 | 3,742,403 |
| Net Position - Ending | \$ 4,040,537 | \$ 2,006,259 |

Changes in Net Position. The District's total revenues were \$11,306,894 for the year ended June 30, 2019.

Unallocated federal and state aid along with property taxes accounted for 91.92 percent of the total revenue for the year. Operating and capital grants and contributions for specific programs contributed 0.18 percent and the remaining 7.91 percent from fees charged for services and miscellaneous sources.

The total cost of all programs and services was \$9,300,172. The District's expenses are predominantly related to student education and student educational support, 79.50 percent. The District's administrative activities accounted for 7.04 percent of the total costs. Total revenues were more than total expenses, increasing net position by \$2,006,722 from last year.

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

General Fund

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

The following schedule presents a summary of General Fund Revenues.

| | Year Ended June 30, | | Amount of Increase (Decrease) | Percent Increase (Decrease) |
|--------------------------------|----------------------|---------------------|-------------------------------------|-----------------------------------|
| | 2019 | 2018 | | |
| Local property taxes | \$ 900,678 | \$ 876,680 | \$ 23,998 | 2.7% |
| Other local sources | 515,589 | 526,857 | (11,268) | -2.1% |
| State sources | 8,443,524 | 8,011,820 | 431,704 | 5.4% |
| Federal sources | 344,763 | 378,054 | (33,291) | -8.8% |
| Miscellaneous | 52,720 | 22,459 | 30,261 | 134.7% |
| Total General Fund revenues | <u>\$ 10,257,274</u> | <u>\$ 9,815,870</u> | <u>\$ 441,404</u> | 4.5% |

Total General Fund revenue decreased by approximately \$413,848 or 4.2% from the previous year. Basic general education revenue is determined by a state per student funding formula and consists of an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change on revenue. The majority of the increase in revenue for 2019 was due primarily to the TRA/PERA special funding contributions as part of GASB 68.

The following schedule presents a summary of General Fund expenditures.

| | Year Ended June 30, | | Amount of Increase (Decrease) | Percent Increase (Decrease) |
|------------------------------------|----------------------|---------------------|-------------------------------------|-----------------------------------|
| | 2019 | 2018 | | |
| Salaries and benefits | \$ 7,523,405 | \$ 7,402,845 | \$ 120,560 | 1.6% |
| Purchased services | 1,345,019 | 1,343,734 | 1,285 | 0.1% |
| Supplies and materials | 601,452 | 619,298 | (17,846) | -2.9% |
| Capital expenditures | 353,236 | 480,980 | (127,744) | -26.6% |
| Other expenditures | 380,444 | 75,147 | 305,297 | 406.3% |
| Total General Fund expenditures | <u>\$ 10,203,556</u> | <u>\$ 9,922,004</u> | <u>\$ 281,552</u> | 2.8% |

Total General Fund expenditures decreased by \$281,552 or 2.8% from the previous year. The overall increase in the current fiscal year resulted primarily from the TRA/PERA special funding contributions related to GASB 68.

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

General Fund Budgetary Highlights

The District's general fund results when compared to the final budget are:

- Actual revenues were approximately \$313,423 *more than* budget as a result of the required GASB 68 entry related to TRA/PERA special funding situations.

- Actual expenditures were approximately \$74,233 *more than* budget due to large increase in the TRA/PERA special funding entry in the current year.

Debt Service Fund

The Debt Service Fund revenues were \$344,834 and expenditures were \$367,795, thereby decreasing fund balance by \$22,961 as expenditures exceeded revenues.

Other Non-Major Funds

The Food Service Fund incurred an increase in the fund balance of \$2,456. The Community Service Fund incurred an increase in the fund balance of \$7,071, increasing fund balance to \$100,345. The Building Construction Fund had a decrease in fund balance of \$51,161, decreasing fund balance to (\$51,161).

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

By the end of fiscal year 2019, the District had invested \$27,688,523 in a broad range of capital assets, including school buildings, land, computer and audio-visual equipment, and other equipment for various instructional programs. Total depreciation expense for the year was \$742,331. More detailed information about capital assets can be found in the notes to the financial statements.

Capital Assets Governmental Activities
June 30, 2019 and 2018

| | 2019 | 2018 |
|--------------------------|---------------|---------------|
| Land | \$ 263,308 | \$ 211,320 |
| Construction in progress | 51,161 | 16,200 |
| Buildings | 19,291,768 | 19,285,397 |
| Improvements | 1,236,275 | 1,155,143 |
| Vehicles | 811,417 | 865,595 |
| Equipment | 6,034,594 | 5,861,222 |
| Accumulated Depreciation | (15,463,015) | (14,789,639) |
| Total capital assets | \$ 12,225,508 | \$ 12,605,238 |

Long-Term Debt

At year end the District had \$2,677,968 of long term debt consisting of bonded indebtedness of \$1,810,000, capital lease payable of \$636,970, and severance payable of \$230,998.

The District has \$6,183,910 in net pension liability at June 30, 2019.

The District has \$530,589 in total OPEB liability at June 30, 2019.

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

Factors Bearing on the District's Future:

- Enrollment continues to be an area of concern weighing on the District's financial future. Since Minnesota school districts are paid on pupil units served, any decline in enrollment results in less revenue. The District's student enrollment, which determines the pupil units for the purpose of funding, has been on a slight, but manageable decline.
- For years, many Minnesota school district referendums for facilities maintenance projects did not pass. The Legislature, recognizing an important need to maintain district facilities, requested input on how to create a more equitable and sustainable financing process for public school facilities. As a result, the School Facilities Financing Working Group was created and provided recommendations. New legislation was passed during a special session in July 2015 that provides revenue increases for school districts not currently eligible to participate in the Alternative Facilities Bonding and Levy program. The new program, referred to as Long Term Facilities Maintenance (LTFM) Revenue, includes a three year phased approach beginning in FY 2017. Districts will receive up to \$193 per pupil of revenue the first year, then in FY 2018, districts can obtain up to \$292 per pupil and up to \$380 per pupil in FY 2019. These figures are prorated for districts with an average building age of 35 years or less. This replaces the former Health and Safety and Deferred Maintenance revenue programs and associated funding. This additional funding will provide dollars for our district to pay for ongoing deferred maintenance expenditures.
- Labor costs account for over 80% of the District expenses. As cost of benefits continue to skyrocket, it becomes more important during the negotiations of labor contracts that the District be cognizant to this potential unknown long-term liability. The District must continue to follow enrollment trends and maintain a responsible balance between staffing and student enrollment.

Contacting the District's Financial Management:

This financial report is designed to provide the District's citizens, taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or would like additional information, contact the District Office, ISD No. 2168, 306 Ash Ave S, New Richland, MN 56072.

Independent School District No. 2168
New Richland, Minnesota
Statement of Position
June 30, 2019

| | |
|---|---------------------|
| Assets | |
| Cash and investments | \$ 3,000,990 |
| Receivables | |
| Current property taxes | 654,071 |
| Delinquent property taxes | 10,700 |
| Accounts | 15,126 |
| Due from other governmental units | 1,067,097 |
| Inventory | 7,502 |
| | <u>4,755,486</u> |
| | |
| Capital assets not being depreciated | |
| Land | 263,308 |
| Construction in progress | 51,161 |
| Capital assets, net of accumulated depreciation | |
| Land improvements | 519,886 |
| Buildings | 10,186,165 |
| Equipment and eligible pupil vehicles | 1,204,988 |
| Total capital assets, net of depreciation | <u>12,225,508</u> |
| | |
| Total Assets | <u>16,980,994</u> |
| | |
| Deferred Outflows of Resources | |
| Other postemployment benefits plan | 56,637 |
| Pension plans | 7,259,605 |
| Total Deferred Outflows of Resources | <u>7,316,242</u> |
| | |
| Liabilities | |
| Accounts payable | 40,819 |
| Construction payable | 51,161 |
| Interest payable | 14,836 |
| Due to other governmental units | 4,654 |
| Payroll deductions | 155,758 |
| Unearned revenue | 40,234 |
| Noncurrent liabilities | |
| Due within one year - bonds, capital leases, and severance payable | 517,747 |
| Due in more than one year - bonds, capital lease, and severance payable | 2,160,221 |
| Due in more than one year - net pension liability | 6,183,910 |
| Due in more than one year - other postemployment benefits | 530,589 |
| Total Liabilities | <u>9,699,929</u> |
| | |
| Deferred Inflows of Resources | |
| Unavailable revenue-property taxes | 1,108,372 |
| Pension plans | 9,448,398 |
| Total Deferred Inflows of Resources | <u>10,556,770</u> |
| | |
| Net Position | |
| Net investment in capital assets | 9,778,538 |
| Restricted | 573,908 |
| Unrestricted | (6,311,909) |
| Total Net Position | <u>\$ 4,040,537</u> |

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

Independent School District No. 2168
New Richland, Minnesota
Statement of Activities
Year Ended June 30, 2019

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|---|---------------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | |
| Governmental Activities | | | | |
| Administration | \$ 654,677 | \$ - | \$ - | \$ (654,677) |
| District support services | 279,255 | - | - | (279,255) |
| Regular instruction | 3,438,534 | - | - | (3,438,534) |
| Vocational instruction | 230,174 | - | - | (230,174) |
| Special education instruction | 1,738,533 | 99,240 | - | (1,639,293) |
| Community education and services | 241,156 | 134,670 | - | (106,486) |
| Instructional support services | 375,518 | - | - | (375,518) |
| Pupil support services | 1,369,533 | 441,304 | 19,918 | (908,311) |
| Sites and buildings | 887,318 | - | - | (887,318) |
| Fiscal and other fixed cost programs | 85,474 | - | - | (85,474) |
| Total governmental activities | <u>\$ 9,300,172</u> | <u>\$ 675,214</u> | <u>\$ 19,918</u> | <u>(8,605,040)</u> |
| General Revenues | | | | |
| Property taxes | | | | 1,327,291 |
| Federal aid | | | | 497,255 |
| State aid not restricted to specific purposes | | | | 8,595,740 |
| Gain on sale of equipment | | | | 45,110 |
| Miscellaneous | | | | <u>173,922</u> |
| Total general revenues | | | | <u>10,639,318</u> |
| Changes in Net Position | | | | 2,034,278 |
| Net Position - Beginning | | | | <u>2,006,259</u> |
| Net Position - Ending | | | | <u>\$ 4,040,537</u> |

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

Independent School District No. 2168

New Richland, Minnesota

Balance Sheet – Governmental Funds

June 30, 2019

| | General | Debt Service | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------|--------------------------------|--------------------------------|
| Assets | | | | |
| Cash and investments | \$ 2,547,725 | \$ 228,818 | \$ 224,447 | \$ 3,000,990 |
| Receivables | | | | |
| Current property taxes | 458,880 | 156,186 | 39,005 | 654,071 |
| Delinquent property taxes | 7,780 | 2,395 | 525 | 10,700 |
| Accounts | 15,126 | - | - | 15,126 |
| Due from Minnesota Department of Education | 826,754 | 14,354 | 3,611 | 844,719 |
| Due from Federal through Minnesota Department of Education | 222,378 | - | - | 222,378 |
| Inventory | - | - | 7,502 | 7,502 |
| Total Assets | \$ 4,078,643 | \$ 401,753 | \$ 275,090 | \$ 4,755,486 |
| Liabilities | | | | |
| Salaries payable | \$ 18,786 | \$ - | \$ 6,854 | \$ 25,640 |
| Accounts payable | 21,952 | - | 18,867 | 40,819 |
| Construction payable | - | - | 51,161 | 51,161 |
| Due to other governmental units | 4,654 | - | - | 4,654 |
| Payroll deductions | 130,118 | - | - | 130,118 |
| Unearned revenue | 14,496 | - | 25,738 | 40,234 |
| Total Liabilities | 190,006 | - | 102,620 | 292,626 |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue-property taxes | 783,078 | 248,304 | 76,990 | 1,108,372 |
| Unavailable revenue-delinquent taxes | 7,780 | 2,395 | 525 | 10,700 |
| Total deferred inflows of resources | 790,858 | 250,699 | 77,515 | 1,119,072 |
| Fund Balances | | | | |
| Nonspendable | - | - | 7,502 | 7,502 |
| Restricted | 296,681 | 151,054 | 138,614 | 586,349 |
| Committed | 35,310 | - | - | 35,310 |
| Unassigned | 2,765,788 | - | (51,161) | 2,714,627 |
| Total Fund Balances | 3,097,779 | 151,054 | 94,955 | 3,343,788 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 4,078,643 | \$ 401,753 | \$ 275,090 | \$ 4,755,486 |

Independent School District No. 2168

New Richland, Minnesota

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

June 30, 2019

| | | | | | | | | | | | | | | | | | | | | |
|--|---------------|-------------|-----------|----------------|--|---------|-----------------------|--|-----------|-----------------|--|---------|-----------|--|---------|--|--|---------|--|-------------|
| Total Fund Balances for Governmental Funds | \$ | 3,343,788 | | | | | | | | | | | | | | | | | | |
| <p>Amounts reported for governmental activities in the statement of net positions are different because:</p> | | | | | | | | | | | | | | | | | | | | |
| <p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p> | | 12,225,508 | | | | | | | | | | | | | | | | | | |
| <p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p> | | 10,700 | | | | | | | | | | | | | | | | | | |
| <p>Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.</p> | | (14,836) | | | | | | | | | | | | | | | | | | |
| <p>Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.</p> | | (2,188,793) | | | | | | | | | | | | | | | | | | |
| <p>Deferred outflows and inflows of resources related to OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.</p> | | 56,637 | | | | | | | | | | | | | | | | | | |
| <p>Noncurrent liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period, and therefore are not reported as fund liabilities. All liabilities - both current and noncurrent - are reported in the statement of net position. Balances at year-end are:</p> | | | | | | | | | | | | | | | | | | | | |
| <table border="0" style="width: 100%;"> <tr> <td style="width: 60%;">Bonds payable</td> <td style="width: 10%; text-align: right;">\$</td> <td style="width: 30%; text-align: right;">1,810,000</td> </tr> <tr> <td>Capital leases</td> <td></td> <td style="text-align: right;">636,970</td> </tr> <tr> <td>Net pension liability</td> <td></td> <td style="text-align: right;">6,183,910</td> </tr> <tr> <td>OPEB obligation</td> <td></td> <td style="text-align: right;">530,589</td> </tr> <tr> <td>Severance</td> <td></td> <td style="text-align: right;">230,998</td> </tr> <tr> <td></td> <td></td> <td style="text-align: right; border-top: 1px solid black;">230,998</td> </tr> </table> | Bonds payable | \$ | 1,810,000 | Capital leases | | 636,970 | Net pension liability | | 6,183,910 | OPEB obligation | | 530,589 | Severance | | 230,998 | | | 230,998 | | (9,392,467) |
| Bonds payable | \$ | 1,810,000 | | | | | | | | | | | | | | | | | | |
| Capital leases | | 636,970 | | | | | | | | | | | | | | | | | | |
| Net pension liability | | 6,183,910 | | | | | | | | | | | | | | | | | | |
| OPEB obligation | | 530,589 | | | | | | | | | | | | | | | | | | |
| Severance | | 230,998 | | | | | | | | | | | | | | | | | | |
| | | 230,998 | | | | | | | | | | | | | | | | | | |
| Total Net Position for Governmental Activities | \$ | 4,040,537 | | | | | | | | | | | | | | | | | | |

Independent School District No. 2168

New Richland, Minnesota

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds

Year Ended June 30, 2019

| | General | Debt Service | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|-------------------|--------------------------------|--------------------------------|
| Revenues | | | | |
| Local property tax levies | \$ 900,678 | \$ 200,951 | \$ 59,567 | \$ 1,161,196 |
| Other local and county sources | 515,589 | 344 | 136,027 | 651,960 |
| State sources | 8,443,524 | 143,539 | 83,176 | 8,670,239 |
| Federal sources | 344,763 | - | 236,697 | 581,460 |
| Local sales and insurance recovery | 52,720 | - | 216,703 | 269,423 |
| Total Revenues | 10,257,274 | 344,834 | 732,170 | 11,334,278 |
| Expenditures | | | | |
| Administration | 654,619 | - | - | 654,619 |
| District support services | 279,148 | - | - | 279,148 |
| Regular instruction | 4,936,916 | - | - | 4,936,916 |
| Vocational instruction | 227,272 | - | - | 227,272 |
| Special education instruction | 1,722,883 | - | - | 1,722,883 |
| Community education and services | - | - | 239,900 | 239,900 |
| Instructional support services | 392,409 | - | - | 392,409 |
| Pupil support services | 882,247 | - | 482,743 | 1,364,990 |
| Sites and buildings | 1,062,986 | - | 51,161 | 1,114,147 |
| Fiscal and other fixed cost programs | 45,075 | - | - | 45,075 |
| Debt service | | | | |
| Principal | - | 325,000 | - | 325,000 |
| Interest and fiscal charges | - | 42,795 | - | 42,795 |
| Total Expenditures | 10,203,555 | 367,795 | 773,804 | 11,345,154 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 53,719 | (22,961) | (41,634) | (10,876) |
| Other Financing Sources (Uses) | | | | |
| Sales of equipment | 305 | - | - | 305 |
| Net Change in Fund Balances | 54,024 | (22,961) | (41,634) | (10,571) |
| Fund Balances - Beginning | 3,043,755 | 174,015 | 136,589 | 3,354,359 |
| Fund Balances - Ending | \$ 3,097,779 | \$ 151,054 | \$ 94,955 | \$ 3,343,788 |

Independent School District No. 2168

New Richland, Minnesota

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2019

Total Net Change in Fund Balances for Governmental Funds \$ (10,571)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period those amounts are:

| | |
|--|-----------|
| Capital outlay | 372,452 |
| Depreciation expense | (742,331) |
| Net effect of disposal of capital assets | (30,451) |

The governmental funds report severance costs as expenditures when paid, on the other hand, the statement of activities reports severance costs as expenditures as the employees earn the compensated absences. In the statement of net position, the payment of severance results in a reduction of the liability. 19,846

The governmental funds report repayment of bond principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability. 325,000

In governmental funds, OPEB liabilities are measured by the amount of resources used. However, in the statement of activities, an increase in an OPEB liability is based on the amount earned by the employees during the period. This amount is the net effect of these differences. 555

In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense. 1,909,659

The governmental funds report repayment of capital lease principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability. 167,256

Long-term debt interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. 2,395

Property taxes levied and due in previous fiscal years that have not been received as of the end of the current fiscal year are recorded as deferred inflows - delinquent taxes (not considered available revenues) in the governmental funds. In the statement of activities, these taxes are considered revenue in the period for which they are levied. (132)

Change in Net Position of Governmental Activities \$ 2,013,678

Independent School District No. 2168
New Richland, Minnesota
Statement of Fiduciary Net Position – Fiduciary Fund
June 30, 2019

| | <u>Private Purpose Trust Fund</u> |
|-----------------------------|---------------------------------------|
| Assets | |
| Cash and investments | \$ 113,984 |
| Interest receivable | 339 |
| | <hr/> |
| Total Assets | \$ 114,323 |
| | <hr/> <hr/> |
| Net Position | |
| Restricted for scholarships | \$ 114,323 |
| | <hr/> <hr/> |

Independent School District No. 2168
New Richland, Minnesota
Statement of Changes in Fiduciary Net Position – Fiduciary Fund
Year Ended June 30, 2019

| | Private Purpose Trust Fund |
|----------------------------------|--------------------------------|
| Additions | |
| Other local and county revenues | <u>\$ 683</u> |
| Deductions | |
| Pupil support services | <u> 3,000</u> |
| Change in net position | (2,317) |
| Net Position - Beginning of Year | <u> 116,640</u> |
| Net Position - End of Year | <u><u> 114,323</u></u> |

Note 1 - Summary of Significant Accounting Policies

The Independent School District No. 2168 (District) is a school district governed by a board elected by eligible voters of the District. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant School District accounting policies are described below.

A. Financial Reporting Entity

The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District does not have any blended or discretely presented component units.

The District is the basic level of government which has oversight responsibility and control over all activities related to the public school education in the District's area. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB pronouncements, since board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements.

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers most revenues to be available if they are collected within 60 days of the end of the current fiscal period, except as stated below. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for the following: (1) commodity inventory items are recorded when received, (2) interest and principal on long-term debt are recorded when paid, and (3) claims and judgments, group health claims, and compensated absences are recorded as expenditures when paid with expendable available financial resources. Prepaid items are recorded for approved disbursements made in advance of the year in which the item is budgeted.

Property tax revenues for all funds, which are payable by property owners in a calendar year, are recognized in the fiscal year beginning July 1 of that calendar year. State revenues are recognized in the year to which they apply according to Minnesota statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or Federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year. Revenue from other school districts is generally recognized when related expenditures occur. All other revenue items are considered to be measurable and available as stated above.

The District reports unavailable revenue on its' governmental fund financial statements. Unavailable revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, unavailable revenue is removed from the financial statements and revenue is recognized. Unearned revenues arise when resources are received by the District before it has legal claim to them, as when property tax levies, food service revenue, or grant monies are received prior to the incurrence of qualifying expenditures. This type of unearned revenue is recorded on the District's government-wide and governmental fund financial statements.

The District reports the following major governmental funds:

- *General fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is used to account for educational activities, District instructional and student support programs, and expenditures for the superintendent, district administration, normal operations and maintenance, pupil transportation, capital expenditures, and legal school district expenditures not specifically designated to be accounted for in any other fund. The District's Student Activity Funds of \$35,310 are under board control and are reported and audited in the general fund as committed funds.
- *Debt Service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the District reports the following fund types:

- *Fiduciary fund* is used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.
 - *Private-Purpose Trust fund* is used to account for resources legally held in trust by agreements where the School Board has accepted the responsibility to serve as trustee.

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Fund Balance

1. Cash and Investments

Cash balances of the District's funds are combined (pooled) and invested to the extent available in various deposits and investments authorized by Minnesota State Statutes. Each fund shares in the investment earnings according to its average cash and investments balance. Cash includes amounts in demand deposits as well as short-term investments with an original maturity date within three months of the date acquired by the District. Investments include amounts in the Minnesota School District Liquid Asset Fund Plus (MSDLAF), an external investment pool, which in accordance with GASB 79 are valued at amortized cost, which approximates fair value. GASB Statement No. 79 requires a comparison of the MSDLAF+ Portfolio's investments on an amortized cost basis to fair values determined on a market value basis at least monthly.

2. Receivables

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, state and federal aids, and revenue from other Minnesota school districts. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible.

Interest and certain receivables are recorded as revenue in the year that the interest is earned and is available to pay liabilities of the current period.

On or before September 15th of each year, the School Board certifies to the county auditor the dates that it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date. All school districts must hold public hearings on their proposed property tax levies. Also, at this time the School Board certifies its proposed property tax levy to the county auditor for collection in the following year.

Beginning on November 29th and through December 20th of each year, the District is required by state law to hold its public hearing on its proposed budgets and proposed property tax levies for the taxes payable in the following year. On or before five business days after December 20th, the School Board certifies its final adopted property taxes payable the following year to the county auditor. If the District has not certified its final property tax by this time, its property tax will be the amount levied by it in the preceding year.

In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Agricultural land taxes may be paid on May 15 and November 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to Districts three times a year, in January, June, and November.

Property tax revenue is recorded under the intact levy concept whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning with the year of collection. Current taxes receivable represent taxes levied in 2018 which are not payable until 2019 less amounts received before June 30, 2019. Delinquent taxes receivable represents levies collectible during 2018 and prior years. Delinquent taxes are recorded as unavailable revenue. Taxes levied for subsequent years represent current taxes receivable, which are levied in 2018, but not payable until 2019 and are not expendable by the District until the 2019-2020 school year, adjusted for the property tax shift amount.

3. Inventories and Commodities

All inventories are expended when consumed rather than when purchased and are valued at the lower of cost or market, using the first-in/first-out (FIFO) method. United States Department of Agriculture commodities received are recorded as revenue at the fair market value of such commodities and included in the food service fund revenue and expenditures when received. Unused commodities at year end are included in inventories of food.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the District is depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|---|--------------|
| Buildings | 50 |
| Plumbing and electrical | 30 |
| Building improvements interior, portable classrooms, and fire system | 25 |
| Heating and ventilation system, long-term admin software, furniture and fixtures, outdoor equipment, roofing, and site improvements | 20 |
| Custodial equipment, grounds equipment, kitchen equipment, and machinery and tools | 15 |
| All other equipment, short-term admin software, and long-term instructional software | 10 |
| Vehicles and buses | 8 |
| Carpet replacement | 7 |
| Computer hardware, copiers, short-term instructional software, and library books | 5 |

5. 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. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

Bond premiums and discounts are deferred and amortized over the life of the bonds and issuance costs are expensed in the period incurred. In the fund financial statements, governmental fund types recognize premiums received on debt issuances 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.

Severance Payable - It is the District's policy to permit employees to accumulate earned but unused sick pay benefits. Qualifying employees may be compensated for unused sick leave upon termination of employment under terms of severance pay.

403(b) Salary Deferral/Matching Retirement Plan - Independent School District No. 2168 provides for early retirement severance pay which qualifies as a termination benefit. Any teacher who has twenty or more years of service to the District and was employed before the 1998-99 school year and has not elected to participate in the 403(b) matching fund can receive severance pay based on a formula outlined in the master agreement between the District and Education Minnesota - NRHEG. An employee who has ten or more years of service to the District can receive severance pay based on a formula outlined in the labor agreement between the District and the American Federation of State, County, and Municipal Employees, AFL-CIO Local Union No. 2438. This is included in the liability for severance payable.

6. 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 the 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.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 5.

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.

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District has three items that qualify for reporting in this category. They are the contributions made to pension plans and other postemployment benefit plan after the measurement date and prior to the fiscal year-end, and changes in net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category. The District reports unavailable revenues from property taxes on the government-wide statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

8. Net Position and Fund Equity

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.
- Restricted fund balances represent a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which is the School Board through an ordinance or resolution.
- Assigned fund balance represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed. The School Board has the authority to assign a fund balance.
- Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The District strives to maintain as a minimum unassigned general fund balance of 22% to 28% of the general fund annual operating budget. 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 (first to last): restricted, committed, assigned, and unassigned.

E. Inter-Fund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses in the government-wide financial statements and fund financial statements. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Transfers have been removed from the government-wide financial statements.

F. Property Taxes

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

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

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

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund financial statements because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

Note 2 - Stewardship, Compliance, and Accountability

A. Budgetary Information

The District adopts an annual budget for all funds in accordance with Minnesota State Statutes. The budget is prepared on the modified accrual basis of accounting. Before July 1, the proposed budget is presented to the School Board for review. The School Board holds public hearings and a final budget must be prepared and adopted no later than one week after the School Board approves the audited financial statements and has published the final budget in the local newspaper. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The actual revenues, expenditures, and transfers for the year ended June 30, 2019, have been compared to the District's budget for the year where applicable. Variances in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Any revisions that alter total expenditures of any fund must be approved by the School Board.

Budgetary control is maintained by fund, at the object of expenditure category level within each program, and in compliance with state requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the School Board. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (1) adequate funds were appropriated, (2) the expenditure is still necessary, and (3) funds are available. Budgeted amounts are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year end. The School Board made several supplemental budgetary appropriations throughout the year.

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2019, expenditures exceeded appropriations in the general fund (the legal level of budgetary control) by \$74,233. These over expenditures were funded by greater than anticipated revenues.

C. Deficit Fund Balance

For the year ended June 30, 2019, the nonmajor governmental funds reported a deficit fund balance of \$51,161 in the Building Construction Fund. This deficit will be eliminated by bond proceeds in the future.

Note 3 - Detailed Notes on All Funds

A. Cash and Investments

1. Cash

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the School Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing the collateral.

Custodial Credit Risk—Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2019, none of the District's bank balances were exposed to custodial credit risk.

2. Investments

As of June 30, 2019, the District had an investment in Minnesota School District Liquid Asset Fund (MSDLAF) with a fair value of \$861,565. MSDLAF is a money market account and is available to service the District's financial needs immediately. The Minnesota School District Liquid Asset Fund 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 2a7. According to GASB 79, the fair value of the position in the pool is the same as the value of the pool's shares.

Custodial Credit Risk—Investments. The investment in the MSDLAF is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40. The District does not have an investment policy for custodial credit risk.

Interest Rate Risk. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The District may invest funds as authorized by Minnesota Statutes Section 118A.04. All funds in the MSDLAF are invested in accordance with Minnesota Statutes Section 475.66. Each Minnesota school district owns a pro-rata share of each investment which is held in the name of the funds. The District has no investment policy that would further limit its investment choices.

Concentration of Credit Risk. The District places no limit on the amount the District may invest in any one issuer. More than 5% of the District's investments are invested in the MSDLAF (100%).

The following table presents the District's deposit and investment balances at June 30, 2019:

| Type | Fair Value | Investment Maturities (in Years) | |
|---|--------------|----------------------------------|------------|
| | | N/A | 1 - 5 |
| Cash and cash equivalents | | | |
| Minnesota School District Liquid Asset Fund | \$ 861,565 | \$ 861,565 | \$ - |
| Deposits | 2,140,043 | 2,140,043 | - |
| Investments | | | |
| Certificates of Deposit | 113,366 | - | 113,366 |
| | \$ 3,114,974 | \$ 3,001,608 | \$ 113,366 |

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

| | |
|--|--------------|
| Cash and investments - Statement of Net Position | \$ 3,000,990 |
| Cash and investments - Statement of Fiduciary Net Position | 113,984 |
| | \$ 3,114,974 |

B. Receivables

Receivables as of the year end for the District are reported on the Statement of Net Position and the Balance Sheet.

The Balance Sheet reports unavailable revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The Statement of Net Position and the Balance Sheet also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of unearned revenue reported was as follows:

| | |
|--|-----------------------|
| | Received but Unearned |
| Deferred revenue (general fund) | \$ 14,496 |
| Prepaid food service meals (food service fund) | 9,225 |
| Prepaid enrollment (community service fund) | 16,513 |
| | \$ 40,234 |

C. Capital Assets

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|----------------------------------|------------|
| Administration | \$ 58 |
| District support services | 107 |
| Regular instruction | 632,805 |
| Vocational education instruction | 2,901 |
| Special education instruction | 5,799 |
| Community services | 1,257 |
| Instructional support services | 3,510 |
| Pupil support services | 65,894 |
| Sites and buildings | 30,000 |
| Total Depreciation Expense | \$ 742,331 |

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|--------------|-----------|-------------------|
| Governmental Activities | | | | |
| Capital Assets, not being depreciated | | | | |
| Land | \$ 211,320 | \$ 51,988 | \$ - | \$ 263,308 |
| Construction in progress | 16,200 | 55,561 | 20,600 | 51,161 |
| Total Capital Assets, not being depreciated | 227,520 | 107,549 | 20,600 | 314,469 |
| Capital Assets, being depreciated | | | | |
| Land improvements | 1,155,143 | 81,132 | - | 1,236,275 |
| Buildings | 19,285,397 | 6,371 | - | 19,291,768 |
| Equipment | 5,861,222 | 173,372 | - | 6,034,594 |
| Eligible pupil vehicles | 865,595 | 24,628 | 78,806 | 811,417 |
| Total Capital Assets, being depreciated | 27,167,357 | 285,503 | 78,806 | 27,374,054 |
| Less Accumulated Depreciation | | | | |
| Land improvements | 678,546 | 37,843 | - | 716,389 |
| Buildings | 8,700,938 | 404,665 | - | 9,105,603 |
| Equipment | 4,766,774 | 250,771 | - | 5,017,545 |
| Eligible pupil vehicles | 643,381 | 49,052 | 68,955 | 623,478 |
| Total Accumulated Depreciation | 14,789,639 | 742,331 | 68,955 | 15,463,015 |
| Total Capital Assets Being Depreciated, Net | 12,377,718 | (456,828) | 9,851 | 11,911,039 |
| Governmental Activities Capital Assets, Net | \$ 12,605,238 | \$ (349,279) | \$ 30,451 | \$ 12,225,508 |

D. Operating Leases

The District entered into a noncancelable four year lease agreement for school buses, beginning August 2018, with a fifth year optional extension. Rent is paid in annual installments of \$26,515 and was paid off during the current year. Total cost for the lease was \$26,515 for the year ended June 30, 2019. The District also entered into a noncancelable three year lease agreement for chromebooks, beginning September 2018. Rent is paid in annual installments of \$3,058 until the lease agreement is met. Total cost for the lease was \$3,058 for the year ended June 30, 2019. Lease payments are made from the general fund. The future minimum lease payments for these leases are as follows:

| Years Ending June 30, | | |
|--------------------------|----|-----------|
| 2020 | \$ | 29,947 |
| 2021 | | 29,947 |
| 2022 | | 26,515 |
| | | \$ 86,409 |

E. Capital Leases

The District entered into a lease agreement in December 2007 as lessee for the financing of energy cost savings projects. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The lease is payable in monthly installments of \$12,351 over seven years through November 2023 at a 4.25% interest rate.

The District entered into a lease agreement in July 2017 as lessee for the financing of computer technology equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The lease is payable in four annual installments of \$21,998 through October 2020 at a 4.61% interest rate.

Capital leases are paid from the general fund.

Annual debt service requirements to maturity for capital lease payments are as follows:

| Years Ending June 30, | | |
|---|----|----------|
| 2020 | \$ | 170,216 |
| 2021 | | 170,216 |
| 2022 | | 148,217 |
| 2023 | | 148,217 |
| 2024 | | 61,757 |
| Total Capital Lease Payments | | 698,623 |
| Less: Amount Representing Interest | | (61,653) |
| Present Value of Capital Lease Payments | \$ | 636,970 |

The assets acquired through capital leases are as follows:

| | |
|--|---------------------|
| Asset: | |
| Energy Savings Upgrades | \$ 5,199,531 |
| SHI Chromebooks | 81,917 |
| Accumulated Depreciation - Energy Savings Upgrades | (987,911) |
| Accumulated Depreciation - SHI Chromebooks | (24,575) |
| Total Value of Assets Acquired | <u>\$ 4,268,962</u> |

F. Long-Term Debt

General Obligation Bonds. The District issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District, and are paid from the debt service fund. The District issued General obligation bonds currently outstanding are as follows:

| Bond Description | Final Maturities | Interest Rate | Original Principal | Outstanding Balance |
|---|------------------|---------------|---------------------|---------------------|
| General Obligation Capital Facilities Bonds of 2013A | 2/1/2028 | 0.30% - 2.50% | \$ 1,215,000 | \$ 755,000 |
| General Obligation Crossover Refunding Bonds of 2016A | 2/1/2023 | 2.00% | <u>1,300,000</u> | <u>1,055,000</u> |
| | | | <u>\$ 2,515,000</u> | <u>\$ 1,810,000</u> |

Annual debt service requirements to maturity for general obligation bonds are as follows:

| Years Ending June 30, | Governmental Activities | |
|--------------------------|-------------------------|-------------------|
| | Principal | Interest |
| 2020 | \$ 335,000 | \$ 36,045 |
| 2021 | 340,000 | 30,025 |
| 2022 | 350,000 | 23,625 |
| 2023 | 350,000 | 17,025 |
| 2024 | 85,000 | 10,025 |
| 2025-2028 | <u>350,000</u> | <u>21,488</u> |
| Total | <u>\$ 1,810,000</u> | <u>\$ 138,233</u> |

Severance Payable. The District has 12 current employees who have qualified for severance benefits. Current year severance payments, as were prior year severance payments, were made from the general fund of the governmental funds.

Annual debt service requirements to maturity for severance payments are as follows:

| Years Ending June 30, | |
|--------------------------|-------------------|
| 2020 | \$ 37,370 |
| 2021 | 79,473 |
| 2022 | 4,733 |
| 2023 | 3,095 |
| 2024 | 3,095 |
| 2025-2029 | 90,196 |
| 2030-2032 | 13,036 |
| Total | <u>\$ 230,998</u> |

Changes in Long-Term Debt. During the year ended June 30, 2019, the following changes occurred in liabilities reported in the government-wide financial statements:

| | Balance July 1, 2018 | Additions | Deletions | Balance June 30, 2019 | Due Within One Year |
|--------------------------|-------------------------|------------------|-------------------|--------------------------|------------------------|
| General obligation bonds | \$ 2,135,000 | \$ - | \$ 325,000 | \$ 1,810,000 | \$ 335,000 |
| Severance | 250,844 | 21,903 | 41,749 | 230,998 | 37,370 |
| Capital lease | 804,226 | - | 167,256 | 636,970 | 145,377 |
| | <u>\$ 3,190,070</u> | <u>\$ 21,903</u> | <u>\$ 534,005</u> | <u>\$ 2,677,968</u> | <u>\$ 517,747</u> |

Legal Debt Margin. Minnesota State Statutes do not allow net debt (as defined in Minn. Stat. Para. 475.51 subd. 4) to exceed 15 percent of the actual market value of all taxable property within the District. The District's market value per the School Tax Report 2018 Payable 2019 was \$363,440,200.

G. Fund Balance

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

The following is a summary of fund balances as of June 30, 2019:

| | <u>General</u> | <u>Debt Service</u> | <u>Other Government Funds</u> | <u>Totals</u> |
|----------------------------------|---------------------|---------------------|---------------------------------------|---------------------|
| Nonspendable | | | | |
| Inventory | \$ - | \$ - | \$ 7,502 | \$ 7,502 |
| Restricted | | | | |
| Staff development | 41,111 | - | - | 41,111 |
| Long-term facilities maintenance | 233,367 | - | - | 233,367 |
| Medical assistance | 22,203 | - | - | 22,203 |
| ECFE | - | - | 45,289 | 45,289 |
| School readiness | - | - | 7,818 | 7,818 |
| Community education | - | - | 31,822 | 31,822 |
| Community service | - | - | 15,416 | 15,416 |
| Debt service | - | 151,054 | - | 151,054 |
| Food service | - | - | 38,269 | 38,269 |
| Total restricted | <u>296,681</u> | <u>151,054</u> | <u>138,614</u> | <u>586,349</u> |
| Committed | | | | |
| Student activities | <u>35,310</u> | - | - | <u>35,310</u> |
| Unassigned | <u>2,765,788</u> | - | <u>(51,161)</u> | <u>2,714,627</u> |
| Total fund balance | <u>\$ 3,097,779</u> | <u>\$ 151,054</u> | <u>\$ 94,955</u> | <u>\$ 3,343,788</u> |

Independent School District No. 2168

New Richland, Minnesota

Notes to Financial Statements

June 30, 2019

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

| | GASB Balance | Reconciling Transfers | UFARS Balance |
|--------------------------------------|-----------------------------|-----------------------------|-----------------------------|
| | <u> </u> | <u> </u> | <u> </u> |
| Nonspendable | | | |
| Inventory | \$ 7,502 | \$ - | \$ 7,502 |
| Restricted | | | |
| Staff development | 41,111 | - | 41,111 |
| Teacher development and evaluation | - | (751) | (751) |
| Safe schools | - | (7,522) | (7,522) |
| Long-term facilities maintenance | 233,367 | - | 233,367 |
| Medical assistance | 22,203 | - | 22,203 |
| Food service | 38,269 | - | 38,269 |
| Community education | 31,822 | - | 31,822 |
| Early childhood and family education | 45,289 | - | 45,289 |
| School readiness | 7,818 | - | 7,818 |
| Community service | 15,416 | - | 15,416 |
| Capital project | - | (51,161) | (51,161) |
| Debt service | 151,054 | - | 151,054 |
| Total Restricted | <u>586,349</u> | <u>(59,434)</u> | <u>526,915</u> |
| Committed | | | |
| Student activities | <u>35,310</u> | <u>-</u> | <u>35,310</u> |
| Unassigned | <u>2,714,627</u> | <u>59,434</u> | <u>2,774,061</u> |
| Total Fund Balance | <u>\$ 3,343,788</u> | <u>\$ -</u> | <u>\$ 3,343,788</u> |

Note 4 - Other Post-Employment Benefits

A. Plan Description

Plan Description - All employees are allowed upon meeting the eligibility requirements under Minn. Stat. 471.61 subd, 2b, to participate in the District’s health insurance plan after retirement. This plan covers active and retired employees. Benefit provisions are established through negotiations between the District and the union representing District employees and are renegotiated at the end of each contract period. The implicit rate subsidy is only until Medicare eligibility. The retiree health plan does not issue a publicly available financial report. Contract groups receive other post-retirement benefits as follows:

- *Teachers* – Teachers reaching age 55 with 3 years of service are allowed to access the group insurance plan.
- *All Others* – All other employees reaching age 55 with 5 years of service are allowed to access the group insurance plan.

The retiree health plan does not issue a publicly available financial report.

B. Benefits Provided

The contract groups have access to other post-retirement benefits of blended medical premiums of \$621 for single and \$1,776 for family coverage. The implicit rate subsidy is only until Medicare eligibility. See plan descriptions above for medical and life subsidized benefits.

C. Employees Covered by Benefit Terms

At the valuation date of July 1, 2017, the following employees were covered by the benefit terms:

| | |
|--|-----|
| Inactive employees or beneficiaries currently receiving benefit payments | 6 |
| Inactive employees entitled to but not yet receiving benefit payments | - |
| Active employees | 104 |
| | 110 |
| | 110 |

D. Total OPEB Liability

The District’s total OPEB liability of \$530,589 was measured as of July 1, 2018, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

E. Actuarial Assumptions

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

| | |
|--|--|
| Inflation | 2.50 percent |
| Salary increases | 3.00 percent (4.00% used to bring pay forward to the valuation date) |
| Healthcare cost trend rates | 6.50 percent as of July 1, 2017 grading to 5.00% over 6 years |
| Retiree plan participation | |
| Future retirees electing coverage: | |
| Pre-65 subsidy available | n/a |
| Pre-65 subsidy not available | 50% |
| Percent of married retirees electing spouse coverage | 25% |

Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-Year Municipal Bond Yield.

Mortality rates were based on the RP-2014 White Collar Mortality Tables (de-trended to 2006) and then projected beyond the valuation date using scale MP-2016.

The actuarial assumptions used in the July 1, 2017 valuation were based input from a variety of published sources of historical and projected future financial data.

F. Changes in Total OPEB Liability

| | |
|------------------------------|-------------------|
| Balance at June 30, 2018 | \$ 516,748 |
| Changes from the Prior Year: | |
| Service Cost | 37,935 |
| Interest Cost | 18,147 |
| Benefit Payments | (42,241) |
| | <hr/> |
| Net Change | 13,841 |
| | <hr/> |
| Balance at June 30, 2019 | <u>\$ 530,589</u> |

G. Sensitivity of the Total OPEB Liability to Changes in Discount Rate and 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 a discount rate 1 percentage point lower and 1 percentage point higher than the current discount rate:

| | <u>1% Decrease in Discount Rate</u> | <u>Discount Rate</u> | <u>1% Increase in Discount Rate</u> |
|----------------------|---|----------------------|---|
| Discount rate | 2.40% | 3.40% | 4.40% |
| Total OPEB Liability | \$ 563,924 | \$ 530,589 | \$ 499,425 |

The following represents 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 healthcare cost trend rate 1 percentage point lower and 1 percentage point higher than the current healthcare cost trend rates:

| | <u>1% Decrease in Healthcare Trend Rate</u> | <u>Selected Healthcare Trend Rate</u> | <u>1% Increase in Healthcare Trend Rate</u> |
|----------------------|---|---|---|
| Medical trend rate | 5.50% decreasing to 4.00% over 6 years | 6.50% decreasing to 5.00% over 6 years | 7.50% decreasing to 6.00% over 6 years |
| Total OPEB Liability | \$ 480,415 | \$ 530,589 | \$ 589,588 |

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$56,082. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Employer contributions made after the measurement date | <u>\$ 56,637</u> | <u>\$ -</u> |

\$56,637 reported as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020.

Note 5 - Defined Benefit Pension Plans

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

1. Public Employees Retirement Association (PERA)

A. Plan Description

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

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

B. Benefits Provided

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

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989 receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each additional year. Under Method 2, the annuity accrual rate is 1.7 percent for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. 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.

C. Contribution Rate

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.50% for Coordinated Plan members. The District’s contributions to the GERS for the year ended June 30, 2019, were \$109,869. The District’s contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

At June 30, 2019, the District reported a liability of \$1,181,637 for its proportionate share of the General Employees Fund’s net pension liability. The District’s net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state’s contribution meets the definition of a special funding situation. The State of Minnesota’s proportionate share of the net pension liability associated with the District totaled \$38,762. 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. The District’s proportion was 0.0213% at the end of the measurement period and 0.0210% for the beginning of the period.

| | |
|---|----------------------------|
| District’s proportionate share of net pension liability | \$ 1,181,637 |
| State’s proportionate share of the net pension liability associated with the District | <u>38,762</u> |
| Total | <u><u>\$ 1,220,399</u></u> |

For the year ended June 30, 2019, the District recognized pension expense of \$73,315 for its proportionate share of GERS’s pension expense. In addition, the District recognized an additional \$9,039 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$16 million to the General Employees Fund.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 30,855 | \$ 35,596 |
| Changes in actuarial assumptions | 116,586 | 131,490 |
| Difference between projected and actual investment earnings | - | 113,218 |
| Change in proportion and differences between contributions made and District's proportionate share of contributions | 14,364 | 41,893 |
| District's contributions to GERP subsequent to the measurement date | 109,869 | - |
| Total | \$ 271,674 | \$ 322,197 |

\$109,869 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Years Ended June 30, | Pension Expense Amount |
|----------------------|------------------------------|
| 2020 | \$ 30,675 |
| 2021 | (76,125) |
| 2022 | (90,279) |
| 2023 | (24,663) |
| 2024 | - |

E. Actuarial Assumptions

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

| <u>Assumptions</u> | <u>GERF</u> |
|------------------------------|----------------|
| Inflation | 2.50% per year |
| Active Member Payroll Growth | 3.25% per year |
| Investment Rate of Return | 7.50% per year |

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 the General Employees Plan for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year 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. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

The following changes in actuarial assumptions and plan provisions occurred in 2018:

Changes in Actuarial Assumptions:

- The morality 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.

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

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

F. Discount Rate

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

G. Pension Liability Sensitivity

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

| | 1% Decrease in Discount Rate | Discount Rate | 1% Increase in Discount Rate |
|---|---------------------------------|---------------|---------------------------------|
| GERF discount rate | 6.50% | 7.50% | 8.50% |
| District's proportionate share of the GERF net pension liability | \$ 1,920,311 | \$ 1,181,637 | \$ 571,882 |

H. Pension Plan Fiduciary Net Position

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

2. Teachers Retirement Association (TRA)

A. Plan Descriptions

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

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

B. Benefits Provided

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

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

Tier 1 Benefits

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

With these provisions:

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

or

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 the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

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

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

C. Contribution Rate

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

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

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

| | <i>in thousands</i> |
|--|---------------------|
| 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 <i>Schedule of Employer and Non-Employer Allocations</i> | \$ 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. Actuarial Assumptions

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

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

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

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

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The “Difference Between Expected and Actual Experience,” “Changes of Assumptions,” and “Changes in Proportion” use the amortization period of 6 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is over a period of 5 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 least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increase 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 additions, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

E. Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. This is an increase from the discount rate at the prior measurement date of 5.12 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2018 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

F. Net Pension Liability

On June 30, 2019, the District reported a liability of \$5,002,273 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District’s proportionate share was 0.0796% at the end of the measurement period and 0.0792% for the beginning of the year.

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

| | |
|---|---------------------|
| District’s proportionate share of net pension liability | <u>\$ 5,002,273</u> |
| State’s proportionate share of the net pension liability associated with the District | <u>\$ 469,844</u> |

For the year ended June 30, 2019, the District recognized pension expense of (\$3,408,168). It also recognized (\$327,921) as an increase to pension expense for the support provided by direct aid.

Independent School District No. 2168
New Richland, Minnesota
Notes to Financial Statements
June 30, 2019

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

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual economic experience | \$ 1,725 | \$ 100,375 |
| Changes in actuarial assumptions | 6,274,132 | 8,519,604 |
| Difference between projected and actual investment earnings | - | 398,537 |
| Change in proportion and differences between contributions made and District's proportionate share of contributions | 368,669 | 107,685 |
| District's contributions to TRA subsequent to the measurement date | <u>343,405</u> | <u>-</u> |
| Total | <u>\$ 6,987,931</u> | <u>\$ 9,126,201</u> |

\$343,405 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

| <u>Years Ended June 30,</u> | <u>Pension Expense Amount</u> |
|-----------------------------|---------------------------------------|
| 2020 | \$ 423,647 |
| 2021 | 280,766 |
| 2022 | (23,094) |
| 2023 | (1,824,416) |
| 2024 | (1,338,578) |

G. Pension Liability Sensitivity

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

| | 1% Decrease in Discount Rate | Discount Rate | 1% Increase in Discount Rate |
|--|---------------------------------|---------------|---------------------------------|
| TRA discount rate | 6.50% | 7.50% | 8.50% |
| District's proportionate share of the TRA net pension liability | \$ 7,938,587 | \$ 5,002,273 | \$ 2,579,833 |

The NRHEG Public Schools ISD No. 2168's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis and Minneapolis School District.

H. Pension Plan Fiduciary Net Position

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

Note 6 - 403(b) Plan

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). Employees of the District are eligible to participate in the Plan beginning their fourth year of service with the District. Some employees are eligible to receive a match of employee contributions up to the qualifying amount set forth in their contract. Contributions are invested in tax deferred annuities hosted by a vendor from whom the District has obtained. The District's contributions for the years ended June 30, 2019, 2018, and 2017 are \$60,551, \$61,705, and \$58,372, respectively. The related employee contributions were \$122,371, \$134,972, and \$153,106, for the years ended June 30, 2019, 2018, and 2017, respectively.

Note 7 - Other Information

A. Contingent Liabilities

The District participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant. Based on past experience, the District believes that any disallowed costs as a result of such audits will be immaterial.

B. Affiliated Organizations

The District, in conjunction with South Central Service Cooperative (SCSC), created a joint powers agreement for group employee benefits and other financial and risk management services. The SCSC's board is defined in the Joint Powers Agreement. A member may withdraw upon written notice given to the Board. In the event of dissolution, amounts received from participants to the benefit fund reserve shall be used exclusively for the payment of benefits to or on behalf of enrolled employees, payment of reasonable expenses, and payment of taxes. Separate financial statements of the affiliated organization may be obtained from SCSC. The affiliated organization is in good financial health. It is not anticipated to be a burden on the District.

C. Construction Commitment

The City has entered into contracts for renovation of the school building. The contracts have a total value of approximately \$9,347,000. As of June 30, 2019, construction has not yet begun, and the full amount is outstanding as a construction commitment. The project is expected to be completed in Spring 2021.

D. Subsequent Events

In July 2019, the District entered into a capital lease agreement for buses. The buses will be put in use during fiscal year 2020. The lease calls for annual principal and interest payments of \$24,575 for four years. Payments will commence in September 2019 through September 2022.

In July 2019, the District also entered into operating leases agreement for Chromebooks and iPad tablets. The technology equipment will be put in use during fiscal year 2020. The Chromebook lease calls for annual principal and interest payments of \$38,382 for three years, with payments ranging from July 2019 to July 2021. The iPad tablets lease calls for annual payments of \$20,998 for four years, beginning July 2019 and ending July 2022.

Note 8 - Issued But Non-Effective Accounting Pronouncements

The first statement issued but not yet implemented that will significantly affect the District is Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. This statement will be implemented at the District in the year ended June 30, 2020.

The second statement issued but not yet implemented that will significantly affect the District is Statement No. 87, *Leases*. 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 will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This statement will be implemented at the District in the year ended June 30, 2021.

The final statement issued but not yet implemented that will significantly affect the District is Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period. This statement will be implemented at the District in the year ended June 30, 2021.

Management has not yet determined the effect these pronouncements will have on the District's financial statements.



Required Supplementary Information
June 30, 2019

Independent School District No. 2168
New Richland, Minnesota

Independent School District No. 2168

New Richland, Minnesota

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

Year Ended June 30, 2019

Schedule of Changes in District's Total OPEB Liability and Related Ratios, Last 10 Fiscal years *

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-------------------|
| Service cost | \$ 37,935 | \$ 36,830 |
| Interest | 18,147 | 17,772 |
| Benefit payments | <u>(42,241)</u> | <u>(47,084)</u> |
| Net change in total OPEB liability | 13,841 | 7,518 |
| Total OPEB liability - beginning | <u>516,748</u> | <u>509,230</u> |
| Total OPEB liability - ending | <u>\$ 530,589</u> | <u>\$ 516,748</u> |
| Covered-employee payroll | \$ 4,926,847 | \$ 4,783,347 |
| Total OPEB liability as a percentage of covered-employee payroll | 10.77% | 10.80% |

*GASB Statement No. 75 require ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Notes to the Schedule of Changes in the District's Total OPEB Liability and Related Ratios

- No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Independent School District No. 2168

New Richland, Minnesota

Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

Year Ended June 30, 2019

Schedule of Employer's Share of Net Pension Liability

Last 10 Fiscal Years *

| Pension Plan | Measurement Date | Employer's Proportion (Percentage) of the Net Pension Liability (Asset) | Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a) | State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b) | Total (d) (a+b) | Employer's Covered Payroll (e) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll (a/e) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|--------------|------------------|---|--|--|-----------------|--------------------------------|--|--|
| PERA | 6/30/2018 | 0.0213% | \$ 1,181,637 | \$ 38,762 | \$ 1,220,399 | \$ 1,421,547 | 83.1% | 79.5% |
| | 6/30/2017 | 0.0210% | \$ 1,340,626 | \$ 16,832 | \$ 1,357,458 | \$ 1,357,533 | 98.8% | 75.9% |
| | 6/30/2016 | 0.0220% | \$ 1,786,291 | \$ 23,343 | \$ 1,809,634 | \$ 1,363,253 | 131.0% | 68.9% |
| | 6/30/2015 | 0.0221% | \$ 1,145,337 | N/A | \$ 1,145,337 | \$ 1,291,240 | 88.7% | 78.2% |
| | 6/30/2014 | 0.0240% | \$ 1,127,400 | N/A | \$ 1,127,400 | \$ 1,346,698 | 83.7% | 78.8% |
| TRA | 6/30/2018 | 0.0796% | \$ 5,002,273 | \$ 469,844 | \$ 5,472,117 | \$ 4,413,573 | 113.3% | 78.1% |
| | 6/30/2017 | 0.0792% | \$ 15,809,757 | \$ 1,529,052 | \$ 17,338,809 | \$ 4,272,240 | 370.1% | 51.6% |
| | 6/30/2016 | 0.0773% | \$ 18,437,894 | \$ 1,851,578 | \$ 20,289,472 | \$ 4,022,227 | 458.4% | 44.9% |
| | 6/30/2015 | 0.0803% | \$ 4,967,349 | \$ 608,958 | \$ 5,576,307 | \$ 4,079,787 | 121.8% | 76.8% |
| | 6/30/2014 | 0.0844% | \$ 3,889,091 | \$ 273,479 | \$ 4,162,570 | \$ 3,903,735 | 99.6% | 81.5% |

Schedule of Employer's Contributions

Last 10 Fiscal Years *

| Pension Plan | Fiscal Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | Covered Payroll (d) | Contributions as a Percentage of Covered Payroll (b/d) |
|--------------|--------------------|---------------------------------------|--|--|---------------------|--|
| PERA | 6/30/2019 | \$ 109,869 | \$ 109,869 | \$ - | \$ 1,464,920 | 7.5% |
| | 6/30/2018 | \$ 106,616 | \$ 106,616 | \$ - | \$ 1,421,547 | 7.5% |
| | 6/30/2017 | \$ 101,815 | \$ 101,815 | \$ - | \$ 1,357,533 | 7.5% |
| | 6/30/2016 | \$ 102,244 | \$ 102,244 | \$ - | \$ 1,363,253 | 7.5% |
| | 6/30/2015 | \$ 96,843 | \$ 96,843 | \$ - | \$ 1,291,240 | 7.5% |
| TRA | 6/30/2019 | \$ 343,405 | \$ 343,405 | \$ - | \$ 4,459,805 | 7.7% |
| | 6/30/2018 | \$ 331,018 | \$ 331,018 | \$ - | \$ 4,413,573 | 7.5% |
| | 6/30/2017 | \$ 320,418 | \$ 320,418 | \$ - | \$ 4,272,240 | 7.5% |
| | 6/30/2016 | \$ 301,667 | \$ 301,667 | \$ - | \$ 4,022,227 | 7.5% |
| | 6/30/2015 | \$ 305,984 | \$ 305,984 | \$ - | \$ 4,079,787 | 7.5% |

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

Changes in Actuarial Assumptions:

- The morality 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.

Independent School District No. 2168
New Richland, Minnesota
Budgetary Comparison Schedule: General Fund
Year Ended June 30, 2019

| | Budgeted Amounts | | Actual Amounts | Variance With Final Budget |
|---|---------------------|---------------------|---------------------|----------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Local property tax levies | \$ 932,208 | \$ 912,208 | \$ 900,678 | \$ (11,530) |
| Other local and county sources | 479,100 | 489,100 | 515,589 | 26,489 |
| State sources | 8,184,067 | 8,136,067 | 8,443,524 | 307,457 |
| Federal sources | 356,500 | 331,120 | 344,763 | 13,643 |
| Local sales and insurance recovery | 10,800 | 47,800 | 52,720 | 4,920 |
| Total Revenues | 9,962,675 | 9,916,295 | 10,257,274 | 340,979 |
| Expenditures | | | | |
| Administration | 667,428 | 663,948 | 654,619 | 9,329 |
| District support services | 296,959 | 292,560 | 279,148 | 13,412 |
| Regular instruction | 4,724,150 | 4,729,622 | 4,936,916 | (207,294) |
| Vocational instruction | 180,235 | 175,259 | 227,272 | (52,013) |
| Special education instruction | 1,801,071 | 1,806,771 | 1,722,883 | 83,888 |
| Instructional support services | 416,318 | 409,818 | 392,409 | 17,409 |
| Pupil support services | 881,121 | 909,749 | 882,247 | 27,502 |
| Sites and buildings | 1,106,219 | 1,096,595 | 1,062,986 | 33,609 |
| Fiscal and other fixed cost programs | 43,000 | 45,000 | 45,075 | (75) |
| Total Expenditures | 10,116,501 | 10,129,322 | 10,203,555 | (74,233) |
| Deficiency of Revenues Under Expenditures | (153,826) | (213,027) | 53,719 | 266,746 |
| Other Financing Sources Sales of equipment | - | - | 305 | 305 |
| Net Change in Fund Balances | \$ (153,826) | \$ (213,027) | 54,024 | \$ 267,051 |
| Fund Balances - Beginning | | | 3,043,755 | |
| Fund Balances - Ending | | | \$ 3,097,779 | |



Supplementary Information
June 30, 2019

Independent School District No. 2168
New Richland, Minnesota

Independent School District No. 2168
 New Richland, Minnesota
 General Fund
 Schedule of Changes in UFARS Fund Balances
 June 30, 2019

| | Fund Balance Beginning of Year | Net Change in Fund Balance | Fund Balance End of Year |
|---|--------------------------------------|-------------------------------|-----------------------------|
| Restricted for staff development | \$ 23,392 | \$ 17,719 | \$ 41,111 |
| Restricted for health and safety | (2,548) | 2,548 | - |
| Restricted for teacher development and evaluation | (751) | - | (751) |
| Restricted for safe schools | 3,371 | (10,893) | (7,522) |
| Restricted for long-term facilities maintenance | 74,927 | 158,440 | 233,367 |
| Restricted for medical assistance | 29,584 | (7,381) | 22,203 |
| Committed for student activities | 39,689 | (4,379) | 35,310 |
| Unassigned | <u>2,876,091</u> | <u>(102,030)</u> | <u>2,774,061</u> |
| | <u>\$ 3,043,755</u> | <u>\$ 54,024</u> | <u>\$ 3,097,779</u> |

Independent School District No. 2168
 New Richland, Minnesota
 Combining Balance Sheet – Nonmajor Governmental Funds
 June 30, 2019

| | Special Revenue | | Capital Projects | Total |
|--|------------------|----------------------|--------------------------|-------------------|
| | Food Service | Community Service | Building Construction | Nonmajor Funds |
| Assets | | | | |
| Cash and investments | \$ 66,133 | \$ 158,314 | \$ - | \$ 224,447 |
| Receivables | | | | |
| Current property taxes | - | 39,005 | - | 39,005 |
| Delinquent property taxes | - | 525 | - | 525 |
| Due from Minnesota Department of Education | - | 3,611 | - | 3,611 |
| Inventory | 7,502 | - | - | 7,502 |
| Total Assets | \$ 73,635 | \$ 201,455 | \$ - | \$ 275,090 |
| Liabilities | | | | |
| Salaries payable | \$ 216 | \$ 6,638 | \$ - | \$ 6,854 |
| Accounts payable | 18,423 | 444 | - | 18,867 |
| Construction payable | - | - | 51,161 | 51,161 |
| Unearned revenue | 9,225 | 16,513 | - | 25,738 |
| Total Liabilities | 27,864 | 23,595 | 51,161 | 102,620 |
| Deferred Inflows of Resources | | | | |
| Unavailable revenue-property taxes | - | 76,990 | - | 76,990 |
| Unavailable revenue-delinquent taxes | - | 525 | - | 525 |
| Total deferred inflows of resources | - | 77,515 | - | 77,515 |
| Fund Balances | | | | |
| Nonspendable | 7,502 | - | - | 7,502 |
| Restricted | 38,269 | 100,345 | - | 138,614 |
| Unassigned | - | - | (51,161) | (51,161) |
| Total Fund Balances | 45,771 | 100,345 | (51,161) | 94,955 |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | \$ 73,635 | \$ 201,455 | \$ - | \$ 275,090 |

Independent School District No. 2168

New Richland, Minnesota

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds
Year Ended June 30, 2019

| | Special Revenue | | Projects | Total |
|--|------------------|-------------------|-----------------------|------------------|
| | Food Service | Community Service | Building Construction | Nonmajor Funds |
| Revenues | | | | |
| Local property tax levies | \$ - | \$ 59,567 | \$ - | \$ 59,567 |
| Other local and county sources | 1,197 | 134,830 | - | 136,027 |
| State sources | 30,602 | 52,574 | - | 83,176 |
| Federal sources | 236,697 | - | - | 236,697 |
| Local sales and insurance recovery | 216,703 | - | - | 216,703 |
| Total Revenues | 485,199 | 246,971 | - | 732,170 |
| Expenditures | | | | |
| Community education and services | - | 239,900 | - | 239,900 |
| Pupil support services | 482,743 | - | - | 482,743 |
| Sites and buildings | - | - | 51,161 | 51,161 |
| Total Expenditures | 482,743 | 239,900 | 51,161 | 773,804 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 2,456 | 7,071 | (51,161) | (41,634) |
| Fund Balances - Beginning | 43,315 | 93,274 | - | 136,589 |
| Fund Balances - Ending | \$ 45,771 | \$ 100,345 | \$ (51,161) | \$ 94,955 |

Independent School District No. 2168
 New Richland, Minnesota
 Student Activity Treasurer's Report
 Year Ended June 30, 2019

| <u>Activity Account</u> | <u>Balance 7/1/18</u> | <u>Receipts and and Transfers</u> | <u>Disbursements and Transfers</u> | <u>Balance 6/30/19</u> |
|-------------------------------|---------------------------|---------------------------------------|--|----------------------------|
| High School Student Council | \$ 210 | \$ 5,480 | \$ 4,810 | \$ 880 |
| Letterclub | 8,731 | 15,594 | 16,603 | 7,722 |
| Spanish Club | 200 | 9,160 | 9,360 | - |
| Cheer | 3,327 | 3,633 | 3,765 | 3,195 |
| FFA | 13,453 | 28,910 | 34,147 | 8,216 |
| Middle School Student Council | 2,734 | 1,253 | 498 | 3,489 |
| Drama Club | 200 | 783 | 737 | 246 |
| School Store | 621 | 1,738 | 1,422 | 937 |
| 12th Grade | 468 | 2,503 | 2,596 | 375 |
| Elementary Picture Fund | 3,758 | 4,703 | 4,104 | 4,357 |
| Elementary PBIS | 3,747 | 100 | 194 | 3,653 |
| High School PBIS | 2,240 | - | - | 2,240 |
| | <u>\$ 39,689</u> | <u>\$ 73,857</u> | <u>\$ 78,236</u> | <u>\$ 35,310</u> |

Independent School District No. 2168
New Richland, Minnesota
Uniform Financial Accounting and Reporting Standards Compliance Table
Year Ended June 30, 2019

| | Audit | UFARS | Audit - UFARS | | Audit | UFARS | Audit - UFARS |
|--|--------------|---------------------|---------------|---|------------|-------------------|---------------|
| 01 GENERAL FUND | | | | 06 BUILDING CONSTRUCTION | | | |
| Total Revenue | \$10,257,274 | <u>\$10,257,275</u> | (\$1) | Total Revenue | \$0 | <u>\$0</u> | \$0 |
| Total Expenditures | \$10,203,555 | <u>\$10,203,556</u> | (\$1) | Total Expenditures | \$51,161 | <u>\$51,161</u> | \$0 |
| <i>Non Spendable:</i> | | | | <i>Non Spendable:</i> | | | |
| 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | \$0 | 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | \$0 |
| <i>Restricted / Reserved:</i> | | | | <i>Restricted / Reserved:</i> | | | |
| 4.03 Staff Development | \$41,111 | <u>\$41,111</u> | \$0 | 4.07 Capital Projects Levy | \$0 | <u>\$0</u> | \$0 |
| 4.06 Health and Safety | \$0 | <u>\$0</u> | \$0 | 4.13 Project Funded by COP | \$0 | <u>\$0</u> | \$0 |
| 4.07 Capital Projects Levy | \$0 | <u>\$0</u> | \$0 | 4.67 LTFM | \$0 | <u>\$0</u> | \$0 |
| 4.08 Cooperative Revenue | \$0 | <u>\$0</u> | \$0 | <i>Restricted:</i> | | | |
| 4.13 Project Funded by COP | \$0 | <u>\$0</u> | \$0 | 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | \$0 |
| 4.14 Operating Debt | \$0 | <u>\$0</u> | \$0 | <i>Unassigned:</i> | | | |
| 4.16 Levy Reduction | \$0 | <u>\$0</u> | \$0 | 4.63 Unassigned Fund Balance | (\$51,161) | <u>(\$51,161)</u> | \$0 |
| 4.17 Taconite Building Maint | \$0 | <u>\$0</u> | \$0 | | | | |
| 4.24 Operating Capital | \$0 | <u>\$0</u> | \$0 | 07 DEBT SERVICE | | | |
| 4.26 \$25 Taconite | \$0 | <u>\$0</u> | \$0 | Total Revenue | \$344,834 | <u>\$344,833</u> | \$1 |
| 4.27 Disabled Accessibility | \$0 | <u>\$0</u> | \$0 | Total Expenditures | \$367,795 | <u>\$367,795</u> | \$0 |
| 4.28 Learning & Development | \$0 | <u>\$0</u> | \$0 | <i>Non Spendable:</i> | | | |
| 4.34 Area Learning Center | \$0 | <u>\$0</u> | \$0 | 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | \$0 |
| 4.35 Contracted Alt. Programs | \$0 | <u>\$0</u> | \$0 | <i>Restricted / Reserved:</i> | | | |
| 4.36 State Approved Alt. Program | \$0 | <u>\$0</u> | \$0 | 4.25 Bond Refundings | \$0 | <u>\$0</u> | \$0 |
| 4.38 Gifted & Talented | \$0 | <u>\$0</u> | \$0 | 4.33 Maximum Effort Loan Aid | \$0 | <u>\$0</u> | \$0 |
| 4.40 Teacher Development and Evaluation(\$751) | | <u>(\$751)</u> | \$0 | 4.51 QZAB Payments | \$0 | <u>\$0</u> | \$0 |
| 4.41 Basic Skills Programs | \$0 | <u>\$0</u> | \$0 | 4.67 LTFM | \$0 | <u>\$0</u> | \$0 |
| 4.48 Achievement and Integration | \$0 | <u>\$0</u> | \$0 | <i>Restricted:</i> | | | |
| 4.49 Safe School Crime - Crime Levy | (\$7,522) | <u>(\$7,522)</u> | \$0 | 4.64 Restricted Fund Balance | \$151,054 | <u>\$151,053</u> | \$1 |
| 4.50 Pre-Kindergarten | \$0 | <u>\$0</u> | \$0 | <i>Unassigned:</i> | | | |
| 4.51 QZAB Payments | \$0 | <u>\$0</u> | \$0 | 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | \$0 |
| 4.52 OPEB Liab Not In Trust | \$0 | <u>\$0</u> | \$0 | | | | |
| 4.53 Unfunded Sev & Retirement Levy | \$0 | <u>\$0</u> | \$0 | 08 TRUST | | | |
| 4.59 Basic Skills Extended Time | \$0 | <u>\$0</u> | \$0 | Total Revenue | \$683 | <u>\$683</u> | \$0 |
| 4.67 LTFM | \$233,367 | <u>\$233,367</u> | \$0 | Total Expenditures | \$3,000 | <u>\$3,000</u> | \$0 |
| 4.72 Medical Assistance | \$22,203 | <u>\$22,203</u> | \$0 | 4.22 Unassigned Fund Balance (Net Assets) | \$114,323 | <u>\$114,323</u> | \$0 |
| <i>Restricted:</i> | | | | | | | |
| 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | \$0 | 20 INTERNAL SERVICE | | | |
| 4.75 Title VII Impact Aid | \$0 | <u>\$0</u> | \$0 | Total Revenue | \$0 | <u>\$0</u> | \$0 |
| 4.76 Payments in Lieu of Taxes | \$0 | <u>\$0</u> | \$0 | Total Expenditures | \$0 | <u>\$0</u> | \$0 |
| <i>Committed:</i> | | | | 4.22 Unassigned Fund Balance (Net Assets) | \$0 | <u>\$0</u> | \$0 |
| 4.18 Committed for Separation | \$0 | <u>\$0</u> | \$0 | | | | |
| 4.61 Committed Fund Balance | \$35,310 | <u>\$35,310</u> | \$0 | 25 OPEB REVOCABLE TRUST | | | |
| <i>Assigned:</i> | | | | Total Revenue | \$0 | <u>\$0</u> | \$0 |
| 4.62 Assigned Fund Balance | \$0 | <u>\$0</u> | \$0 | Total Expenditures | \$0 | <u>\$0</u> | \$0 |
| <i>Unassigned:</i> | | | | 4.22 Unassigned Fund Balance (Net Assets) | \$0 | <u>\$0</u> | \$0 |
| 4.22 Unassigned Fund Balance | \$2,774,061 | <u>\$2,774,063</u> | (\$2) | | | | |
| | | | | 45 OPEB IRREVOCABLE TRUST | | | |
| 02 FOOD SERVICES | | | | Total Revenue | \$0 | <u>\$0</u> | \$0 |
| Total Revenue | \$485,199 | <u>\$485,198</u> | \$1 | Total Expenditures | \$0 | <u>\$0</u> | \$0 |
| Total Expenditures | \$482,743 | <u>\$482,742</u> | \$1 | 4.22 Unassigned Fund Balance (Net Assets) | \$0 | <u>\$0</u> | \$0 |
| <i>Non Spendable:</i> | | | | | | | |
| 4.60 Non Spendable Fund Balance | \$7,502 | <u>\$7,502</u> | \$0 | 47 OPEB DEBT SERVICE | | | |
| <i>Restricted / Reserved:</i> | | | | Total Revenue | \$0 | <u>\$0</u> | \$0 |
| 4.52 OPEB Liab Not In Trust | \$0 | <u>\$0</u> | \$0 | Total Expenditures | \$0 | <u>\$0</u> | \$0 |
| <i>Restricted:</i> | | | | <i>Non Spendable:</i> | | | |
| 4.64 Restricted Fund Balance | \$38,269 | <u>\$38,269</u> | \$0 | 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | \$0 |
| <i>Unassigned:</i> | | | | <i>Restricted:</i> | | | |
| 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | \$0 | 4.25 Bond Refundings | \$0 | <u>\$0</u> | \$0 |
| | | | | 4.64 Restricted Fund Balance | \$0 | <u>\$0</u> | \$0 |
| 04 COMMUNITY SERVICE | | | | <i>Unassigned:</i> | | | |
| Total Revenue | \$246,971 | <u>\$246,971</u> | \$0 | 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | \$0 |
| Total Expenditures | \$239,900 | <u>\$239,899</u> | \$1 | | | | |
| <i>Non Spendable:</i> | | | | | | | |
| 4.60 Non Spendable Fund Balance | \$0 | <u>\$0</u> | \$0 | | | | |
| <i>Restricted / Reserved:</i> | | | | | | | |
| 4.26 \$25 Taconite | \$0 | <u>\$0</u> | \$0 | | | | |
| 4.31 Community Education | \$31,822 | <u>\$31,822</u> | \$0 | | | | |
| 4.32 E.C.F.E | \$45,289 | <u>\$45,289</u> | \$0 | | | | |
| 4.40 Teacher Development and Evaluation | \$0 | <u>\$0</u> | \$0 | | | | |
| 4.44 School Readiness | \$7,818 | <u>\$7,818</u> | \$0 | | | | |
| 4.47 Adult Basic Education | \$0 | <u>\$0</u> | \$0 | | | | |
| 4.52 OPEB Liab Not In Trust | \$0 | <u>\$0</u> | \$0 | | | | |
| <i>Restricted:</i> | | | | | | | |
| 4.64 Restricted Fund Balance | \$15,416 | <u>\$15,417</u> | (\$1) | | | | |
| <i>Unassigned:</i> | | | | | | | |
| 4.63 Unassigned Fund Balance | \$0 | <u>\$0</u> | \$0 | | | | |



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*

To the Members of the School Board
Independent School District No. 2168
New Richland, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2168 (District), New Richland, Minnesota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated October 1, 2019.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying summary of audit findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies described in the accompanying summary of audit findings to be material weaknesses: 2019-001, 2019-002, and 2019-003.

Compliance and Other Matters

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

District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying summary of audit findings. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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



Mankato, Minnesota

October 1, 2019



Independent Auditor's Report on Compliance over Financial Reporting of the Student Activity Accounts

To the Members of the School Board
Independent School District No. 2168
New Richland, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the provisions of the Manual for Activity Fund Accounting (MAFA), the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2168 (District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 1, 2019.

Compliance

As part of obtaining reasonable assurance about whether the District's student activity accounts are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of student activity 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 one instance of noncompliance or other matters that are required to be reported under the Manual for Activity Fund Accounting: 2019-004 as described in the accompanying summary of audit findings.

Response to Finding

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

This report is intended solely for the information and use of management, the School Board, and the Minnesota Department of Education and other state agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Mankato, Minnesota
October 1, 2019



Report on Minnesota Legal Compliance

Members of the School Board
Independent School District No. 2168
New Richland, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2168 as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated October 1, 2019.

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 the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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

A handwritten signature in black ink that reads "Eide Bailly LLP".

Mankato, Minnesota
October 1, 2019

Section I – Financial Statement Findings

**2019-001 Segregation of Duties
Material Weakness**

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

Condition: The District has a lack of segregation of duties in certain areas due to limited staff. The District has limited segregation of duties in many accounting and financial reporting internal control areas. The areas involved are receipts and receivables, disbursements and payables, payroll, deposits, and reconciliations of these areas.

Cause: The District does not have the economic resources to hire additional qualified accounting staff in order to segregate duties.

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

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

Views of Responsible Officials: Management agrees with this finding.

**2019-002 Material Journal Entries
Material Weakness**

Criteria: A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition: During the course of our engagement, we proposed material audit adjustments to the trial balance.

Cause: The District does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to make all of the necessary year-end adjustments to the trial balance.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Views of Responsible Officials: Management agrees with this finding.

2019-003 Preparation of Financial Statements
Material Weakness

Criteria: A good system of internal control contemplates an adequate system for drafting of the financial statements.

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we are requested to draft the financial statements, accompanying notes to the financial statements, and required supplementary budgetary comparison information.

Cause: The District does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to draft financial statements.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: This control deficiency is not unusual in a District of your size. It is the responsibility of the management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials: Management agrees with this finding.

Section II – Minnesota Legal Compliance Findings

None reported

Section III – Student Activity Findings

2019-004 Inappropriate Use of Student Activity Funds

Criteria: A good system of internal control contemplates an adequate system for compliance with the MAFA guidelines. Per review of page 19 of the MAFA manual, it is required that any student activity account that has been inactive for a max of one fiscal year, must be disposed of, unless the advisor submits a plan to the building principal indicating why the activity has been inactive and why it should not be terminated.

Condition: During the course of our engagement, we noted one student activity fund, the High School PBISC Fund, that did not have any activity during the fiscal year.

Cause: The District does not have an internal control system designed to properly review student accounts to ensure that inactive accounts have been closed.

Effect: This control deficiency could result in the District's misuse of student activity funds.

Recommendation: We recommend the District put a procedure in place to properly review all student accounts and ensure that inactive accounts are properly handled.

Views of Responsible Officials: Management agrees with this finding.