

**Independent School District No. 742
St. Cloud, Minnesota**

Financial Statements

June 30, 2019

bergankDV

**Independent School District No. 742
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**Independent School District No. 742
Board of Education and Administration
June 30, 2019**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Jeff Pollreis	Chairperson	December 31, 2020
Shannon Haws	Vice-Chairperson	December 31, 2020
Monica Segura-Schwartz	Treasurer	December 31, 2020
Dr. Les Green	Clerk	December 31, 2023
Al Dalhgren	Director	December 31, 2020
Natalie Ringsmuth	Director	December 31, 2023
Zach Dorholt	Director	December 31, 2023
<u>Administration</u>		
Willie Jett II	Superintendent	
Amy Skaalerud, CPA	Executive Director of Finance and Business Services	
David Cooney	Controller	

Independent Auditor's Report

To the School Board
Independent School District No. 742
St. Cloud, 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. 742, St. Cloud, Minnesota, as of and for the year ended June 30, 2019, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 742, St. Cloud, Minnesota, as of June 30, 2019, and the respective changes in financial position and where applicable cash flows thereof, and the respective budgetary comparison for the General Fund and each major special revenue fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



St. Cloud, Minnesota
October 31, 2019

Independent School District No. 742 Management's Discussion and Analysis

This section of Independent School District No. 742, St. Cloud Area Public 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 the reporting model required by GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. GASB Statement No. 34 establishes reporting requirements that include financial statements, expanded disclosure, and supplemental information, including the MD&A (this section).

Comparative information between the current fiscal year and the prior fiscal year is presented in the MD&A.

FINANCIAL HIGHLIGHTS

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

- Net position increased by \$43,638,095, the majority of which was in unrestricted net position related to the District's proportionate share of the state's TRA and PERA pension liability which is required to be recorded in accordance with GASB reporting requirements.
- Overall revenues in governmental funds were \$169,470,928 while overall expenditures in all governmental funds totaled \$231,872,022.
- The restricted General Fund balance increased by \$985,985 from \$2,857,632 to \$3,843,617. This increase was primarily due to increases in fund balances restricted for operating capital, area learning center, and basic skills extended time.
- The assigned fund balance decreased by \$371,519 from \$683,924 to \$312,405. This decrease was due to the completion of renovations for the new District administrative offices building during summer 2018 as well as the purchase of a new districtwide phone system.
- The unassigned General Fund balance increased by \$2,359,656 from \$10,096,331 to \$12,455,987 as a result of higher than budgeted revenues from state aids and other local and county revenues as well as lower than projected spending.
- The amount of bonded indebtedness decreased \$6,835,000 from \$162,590,000 to \$155,755,000.
- Contracts with major bargaining groups expired on June 30, 2019 and are currently being negotiated.

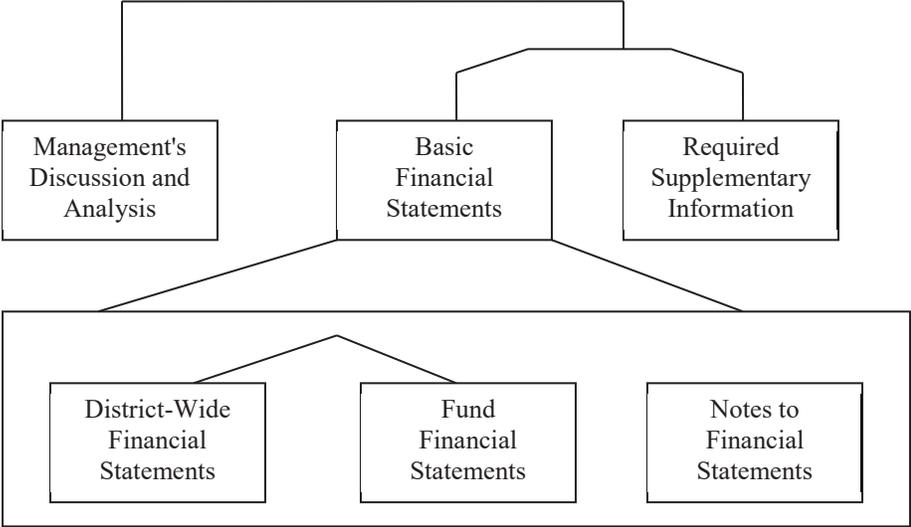
**Independent School District No. 742
Management's Discussion and Analysis**

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 MD&A (this section); the basic financial statements and the supplementary information. 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. There are three types of these.
- The first type are governmental funds statements that tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- The second type is fiduciary funds statements which provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.
- The third type is proprietary funds statements which provide information about activities the District operates like a business. The District currently has two internal service funds that account for the District's self-insured risks and other post employment benefits.

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 is arranged and related to one another.



Summary < ----- > Detail

**Independent School District No. 742
Management's Discussion and Analysis**

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 Statements	Governmental Funds	Fiduciary Funds	Proprietary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that is not fiduciary, such as special education and building maintenance.	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities.	The activities the District operates like a business, such as retiree severance funds and self-insurance funds.
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 Position • Statement of Changes in Fiduciary Net Position 	<ul style="list-style-type: none"> • Statement of Net Position • Statement of Revenues, Expenses, and Changes in Fund Net Position • Statement of Cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial focus.	Accrual accounting and economic resources focus.	Accrual accounting and economic resources focus.
Type of Assets/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 due 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.	All assets and liabilities, both financial and capital, and short-term and long-term.
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.	All revenues and expenses during year, regardless of when cash is received or paid.

Independent School District No. 742 Management's Discussion and Analysis

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 of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two 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 of resources, liabilities, and deferred inflows of resources, is one way to measure the District's financial health or position.

- Over time, increases, or decreases in the District's net position 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 nonfinancial 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 service, and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements

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

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

The District has three 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 can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.

**Independent School District No. 742
Management's Discussion and Analysis**

Fund Financial Statements

- **Proprietary Funds:** The District uses Internal Service Funds to account for operations of the District's self-insured Dental and Health Insurance plans and to account for its OPEB benefits. The activities of these funds are reported in a separate Statement of Net Position, Statement of Revenues, Expenses, and changes in Fund Net Position, and Statement of Cash Flows. This activity is also included in the Government-Wide Statement of Net Position and Statement of Activities.
- **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 by those to whom the assets belong. The District's fiduciary activities (consisting of an Agency Fund and a Private Purpose Trust Fund 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.

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

Net Position

The District's combined net position was (\$15,060,545) on June 30, 2019 (see details in Table A-1). This was an increase of \$43,638,095 from (\$58,698,640) at June 30, 2018.

Table A-1

Condensed Statement of Net Position

	2019	2018
Assets		
Current and other assets	\$ 102,881,731	\$ 157,425,987
Capital assets	261,339,734	202,983,949
Total assets	\$ 364,221,465	\$ 360,409,936
Deferred Outflows of Resources	\$ 110,316,761	\$ 146,043,226
Liabilities		
Long-term liabilities	\$ 280,285,554	\$ 456,059,505
Other liabilities	38,297,968	38,544,050
Total liabilities	\$ 318,583,522	\$ 494,603,555
Deferred Inflows of Resources	\$ 171,015,249	\$ 70,548,247
Net Position		
Net investment in capital assets	\$ 87,722,936	\$ 82,113,720
Restricted	6,909,401	5,210,041
Unrestricted	(109,692,882)	(146,022,401)
Total net position	\$ (15,060,545)	\$ (58,698,640)

**Independent School District No. 742
Management's Discussion and Analysis**

Change in Net Position

The District's revenues were greater than expenses for the year ended June 30, 2019. A summary of the revenues and expenses is presented in Table A-2 below.

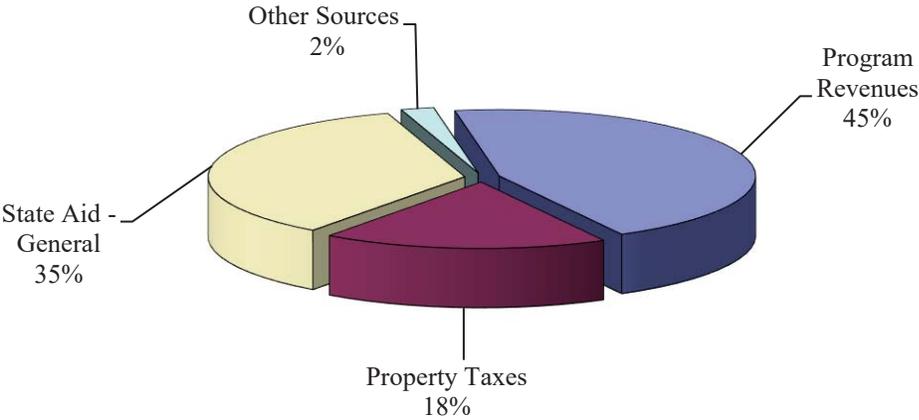
Table A-2

	2019	2018
Revenues		
Program revenues		
Charges for services	\$ 9,095,664	\$ 3,842,921
Operating grants and contributions	64,495,054	61,838,059
Capital grants and contributions	2,600,941	2,108,965
General revenues		
Property taxes	30,481,344	31,548,842
Aids and payments from the state	59,578,190	62,963,539
Other sources	3,519,245	1,664,975
Total revenues	\$ 169,770,438	\$ 163,967,301
Expenses		
Administration	\$ 2,228,108	\$ 7,026,198
District support services	2,903,782	2,911,928
Elementary and secondary regular instruction	35,331,263	74,040,692
Vocational instruction	789,543	1,990,492
Special education instruction	21,632,631	42,167,863
Instructional support services	11,779,415	13,955,334
Pupil support services	11,036,099	13,120,713
Sites, buildings and equipment	17,671,705	9,105,350
Fiscal and other fixed cost programs	230,144	278,087
Food service	5,711,204	6,021,487
Community education and services	4,520,508	6,718,735
Unallocated depreciation	6,051,369	5,431,169
Interest and fiscal charges - long-term debt	6,246,572	6,439,658
Total expenses	126,132,343	189,207,706
Change in net position	43,638,095	(25,240,405)
Net Position		
Beginning, as previously stated	(58,698,640)	(24,141,139)
Change in accounting principle	-	(9,317,096)
Beginning, as restated	(58,698,640)	(33,458,235)
Ending	\$ (15,060,545)	\$ (58,698,640)

**Independent School District No. 742
Management's Discussion and Analysis**

The District's total revenue of \$169,770,438 consists of program revenues of \$76,191,659 up from \$67,789,945 in 2018; property taxes of \$30,481,344 down from \$31,548,842 in 2018; aid and payments from the state of \$59,578,190 down from \$62,963,539 in 2018 and \$3,519,245 from miscellaneous other sources up from \$1,664,975 in 2018.

2018-19 Revenues - Table A-3



There were a number of significant changes in revenue from 2018 to 2019, with revenue increasing in some categories and decreasing in others.

The largest increase was in program revenues which was due to an increase in charges for services due to the District receiving insurance proceeds in 2019 related to the Apollo fire. Both capital grants and contributions and operating grants and contributions also increased. The most significant increase was in operating grants and contributions for special education due to an increase in state special education aid. Operating grants and contributions for elementary and regular instruction also increased primarily as a result of an increase in state compensatory revenue. The increase in capital grants and contributions is due to increased operating capital and long term facilities maintenance aids and well as increased energy rebates.

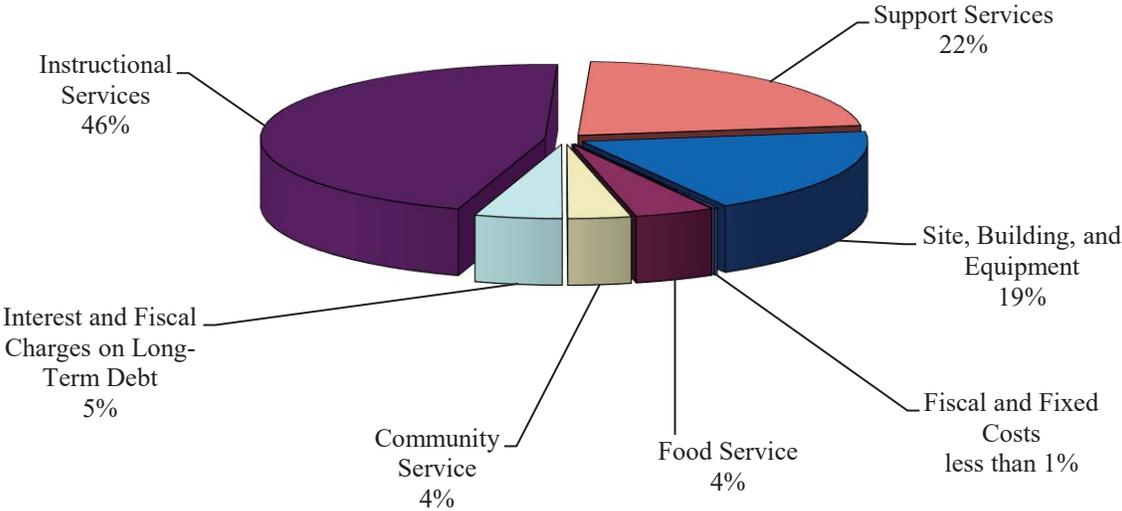
Revenue from property taxes decreased slightly from 2018 to 2019 due to a decrease in the general fund levy related to enrollment adjustments from declining enrollment in previous years. The increase in revenue from other sources is primarily due to higher interest revenue than in the prior year.

Revenue from state aid is largely driven by student enrollment, and the largest single source of funding for the District is state aid called general education revenue. General education revenue provides the base funding and represents a per pupil unit funding amount multiplied by adjusted marginal cost pupil units (referred to here as student enrollment). While revenues from state aids decreased from 2018 to 2019, this decrease was due to a large pension adjustment related to the GASB reporting requirements. Actual state aids excluding this pension adjustment increased from 2018 to 2019 primarily due to an increase in the per pupil formula allowance.

**Independent School District No. 742
Management's Discussion and Analysis**

The District's total expenses of \$126,132,343 consisted mainly of costs for instructional services (regular, vocational, and special instruction) of \$57,753,437 down from \$118,199,047 in 2018. This significant decrease is due to pension related adjustments. Other areas of cost included: support services (district, administrative, instructional and pupil) of \$27,947,404 down from \$37,014,173 in 2018; site, buildings, and equipment (including unallocated depreciation) of \$23,723,074 up from \$14,536,519 in 2018; fiscal and other fixed cost programs of \$230,144 down from \$278,087 in 2018; food service of \$5,711,204 down from \$6,021,487 in 2018; community education and services of \$4,520,508 down from \$6,718,735 in 2018; interest and fiscal charges on long-term debt of \$6,246,572 down from \$6,439,658 in 2018.

2018-19 Expenses - Table A-4



The majority of District expenditures in operating areas are for human resources. Salary and benefits make up approximately 74% of total expenditures. Many of the other operational costs are fixed costs, such as utilities and core supplies.

**Independent School District No. 742
Management's Discussion and Analysis**

The net cost of governmental activities is their total cost less program revenues applicable to each category. Table A-5 presents these costs. Note that site, building, and equipment expenses include unallocated depreciation expense.

Table A-5

Net Cost of Governmental Activities
(in Thousands of Dollars)

	Total Cost of Services		Net Cost of Services	
	2019	2018	2019	2018
Administration	\$ 2,228	\$ 7,026	\$ 2,228	\$ 7,026
District support services	2,904	2,912	2,904	2,912
Elementary and secondary regular instruction	35,331	74,041	8,182	47,840
Vocational instruction	789	1,990	778	1,989
Special education instruction	21,633	42,168	(865)	21,115
Instructional support services	11,779	13,955	8,974	11,140
Pupil support services	11,036	13,121	6,214	8,606
Sites, buildings and equipment	23,723	14,537	15,748	12,208
Fiscal and other fixed-cost program	230	278	230	278
Food service	5,711	6,021	(100)	42
Community education and services	4,521	6,719	(599)	1,822
Interest and fiscal charge long-term debt	6,247	6,440	6,247	6,440
Total expenses	<u>\$ 126,132</u>	<u>\$ 189,208</u>	<u>\$ 49,941</u>	<u>\$ 121,418</u>

Fund Balance

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$40,703,031. This is down \$57,155,729 from the June 30, 2018 combined fund balance total which was \$97,858,760. This decrease was due to the Building Construction balance decreasing \$61,320,823 from \$79,796,555 in 2018 to \$18,475,732 in 2019 as a result of the District spending down the bond proceeds for the construction of the new Tech High School. The fund balance in the General Fund increased by \$2,869,764 from a balance of \$13,998,215 in 2018 to \$16,867,979 in 2019. This was due to higher than anticipated revenues from state aids and other local and county revenues as well as lower spending than projected. All other governmental funds had increases in fund balance from June 30, 2018 to June 30, 2019.

**Independent School District No. 742
Management's Discussion and Analysis**

Revenues and Expenditures

Revenues of the District's governmental funds totaled \$169,470,928 while total expenditures were \$231,872,022. A summary of the revenues and expenditures reported on the governmental fund financial statements appear in Table A-6 below.

Table A-6

	Revenue	Expenditures	Other Financing Sources (Uses)	Fund Balance Increase (Decrease)
General	\$ 141,964,032	\$ 144,339,633	\$ 5,245,365	\$ 2,869,764
Food service	5,823,157	5,799,058	-	24,099
Community service	6,509,017	5,887,832	-	621,185
Capital projects	1,844,739	63,165,562	-	(61,320,823)
Debt service	13,329,983	12,679,937	-	650,046
Total	\$ 169,470,928	\$ 231,872,022	\$ 5,245,365	\$ (57,155,729)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Budgetary Highlights

During the year ended June 30, 2019, the District revised its operating budget one time. The original budget was adopted in June 2018 (a budget must be in place prior to the beginning of the fiscal year on July 1). The final budget was adopted in June 2019.

Significant changes between original budget and final budget: The revised budget was modified from the original budget to reflect the following changes:

- The budgets for local, state and federal grant revenues and expenditures were increased as a result of grant awards being higher than originally anticipated.
- The general fund budget was amended to account for the approved spend down of assigned fund balance for the purchase of a new phone system and the completion of renovations for the new District administrative office building.
- The budget for the general fund revenues and expenditures were amended to add budget for revenue from insurance proceeds and related restoration expenditures related to the fire at Apollo High School.
- Amendments were made in the budgeted expenditures for all programs to account for operational changes throughout the fiscal year.

Independent School District No. 742 Management's Discussion and Analysis

Variances from Final Budget to Actual

The District's final General Fund budget anticipated that expenditures would exceed revenues by \$1,083,461. The actual result was \$2,869,764 excess of revenues over expenditures. General Fund revenues were over budget by \$1,038,866, or 0.7%. General Fund expenditures were under budget by \$2,168,994 or 1.5%. The primary reason for the revenue variance is due to higher than anticipated revenues from state aids and other local and county revenues. The expenditure variance is primarily due to unfilled positions throughout the year, lower than anticipated insurance costs, and construction and other expenditures that were budgeted to be spent during the year that will be spent in the following year due to timing of projects and other purchases.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Additions totaling \$100,776,208 consisted primarily of building construction and remodeling projects, HVAC and other improvement projects, site improvements, vehicles, and equipment. Disposals and adjustments totaling \$35,384,893 consisted of the disposal of vehicles and the reclassification of prior year construction in progress. Detailed information related to the District's capital assets can be found in Note 4.

Long-Term Liabilities

At year-end the District had \$194,024,438 of long-term liabilities. This consisted of bonded indebtedness of \$155,755,000, certificates of participation of \$26,739,167, unamortized bond premiums of \$9,598,363 and compensated absences of \$1,931,908. This is a decrease of \$8,983,764 from June 30, 2018. More detailed information regarding long-term liabilities can be found in Note 5.

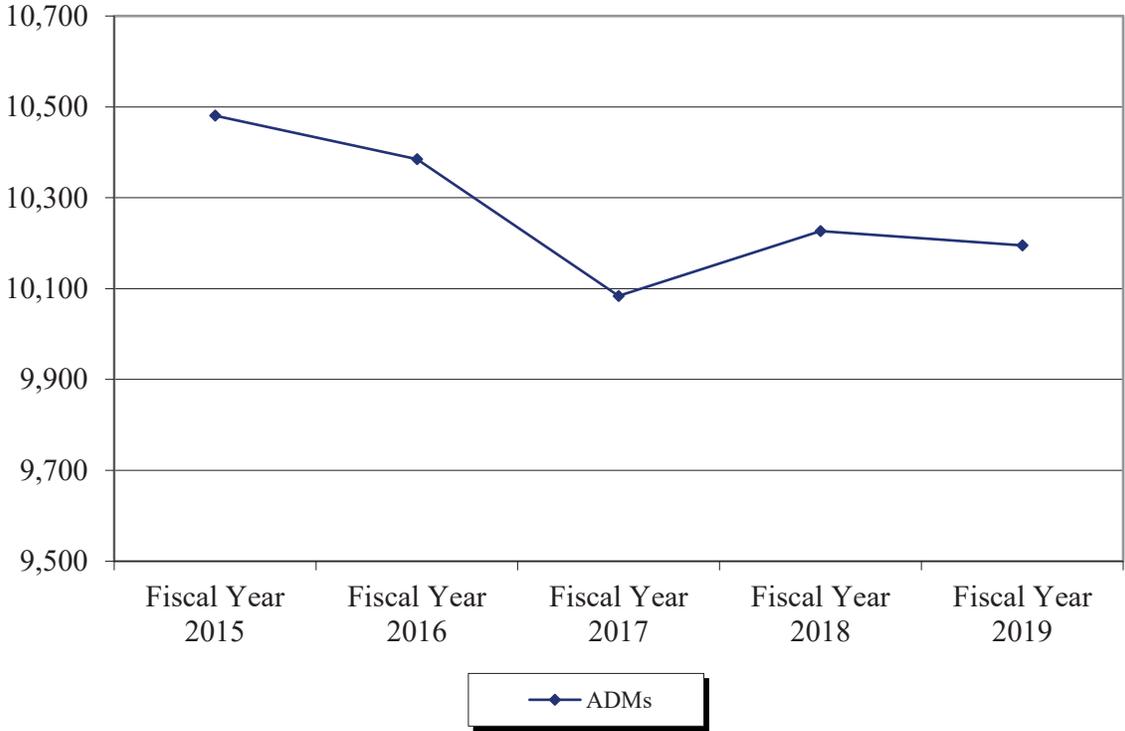
FACTORS BEARING ON THE DISTRICT'S FUTURE

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

- Minnesota school districts are paid based on pupil units served, therefore a decline in enrollment results in less revenue being received for operations. The District did see a slight decrease in enrollment in 2019 and is also expecting a slight decrease in enrollment in 2020. The District's average daily membership (ADM) served for the past five years is shown in Table A-7 on the following page.

**Independent School District No. 742
Management's Discussion and Analysis**

Enrollment Table A-7



- The political and economic environment of the State of Minnesota could have a significant effect on future finances. The State Legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive. The State regularly faces large budget deficits and since K-12 education accounts for about 40% of State spending, the future revenues of the District and other Minnesota school districts is unknown and unstable.
- Negotiated agreements with all employee groups expired on June 30, 2019. Negotiations on new contracts for July 1, 2019 through June 30, 2021 are currently in progress. Negotiations on these contracts will impact future budget periods.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Amy Skaalerud, CPA, Executive Director of Finance and Business Services, at the District Administration Office, Independent School District No. 742, 1201 South Second Street, Waite Park, Minnesota 56303.

BASIC FINANCIAL STATEMENTS

Independent School District No. 742
Statement of Net Position
June 30, 2019

	<u>Governmental Activities</u>
Assets	
Current assets	
Cash and investments (including cash equivalents)	\$ 68,043,716
Cash with fiscal agent	3,827,836
Current property taxes receivable	14,404,621
Delinquent property taxes receivable	185,235
Accounts receivable	605,694
Due from Department of Education	11,709,491
Due from other Minnesota school districts	222,935
Due from Federal Government through Department of Education	3,146,576
Due from federal - direct	35,514
Due from other governmental units	307,951
Inventory	174,514
Prepaid items	217,648
Total current assets	<u>102,881,731</u>
Noncurrent assets	
Capital assets not being depreciated	
Land	5,896,060
Construction in progress	89,738,169
Capital assets, net of accumulated depreciation	
Land improvements	11,851,712
Buildings and building improvements	230,626,477
Furniture and equipment	10,983,024
Vehicles	4,203,138
Less accumulated depreciation	(91,958,846)
Total capital assets, net of accumulated depreciation	<u>261,339,734</u>
Total assets	<u>364,221,465</u>
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	109,402,190
Deferred outflows of resources related to OPEB	914,571
Total deferred inflows of resources	<u>110,316,761</u>
Total assets and deferred outflows of resources	<u>\$ 474,538,226</u>
Liabilities	
Current liabilities	
Accounts and contracts payable	\$ 13,097,128
Salaries, benefits, severance, and compensated absences payable	12,707,286
Accrued interest payable	2,808,990
Due to other Minnesota school districts	399,934
Unearned revenue	299,630
Long term liabilities due within one year	8,985,000
Total current liabilities	<u>38,297,968</u>
Noncurrent liabilities	
Bond principal payable, net of premiums	164,254,178
Certificates of indebtedness, net of premiums	27,838,352
Compensated absences payable	1,931,908
Net pension liability	87,186,698
Total OPEB liability	8,059,418
Less amount due within one year	(8,985,000)
Total noncurrent liabilities	<u>280,285,554</u>
Total liabilities	<u>318,583,522</u>
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	28,812,110
Deferred inflows of resources related to pensions	142,001,114
Deferred inflows of resources related to OPEB	202,025
Total deferred inflows of resources	<u>171,015,249</u>
Net Position	
Net investment in capital assets	87,722,936
Restricted for	
Debt service	72,481
Capital asset acquisition	2,247,048
Food service	585,804
Community service	2,407,499
Other purposes	1,596,569
Unrestricted	(109,692,882)
Total net position	<u>(15,060,545)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 474,538,226</u>

See notes to financial statements.

Independent School District No. 742
Statement of Activities
Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
					Governmental Activities
Governmental activities					
Administration	\$ 2,228,108	\$ -	\$ -	\$ -	\$ (2,228,108)
District support services	2,903,782	-	-	-	(2,903,782)
Elementary and secondary regular instruction	35,331,263	359,102	26,780,708	9,381	(8,182,072)
Vocational education instruction	789,543	-	11,279	-	(778,264)
Special education instruction	21,632,631	1,199,361	21,298,361	-	865,091
Instructional support services	11,779,415	-	2,805,232	-	(8,974,183)
Pupil support services	11,036,099	-	4,822,427	-	(6,213,672)
Sites and buildings	17,671,705	5,383,938	-	2,591,560	(9,696,207)
Fiscal and other fixed cost programs	230,144	-	-	-	(230,144)
Food service	5,711,204	1,203,364	4,607,751	-	99,911
Community education and services	4,520,508	949,899	4,169,296	-	598,687
Unallocated depreciation	6,051,369	-	-	-	(6,051,369)
Interest and fiscal charges on long-term debt	6,246,572	-	-	-	(6,246,572)
Total governmental activities	<u>\$ 126,132,343</u>	<u>\$ 9,095,664</u>	<u>\$ 64,495,054</u>	<u>\$ 2,600,941</u>	(49,940,684)
General revenues					
Taxes					
					16,806,640
					1,256,511
					12,418,193
					59,578,190
					1,088,629
					2,430,616
					<u>93,578,779</u>
					43,638,095
					<u>(58,698,640)</u>
					<u>\$ (15,060,545)</u>

Independent School District No. 742
Balance Sheet - Governmental Funds
June 30, 2019

	<u>General</u>	<u>Food Service</u>	<u>Community Service</u>
Assets			
Cash and investments	\$ 24,797,671	\$ 600,055	\$ 3,437,674
Cash with fiscal agent	-	-	-
Current property taxes receivable	7,866,187	-	596,279
Delinquent property taxes receivable	113,555	-	8,186
Accounts receivable	577,454	111	28,129
Due from Department of Education	11,240,416	-	389,499
Due from Federal Government through Department of Education	3,065,116	-	81,460
Due from Federal - direct	35,514	-	-
Due from other Minnesota school districts	222,935	-	-
Due from other governmental units	307,951	-	-
Inventory	42,268	132,246	-
Prepaid items	213,702	3,210	736
	<u>\$ 48,482,769</u>	<u>\$ 735,622</u>	<u>\$ 4,541,963</u>
Liabilities			
Accounts and contracts payable	\$ 3,796,963	\$ 59,894	\$ 207,124
Salaries, benefits, severance, and compensated absences payable	12,248,348	31,840	427,098
Due to other Minnesota school districts	168,488	-	231,446
Unearned revenue	241,546	58,084	-
Total liabilities	<u>16,455,345</u>	<u>149,818</u>	<u>865,668</u>
Deferred Inflows of Resources			
Unavailable revenue - delinquent property taxes	113,555	-	8,186
Property taxes levied for subsequent year's expenditures	15,045,890	-	1,268,796
Total deferred inflows of resources	<u>15,159,445</u>	<u>-</u>	<u>1,276,982</u>
Fund Balances			
Nonspendable	255,970	135,456	736
Restricted	3,843,617	450,348	2,398,577
Assigned	312,405	-	-
Unassigned	12,455,987	-	-
Total fund balances	<u>16,867,979</u>	<u>585,804</u>	<u>2,399,313</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 48,482,769</u>	<u>\$ 735,622</u>	<u>\$ 4,541,963</u>

<u>Building Construction</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
\$ 21,915,519	\$ 8,852,581	\$ 59,603,500
3,827,836	-	3,827,836
-	5,942,155	14,404,621
-	63,494	185,235
-	-	605,694
-	79,576	11,709,491
-	-	3,146,576
-	-	35,514
-	-	222,935
-	-	307,951
-	-	174,514
-	-	217,648
<u>\$ 25,743,355</u>	<u>\$ 14,937,806</u>	<u>\$ 94,441,515</u>
\$ 7,267,623	\$ 2,685	\$ 11,334,289
-	-	12,707,286
-	-	399,934
-	-	299,630
<u>7,267,623</u>	<u>2,685</u>	<u>24,741,139</u>
-	63,494	185,235
-	12,497,424	28,812,110
-	12,560,918	28,997,345
-	-	392,162
18,475,732	2,374,203	27,542,477
-	-	312,405
-	-	12,455,987
<u>18,475,732</u>	<u>2,374,203</u>	<u>40,703,031</u>
<u>\$ 25,743,355</u>	<u>\$ 14,937,806</u>	<u>\$ 94,441,515</u>

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**Independent School District No. 742
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2019**

Total fund balance - governmental funds	\$ 40,703,031
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	353,298,580
Less accumulated depreciation	(91,958,846)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.	
Long-term liabilities at year-end consist of:	
Bonds payable, net of premiums	(164,254,178)
Certificates of participation payable, net of premiums	(27,838,352)
Compensated absences payable	(1,931,908)
Net pension liability	(87,186,698)
Total OPEB liability	(8,059,418)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	109,402,190
Deferred inflows of resources related to pensions	(142,001,114)
Deferred outflows of resources related to OPEB	914,571
Deferred inflows of resources related to OPEB	(202,025)
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	
	185,235
Governmental funds do not report a liability for accrued interest on bonds payable until due and payable.	
	(2,808,990)
The OPEB internal service fund is used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the OPEB liability. These assets are included with governmental activities.	
	985,819
The health and dental insurance internal service funds are used by the District to charge the cost of health and dental insurance employee premiums and claims to the individual funds. The assets and liabilities of these internal service funds are included with governmental activities.	
	5,691,558
Total net position - governmental activities	\$ (15,060,545)

Independent School District No. 742
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2019

	General	Food Service	Community Service
Revenues			
Local property taxes	\$ 16,873,421	\$ -	\$ 1,260,901
Other local and county revenues	4,072,118	21,089	1,126,765
Revenue from state sources	114,930,404	259,637	3,993,189
Revenue from federal sources	6,088,089	4,339,046	128,162
Sales and other conversion of assets	-	1,203,385	-
Total revenues	<u>141,964,032</u>	<u>5,823,157</u>	<u>6,509,017</u>
Expenditures			
Current			
Administration	3,528,088	-	-
District support services	2,910,366	-	-
Elementary and secondary regular instruction	54,971,201	-	-
Vocational education instruction	1,477,986	-	-
Special education instruction	31,954,381	-	-
Instructional support services	14,421,679	-	-
Pupil support services	12,167,602	-	164,668
Sites and buildings	19,204,507	-	-
Fiscal and other fixed cost programs	230,144	-	-
Food service	-	5,734,623	-
Community education and services	-	-	5,719,359
Capital outlay			
District support services	229,761	-	-
Elementary and secondary regular instruction	202,439	-	-
Special education instruction	132,506	-	-
Instructional support services	158,484	-	-
Pupil support services	67,292	-	-
Sites and buildings	465,458	-	-
Food service	-	64,435	-
Community education and services	-	-	3,805
Debt service			
Principal	1,115,885	-	-
Interest and fiscal charges	1,101,854	-	-
Total expenditures	<u>144,339,633</u>	<u>5,799,058</u>	<u>5,887,832</u>
Excess of revenues over (under) expenditures	(2,375,601)	24,099	621,185
Other Financing Sources			
Proceeds from sale of capital assets	17,135	-	-
Insurance recoveries	5,228,230	-	-
Total other financing sources	<u>5,245,365</u>	<u>-</u>	<u>-</u>
Net change in fund balances	2,869,764	24,099	621,185
Fund Balances			
Beginning of year	<u>13,998,215</u>	<u>561,705</u>	<u>1,778,128</u>
End of year	<u>\$ 16,867,979</u>	<u>\$ 585,804</u>	<u>\$ 2,399,313</u>

See notes to financial statements.

Building Construction	Debt Service	Total Governmental Funds
\$ -	\$ 12,434,717	\$ 30,569,039
1,844,739	93,649	7,158,360
-	801,617	119,984,847
-	-	10,555,297
-	-	1,203,385
<u>1,844,739</u>	<u>13,329,983</u>	<u>169,470,928</u>
-	-	3,528,088
-	-	2,910,366
-	-	54,971,201
-	-	1,477,986
-	-	31,954,381
-	-	14,421,679
-	-	12,332,270
-	-	19,204,507
-	-	230,144
-	-	5,734,623
-	-	5,719,359
-	-	229,761
-	-	202,439
-	-	132,506
-	-	158,484
-	-	67,292
63,165,562	-	63,631,020
-	-	64,435
-	-	3,805
-	6,835,000	7,950,885
-	5,844,937	6,946,791
<u>63,165,562</u>	<u>12,679,937</u>	<u>231,872,022</u>
(61,320,823)	650,046	(62,401,094)
-	-	17,135
-	-	5,228,230
-	-	5,245,365
(61,320,823)	650,046	(57,155,729)
<u>79,796,555</u>	<u>1,724,157</u>	<u>97,858,760</u>
<u>\$ 18,475,732</u>	<u>\$ 2,374,203</u>	<u>\$ 40,703,031</u>

**Independent School District No. 742
Reconciliation of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2019**

Total net change in fund balances - governmental funds \$ (57,155,729)

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

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlays	65,516,374
Depreciation expense	(7,100,589)
Net disposals	(60,000)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.

409,510

Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.

30,328,486

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities.

7,952,083

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

76,850

Governmental funds report debt issuance premiums and discounts as an other financing source or use at the time of issuance. Premiums and discounts are reported as an unamortized asset or liability in the government-wide financial statements.

Amortization of bond premium	622,171
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Total OPEB obligations are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.

The District's obligation exceeded its contribution, therefore, net position is decreased.

285,305

The change in net position of the internal service funds is reported with governmental activities.

2,851,329

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.

(87,695)

Change in net position - governmental activities

\$ 43,638,095

Independent School District No. 742
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - General Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 16,772,832	\$ 16,772,832	\$ 16,873,421	\$ 100,589
Other local and county revenues	3,298,325	3,361,643	4,072,118	710,475
Revenue from state sources	113,762,762	113,978,624	114,930,404	951,780
Revenue from federal sources	5,916,792	6,812,067	6,088,089	(723,978)
Total revenues	<u>139,750,711</u>	<u>140,925,166</u>	<u>141,964,032</u>	<u>1,038,866</u>
Expenditures				
Current				
Administration	3,525,371	3,548,531	3,528,088	(20,443)
District support services	2,758,749	2,893,601	2,910,366	16,765
Elementary and secondary regular instruction	56,975,057	57,144,795	54,971,201	(2,173,594)
Vocational education instruction	1,312,418	1,314,280	1,477,986	163,706
Special education instruction	32,327,274	32,388,845	31,954,381	(434,464)
Instructional support services	14,464,588	15,203,674	14,421,679	(781,995)
Pupil support services	12,015,575	12,200,832	12,167,602	(33,230)
Sites and buildings	13,514,451	18,225,167	19,204,507	979,340
Fiscal and other fixed cost programs	280,000	280,000	230,144	(49,856)
Capital outlay				
District support services	11,900	209,629	229,761	20,132
Elementary and secondary regular instruction	235,767	339,219	202,439	(136,780)
Special education instruction	97,012	114,168	132,506	18,338
Instructional support services	66,870	106,330	158,484	52,154
Pupil support services	119,500	65,098	67,292	2,194
Sites and buildings	240,160	250,145	465,458	215,313
Debt service				
Principal	1,115,000	1,115,000	1,115,885	885
Interest and fiscal charges	1,109,313	1,109,313	1,101,854	(7,459)
Total expenditures	<u>140,169,005</u>	<u>146,508,627</u>	<u>144,339,633</u>	<u>(2,168,994)</u>
Excess of revenues under expenditures	<u>(418,294)</u>	<u>(5,583,461)</u>	<u>(2,375,601)</u>	<u>3,207,860</u>
Other Financing Sources				
Proceeds from sale of capital assets	-	-	17,135	17,135
Insurance recoveries	-	4,500,000	5,228,230	728,230
Total other financing sources	<u>-</u>	<u>4,500,000</u>	<u>5,245,365</u>	<u>745,365</u>
Net change in fund balances	<u>\$ (418,294)</u>	<u>\$ (1,083,461)</u>	2,869,764	<u>\$ 3,953,225</u>
Fund Balances				
Beginning of year			<u>13,998,215</u>	
Ending of year			<u>\$ 16,867,979</u>	

See notes to financial statements.

Independent School District No. 742
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - Food Service Special Revenue Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Other local and county revenues	\$ 7,500	\$ 48,125	\$ 21,089	\$ (27,036)
Revenue from state sources	250,000	250,000	259,637	9,637
Revenue from federal sources	4,309,750	4,443,794	4,339,046	(104,748)
Sales and other conversion of assets	1,238,250	1,238,250	1,203,385	(34,865)
Total revenues	<u>5,805,500</u>	<u>5,980,169</u>	<u>5,823,157</u>	<u>(157,012)</u>
Expenditures				
Current				
Food service	5,742,855	5,902,069	5,734,623	(167,446)
Capital outlay				
Food service	<u>57,000</u>	<u>72,455</u>	<u>64,435</u>	<u>(8,020)</u>
Total expenditures	<u>5,799,855</u>	<u>5,974,524</u>	<u>5,799,058</u>	<u>(175,466)</u>
Excess of revenues over expenditures	<u>\$ 5,645</u>	<u>\$ 5,645</u>	24,099	<u>\$ 18,454</u>
Fund balances				
Beginning of year			<u>561,705</u>	
Ending of year			<u>\$ 585,804</u>	

Independent School District No. 742
Statement of Revenues, Expenditures, and
Changes in Fund Balances -
Budget and Actual - Community Service Special Revenue Fund
Year Ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
Revenues				
Local property taxes	\$ 1,255,314	\$ 1,255,314	\$ 1,260,901	\$ 5,587
Other local and county revenues	907,600	949,600	1,126,765	177,165
Revenue from state sources	3,917,869	3,917,869	3,993,189	75,320
Revenue from federal sources	120,000	128,162	128,162	-
Total revenues	<u>6,200,783</u>	<u>6,250,945</u>	<u>6,509,017</u>	<u>258,072</u>
Expenditures				
Current				
Pupil support services	171,010	171,010	164,668	(6,342)
Community education and services	5,984,496	6,060,678	5,719,359	(341,319)
Capital outlay				
Pupil support services	1,500	1,500	-	(1,500)
Community education and services	8,000	6,830	3,805	(3,025)
Total expenditures	<u>6,165,006</u>	<u>6,240,018</u>	<u>5,887,832</u>	<u>(352,186)</u>
Excess of revenues over expenditures	<u>\$ 35,777</u>	<u>\$ 10,927</u>	621,185	<u>\$ 610,258</u>
Fund Balances				
Beginning of year			<u>1,778,128</u>	
Ending of year			<u>\$ 2,399,313</u>	

Independent School District No. 742
Statement of Net Position - Proprietary Funds
June 30, 2019

	<u>Total Internal Service Funds</u>
Assets	
Current assets	
Cash and cash equivalents	\$ 8,440,216
Due from other funds	<u>269,825</u>
Total current assets	<u>8,710,041</u>
 Liabilities	
Insurance claims payable	\$ 1,762,839
Due to other funds	<u>269,825</u>
Total liabilities	<u>2,032,664</u>
 Net Position	
Unrestricted	<u>6,677,377</u>
Total liabilities and net position	<u><u>\$ 8,710,041</u></u>

Independent School District No. 742
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended June 30, 2019

	<u>Total Internal Service Funds</u>
Operating Revenue	
Charges for services	\$ 17,124,685
Retiree contributions	<u>530,718</u>
Total revenues	<u>17,655,403</u>
 Operating Expenses	
Insurance claims	14,350,182
Insurance premiums	<u>530,718</u>
Total operating expenses	<u>14,880,900</u>
 Operating income	 2,774,503
 Nonoperating Revenue	
Investment income	<u>76,826</u>
 Change in net position	 2,851,329
 Net Position	
Beginning of year	<u>3,826,048</u>
End of year	<u><u>\$ 6,677,377</u></u>

Independent School District No. 742
Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2019

	Total Internal Service Funds
Cash Flows - Operating Activities	
Employee insurance deductions	
received from other funds	\$ 17,524,685
Receipts from retirees	530,718
Insurance claims paid	(14,201,794)
Insurance premiums paid	(930,718)
Net cash flows - operating activities	2,922,891
Cash Flows - Investing Activities	
Interest received	76,826
Net change in cash and cash equivalents	2,999,717
Cash and Cash Equivalents	
Beginning of year	5,440,499
End of year	\$ 8,440,216
Reconciliation of Operating Income to Net Cash Flows- Operating Activities	
Operating income (loss)	\$ 2,774,503
Adjustments to reconcile operating income to net cash flows - operating activities	
Change in due from other funds	400,000
Change in insurance claims payable	148,388
Change in due to other funds	(400,000)
Net cash flows - operating activities	\$ 2,922,891

Independent School District No. 742
Statement of Fiduciary Net Position
June 30, 2019

	Agency Fund	Trust Fund
Assets		
Cash and investments	\$ 1,115,196	\$ 245,032
Liabilities		
Accounts payable	\$ 227	\$ 4,144
Salaries payables	3,644	-
Due to other Minnesota school districts	1,111,325	-
Total liabilities	\$ 1,115,196	4,144
Net Position		
Held in trust for scholarships		\$ 240,888

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

	Trust Fund
Additions	
Contributions	\$ 65,398
Investment income	157
Total additions	65,555
Deductions	
Scholarships	38,200
Supplies	13,179
Consulting and contracts	953
Total deductions	52,332
Change in net position	13,223
Net Position	
Beginning of year	227,665
End of year	\$ 240,888

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Independent School District No. 742
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

The student activity accounts of the District are not under the School Board's control; therefore, separate audited financial statements have been issued. As of July 1, 2019, these accounts have been taken under board control and will no longer be reported separately.

The District has entered into a joint powers agreement with five area school districts to create the Central Minnesota Area Learning Center (ALC). The ALC is authorized under *Minnesota Statutes* Section 471.59. The Joint Powers Board consists of one representative appointed by each member district school board.

The District has been designated as the fiscal host district. Therefore, the District, on behalf of the member districts, applies for, receives, and administers educational funding, including state and federal funds as appropriate to an area learning center.

Separate financial statements have been issued for the Central Minnesota ALC.

B. Basic Financial Statement Information

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

Independent School District No. 742
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Internal Service Funds are charges to customers for services. Operating expenses for the Internal Service Funds are insurance claims and premiums. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Trust and Agency Funds are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner.

Independent School District No. 742
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collectable within 60 days.

2. Recording of Expenditures

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

Description of Funds:

Major Funds:

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

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education, or other similar services.

Building Construction Fund – This fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities or to account for bonds specifically issued for technology expenditures.

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

Proprietary Funds:

Dental Insurance Internal Service Fund – This fund is used to account for operations of the District's self-insured dental insurance plan. Premiums collected from employees are collected from other governmental funds and claims for dental claims are paid by this fund.

Independent School District No. 742
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued):

Proprietary Funds (Continued):

Health Insurance Internal Service Fund – This fund is used to account for operations of the District's self-insured health insurance plan. Premiums collected from employees are collected from other governmental funds and claims for health claims are paid by this fund.

OPEB Internal Service Fund – This fund is used to account for the financial resources relating to other post employment benefits.

Fiduciary Funds:

Private-Purpose Trust Fund – This fund is used to account for money held by the District in a trustee capacity. Included in this group of funds is the Scholarship Fund.

Agency Fund – This fund is used to account for assets held by a governmental unit as an agent for individuals, private organizations, other governmental units, and other funds. The District acts as the fiscal agent for the Central Minnesota ALC. The Agency Fund is purely custodial (assets equal liabilities) and thus do not involve measurement of results of operations.

D. Deposits and Investments

All governmental, proprietary, and fiduciary funds of the District, except for the OPEB Internal Service Fund, participate in a government-wide investment pool. Cash and investment balances from these funds are combined and invested to the extent available in various securities as authorized by state law. The OPEB Fund's deposits and investments are held and invested separately from the rest of the District's funds as authorized by state law. In addition, deposits and investments related to the 2015B Capital Facilities Bonds and 2017B School Buildings Bonds are held and invested separately from these pooled funds.

Minnesota Statutes authorizes the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days. Earnings from the pooled investments are allocated to the respective funds based on the average of month-end cash and investment balances.

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

Independent School District No. 742
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

Cash and investments at June 30, 2019, were comprised of deposits, negotiable certificates of deposit, shares in the Minnesota School District Liquid Asset Fund (MSDLAF), shares in the Minnesota Trust (MNTrust) Term Series, shares in the MNTrust Investment Shares Portfolio, State and Local government securities, FHLB, FHLMC, and money market funds. In accordance with GASB Statement No. 79, the various MSDLAF, MNTrust, and money market trusts are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF Liquid or MNTrust Investment Shares Portfolio. Investments in the MSDLAF MAX must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

G. Inventories

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on an average cost basis. Inventories are recorded as expenditures when consumed rather than when purchased.

H. Prepaid Items

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

Independent School District No. 742
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes

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

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

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements, buildings, and building improvements, 5 to 20 years for furniture and equipment including food service equipment, and 8 years for vehicles.

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

K. Deferred Outflows/Inflows of Resources

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

Independent School District No. 742
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has four types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent year's expenditures, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent year's expenditures are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. The third item, deferred inflows of resources related to pensions is recorded on the government-wide Statement of Net Position for various estimate differences that will be amortized and recognized over future years. Finally, deferred inflows of resources related to OPEB is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

L. Long-Term Obligations

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

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

M. Pensions

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

**Independent School District No. 742
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Pensions (Continued)

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

N. Compensated Absences

The District compensates clerical, custodial, and non-represented employees upon termination of employment for unused vacation. An employee may not carry over more than 15 days of vacation time.

District employees are entitled to sick leave at the following rates:

Position	Days Earned Per Year	Maximum Number of Days Allowed to Accumulate
Administrators	12	100
Teachers	11-13	100
Clerical	10-12	60
Custodial	12	100
Food Service	10	60
Non-represented	10-12	100
Paraprofessionals	10	60
Interpreters	10	60
Principals	10-12	100

Employees are not compensated for unused sick leave upon termination of employment, unless taken in conjunction with severance pay as described in Note 1.0.

Compensated absences payable, as reported in the Statement of Net Position, consists of the severance payable to eligible employees based on their unused sick leave of \$1,673,780 and vacation leave of \$258,128. See Note 1.0.

Independent School District No. 742
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Post Employment Severance and Health Benefits

1. Severance Pay

Teachers who have completed 15 years of continuous service with the District are eligible for severance pay in the amount of \$1,000 per year of service upon retirement or resignation not to exceed \$45,000 per employee. District administrators have a similar arrangement. Employees in all other bargaining groups who are 55 years of age and have a minimum of 10 years of service are eligible for severance pay based on his or her accrued accumulative leave up to a maximum number of days as set forth in each negotiated contract. All severance payments are made directly into a Post Retirement Health Care Savings Plan. Severance pay is recognized as an expenditure in the year payment is made in accordance with the Uniform Financial Accounting and Reporting Standards (UFARS) for Minnesota Schools and accounting principles generally accepted in the United States of America and is not recorded as a liability on the fund financial statements. The liability for severance based on years of service is reported in the Statement of Net Position as part of the District's OPEB and the liability for severance based on accumulated leave is reported in the Statement of Net Position as compensated absences.

2. Retiree Insurance Benefits

The District has several contractual arrangements for retiree insurance benefits. (1) For retirees and disabled employees who have retired prior to June 30, 1987, their insurance benefits represent the computed value of accumulated sick leave benefits to be used to pay medical insurance premiums for these individuals until death or until their accumulated benefit is fully utilized. For this retiree, payments for insurance amounted to \$0 for the year ended June 30, 2019. (2) For retirees after June 30, 1987, an employee with a minimum of 15 years continuous service in the District, or is age 50 and at June 10, 1988, has completed ten continuous years of service in the District, is eligible to have medical insurance premiums paid for 10 years or until the employee becomes eligible for Medicare starting ten years prior to eligibility for Medicare. This is scaled to add an extra year of benefit for each year of service over 15 to a maximum of 10 years of benefits with 20 or more years of service. Employees hired after 1988 do not receive this benefit.

3. Deferred Compensation Plan

The District has employees in a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency. The plan assets are held in trust for the plan participants and their beneficiaries. Therefore, the assets and liabilities of the plan are not included in the District's financial statements.

P. Fund Equity

1. Classifications

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

Independent School District No. 742
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Equity (Continued)

1. Classifications (Continued)

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include inventory and prepaid items.
- Restricted Fund Balances – These are amounts that are restricted to specific purposes either by legally enforceable constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments or are imposed by law through enabling legislation.
- Assigned Fund Balances – These are amounts that as assigned by the Superintendent or Executive Director of Business Services for specific purposes as delegated by the School Board through the District's Fund Balance Policy.
- Unassigned Fund Balances – This represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to a specific purpose in the General Fund.

The District's policy is to strive to spend resources from fund balance classifications in the following order (first to last) if resources from more than one fund balance classification could be spent: restricted, committed, assigned, and unassigned.

2. Minimum Fund Balance Policy

The District has a fund balance policy in place that states the District will strive to maintain a minimum unassigned General Fund balance of 8% of the annual General Fund expenditure budget.

Q. Net Position

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

R. Use of Estimates

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

**Independent School District No. 742
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Budgetary Information

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

1. Prior to July 1, the Superintendent submits to the School Board, a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Capital Projects, and Debt Service Funds.
4. Budgets for all Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the School Board.

Custodial Credit Risk – Deposits: This is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or collateral securities that are in possession of an outside party. *Minnesota Statutes* 118A requires all deposits be protected by federal deposit insurance, corporate security bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The District has a policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* for an amount exceeding FDIC, SAIF, BIF, or FICUA coverage. As of June 30, 2019, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institutions' trust department or agent in the District's name.

The District's pooled deposits had a book balance as follows:

Checking	\$ 816,986
Scholarship fund savings account	210,939
Certificates of deposit	32,000
MN Trust certificates of deposit	<u>3,367,000</u>
Total	<u><u>\$ 4,426,925</u></u>

Independent School District No. 742
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

The District's nonpooled deposits related to the 2015B Facilities Bonds and 2017B School Building Bonds, and OPEB Revocable Trust had a book balance as follows:

Bond proceeds savings deposit account	\$ 2,058,543
Bond proceeds certificates of deposit	6,186,300
OPEB certificate of deposit	<u>220,000</u>
 Total	 <u><u>\$ 8,464,843</u></u>

B. Investments

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

Investment Type	Total	Investment Maturities	
		Less Than 1 Year	1 to 3 Years
Pooled			
MSDLAF+ Liquid Class	\$ 3,376,893	\$ 3,376,893	\$ -
MSDLAF+ Max Class	333,418	333,418	-
MN Trust Term Series	15,000,000	15,000,000	-
Negotiable Certificates of Deposit	1,742,677	-	1,742,677
MN Trust Investment Shares Portfolio	14,401,484	14,401,484	-
Total pooled investments	<u>34,854,472</u>	<u>33,111,795</u>	<u>1,742,677</u>
Non pooled			
Cash with fiscal agent			
Money Market	<u>3,827,836</u>	<u>3,827,836</u>	<u>-</u>
Bond Proceeds Investments			
MN Trust Investment Shares Portfolio	5,185,178	5,185,178	-
State and Local Government Securities	3,434,564	3,434,564	-
FHLB	998,702	998,702	-
FHLMC	999,191	999,191	-
MN Trust Term Series	10,000,000	10,000,000	-
Total 2015A and 2015B bonds	<u>20,617,635</u>	<u>20,617,635</u>	<u>-</u>
OPEB Investments			
MN Trust Investment Shares Portfolio	36,504	36,504	-
Local Government Securities	999,140	999,140	-
Total OPEB investments	<u>1,035,644</u>	<u>1,035,644</u>	<u>-</u>
Total non-pooled investments	<u>25,481,115</u>	<u>25,481,115</u>	<u>-</u>
Total investments	<u><u>\$60,335,587</u></u>	<u><u>\$58,592,910</u></u>	<u><u>\$ 1,742,677</u></u>

Independent School District No. 742
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states the District will diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. As of June 30, 2019, the District's investment in the City of New York taxable bonds within the OPEB nonpooled investments was exposed to concentration of credit risk as this investment exceeded 5% of the total OPEB investments.

Custodial Credit Risk – Investments: This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy on custodial credit risk states securities will be held in third party safekeeping by an institution designated as custodial agent. The custodial agent shall issue a safekeeping receipt to the District listing pertinent information related to the securities held.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments to the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy limits investments to those specified in the above statutes. As of June 30, 2019, the District's investments in MSDLAF+ Liquid Class, MSDLAF+ Max Class, MN Trust Term Series, and MN Trust Investment Shares Portfolio were rated AAAM by Standard and Poor's. Investments in FHLB and FHLMC were rated Aaa by Moody's. Investments in government securities were rate at least Aa3 by Moody's. The District's investments in negotiable certificates of deposit and the money market are not rated.

Interest Rate Risk: This is the risk that the market value of securities will fall due to the changes in market interest rates. The District's policy states investment maturities should be scheduled to coincide with projected District cash flow needs, taking into account large routine or scheduled expenditures, as well as anticipated receipt dates of anticipated revenues. The policy also indicates investments shall be managed to attain a market rate of return through various economic and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

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

- Nonpooled bond proceeds of \$5,432,457 were valued using a matrix pricing model (Level 2 inputs)
- Nonpooled OPEB investments of \$999,140 were valued using a matrix pricing model (Level 2 inputs)
- Pooled investments of \$1,742,677 were valued using a matrix pricing model (Level 2 inputs)

Independent School District No. 742
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

The following is a summary of total deposits and investments:

Cash on hand	\$ 4,425
Deposits - pooled (Note 2.A.)	4,426,925
Deposits - nonpooled (Note 2.A.)	8,464,843
Cash with fiscal agent - nonpooled (Note 2.B.)	3,827,836
Investments - pooled (Note 2.B.)	34,854,472
Investments - nonpooled (Note 2.B.)	<u>21,653,279</u>
Total	<u>\$ 73,231,780</u>

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

Statement of Net Position	
Cash and investments	\$ 68,043,716
Cash with fiscal agent	3,827,836
Statement of Fiduciary Net Position	
Cash and investments	
Agency fund	1,115,196
Trust fund	<u>245,032</u>
Total deposits and investments	<u>\$ 73,231,780</u>

NOTE 3 – INTERFUND ACTIVITY

At June 30, 2019, the OPEB Internal Service Fund reported a payable of \$269,825 due to the Health Insurance Internal Service Fund for past health insurance costs.

Independent School District No. 742
Notes to Financial Statements

NOTE 4 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 5,956,060	\$ -	\$ 60,000	\$ 5,896,060
Construction in progress	<u>61,127,148</u>	<u>63,870,855</u>	<u>35,259,834</u>	<u>89,738,169</u>
Total capital assets not being depreciated	<u>67,083,208</u>	<u>63,870,855</u>	<u>35,319,834</u>	<u>95,634,229</u>
Capital assets being depreciated				
Land improvements	11,305,927	545,785	-	11,851,712
Buildings and building improvements	194,742,900	35,883,577	-	230,626,477
Furniture and equipment	9,149,263	322,547	-	9,471,810
Vehicles	4,157,041	111,156	65,059	4,203,138
Food service equipment	<u>1,468,926</u>	<u>42,288</u>	<u>-</u>	<u>1,511,214</u>
Total capital assets being depreciated	<u>220,824,057</u>	<u>36,905,353</u>	<u>65,059</u>	<u>257,664,351</u>
Less accumulated depreciation for				
Land improvements	(4,443,577)	(482,847)	-	(4,926,424)
Buildings	(69,145,031)	(5,973,156)	-	(75,118,187)
Furniture and equipment	(7,237,868)	(306,519)	-	(7,544,387)
Vehicles	(3,092,004)	(275,356)	(65,059)	(3,302,301)
Food service equipment	<u>(1,004,836)</u>	<u>(62,711)</u>	<u>-</u>	<u>(1,067,547)</u>
Total accumulated depreciation	<u>(84,923,316)</u>	<u>(7,100,589)</u>	<u>(65,059)</u>	<u>(91,958,846)</u>
Total capital assets being depreciated, net	<u>135,900,741</u>	<u>29,804,764</u>	<u>-</u>	<u>165,705,505</u>
Governmental activities, capital assets, net	<u>\$ 202,983,949</u>	<u>\$ 93,675,619</u>	<u>\$ 35,319,834</u>	<u>\$ 261,339,734</u>

Independent School District No. 742
Notes to Financial Statements

NOTE 4 – CAPITAL ASSETS (CONTINUED)

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

District support services	\$ 16,651
Elementary and secondary regular instruction	169,142
Vocational instruction	9,617
Special education instruction	24,678
Community service	4,234
Instructional support services	72,765
Pupil support services	257,380
Sites and buildings	492,042
Food service	62,711
Unallocated	5,991,369
Total depreciation expense	\$ 7,100,589

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds						
2015A Alternative Facilities Bonds	03/05/15	2.00%-4.00%	\$ 37,715,000	02/01/35	\$ 33,130,000	\$ 1,585,000
2015B Capital Facilities Bonds	10/01/15	2.00%-4.00%	13,130,000	02/01/30	10,785,000	855,000
2015C Crossover Refunding Bonds	11/19/15	2.00%-4.00%	20,460,000	02/01/27	16,890,000	1,840,000
2017B School Building Bonds	02/21/17	3.00%-5.00%	100,365,000	02/01/37	94,950,000	2,715,000
Unamortized bond premium					8,499,178	-
Net bond payable					164,254,178	6,995,000
Certificates of participation						
2012A Certificates of Participation	02/09/12	1.00%-2.80%	1,610,000	02/01/22	444,167	170,000
2013A Certificates of Participation	02/01/13	2.00%-2.30%	5,150,000	02/01/23	1,825,000	445,000
2014A Certificates of Participation	11/05/14	1.00%-4.00%	10,000,000	02/01/35	8,170,000	235,000
2017A Certificates of Participation	02/21/17	2.00%-5.00%	16,910,000	02/01/38	16,300,000	290,000
Unamortized Premium					1,099,185	-
Net certificates of participation					27,838,352	1,140,000
Compensated absences payable					1,931,908	850,000
Total all long-term liabilities					\$ 194,024,438	\$ 8,985,000

The long-term bond liabilities listed above were issued to finance acquisition and construction of capital facilities. Compensated absences and Certificates of Participation are typically liquidated through the General Fund.

Independent School District No. 742
Notes to Financial Statements

NOTE 5 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds

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

Year Ending June 30,	G.O. Bonds	
	Principal	Interest
2020	\$ 6,995,000	\$ 5,676,519
2021	7,190,000	5,477,319
2022	7,400,000	5,265,319
2023	7,635,000	5,026,969
2024	7,885,000	4,777,318
2025-2029	44,135,000	19,068,606
2030-2034	47,745,000	10,687,625
2035-2037	26,770,000	2,035,906
Total	<u>\$ 155,755,000</u>	<u>\$ 58,015,581</u>

C. Minimum Debt Payments for Certificates of Participation

Minimum annual principal and interest payments required to retire certificates of participation:

Year Ending June 30,	Certificates of Participation	
	Principal	Interest
2020	\$ 1,140,000	\$ 1,076,843
2021	1,167,083	1,047,150
2022	1,127,084	1,015,441
2023	1,055,000	982,772
2024	1,085,000	953,362
2025-2029	6,145,000	4,044,400
2030-2034	7,625,000	2,557,225
2035-2038	7,395,000	754,200
Total	<u>\$ 26,739,167</u>	<u>\$ 12,431,393</u>

Independent School District No. 742
Notes to Financial Statements

NOTE 5 – LONG-TERM DEBT (CONTINUED)

D. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	\$ 162,590,000	\$ -	\$ 6,835,000	\$ 155,755,000
Certificates of participation	27,856,250	-	1,117,083	26,739,167
Unamortized premiums	10,220,534	-	622,171	9,598,363
Compensated absences	2,341,418	468,733	878,243	1,931,908
 Total long-term liabilities	 <u>\$ 203,008,202</u>	 <u>\$ 468,733</u>	 <u>\$ 9,452,497</u>	 <u>\$ 194,024,438</u>

NOTE 6 – FUND BALANCES/NET POSITION

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

Fund equity balances are classified on the following page to reflect the limitations and restrictions of the respective funds.

Independent School District No. 742
Notes to Financial Statements

NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)

Fund Equity

	General Fund	Food Service	Community Service	Building Construction	Debt Service	Total
Nonspendable for						
Inventory	\$ 42,268	\$ 132,246	\$ -	\$ -	\$ -	\$ 174,514
Prepaid Items	213,702	3,210	736	-	-	217,648
Total nonspendable fund balance	<u>255,970</u>	<u>135,456</u>	<u>736</u>	<u>-</u>	<u>-</u>	<u>392,162</u>
Restricted for						
Operating Capital	2,247,048	-	-	-	-	2,247,048
Gifted and Talented	87,395	-	-	-	-	87,395
Area Learning Center	767,509	-	-	-	-	767,509
Teacher Development and Evaluation	23,428	-	-	-	-	23,428
Long-Term Facilities Maintenance	61,184	-	-	-	-	61,184
Basic Skills Extended Time	657,053	-	-	-	-	657,053
Food Service	-	450,348	-	-	-	450,348
Community Education	-	-	893,545	-	-	893,545
Early Childhood and Family Education	-	-	480,995	-	-	480,995
School Readiness	-	-	636,724	-	-	636,724
Adult Basic Education	-	-	272,141	-	-	272,141
Community Service	-	-	115,172	-	-	115,172
Projects Funded by COP	-	-	-	2,026,779	-	2,026,779
Capital Projects	-	-	-	16,448,953	-	16,448,953
Debt Service	-	-	-	-	2,374,203	2,374,203
Total restricted fund balance	<u>3,843,617</u>	<u>450,348</u>	<u>2,398,577</u>	<u>18,475,732</u>	<u>2,374,203</u>	<u>27,542,477</u>
Assigned for						
Future Projects	312,405	-	-	-	-	312,405
Unassigned	12,455,987	-	-	-	-	12,455,987
Total fund balance	<u>\$ 16,867,979</u>	<u>\$ 585,804</u>	<u>\$ 2,399,313</u>	<u>\$ 18,475,732</u>	<u>\$ 2,374,203</u>	<u>\$ 40,703,031</u>

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

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

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

Independent School District No. 742
Notes to Financial Statements

NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)

Fund Equity (Continued)

A. Fund Balance

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

Restricted/Reserved for Area Learning Center – This balance represents amounts restricted for students attending area learning centers. Each district that sends students to an area learning center must restrict an amount equal to the sum of 1) at least 90 and no more than 100 percent of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to *Minnesota Statutes* 126C.10, subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved area learning center, plus (2) the amount of basic skills revenue generated by pupils attending the area learning center. The amount restricted may only be spent on program costs associated with the area learning center.

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

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

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

Restricted for Food Service – This balance represents the resources available for the food service program.

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

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

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

Restricted/Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education. This would include all state aid and any grants or local funding used in support of ABE.

Restricted for Community Service – This balance represents the remaining resources of the Community Service Fund not restricted for other programming.

Independent School District No. 742
Notes to Financial Statements

NOTE 6 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balance (Continued)

Restricted/Reserved for Building Projects Funded by Certificates of Participation (COP) – This balance represents available resources in the Building Construction Fund for projects funded by certificates of participation with related lease levy authority under *Minnesota Statutes*, Section 126C.40.

Restricted for Capital Projects – This balance represents available resources in the Building Construction Fund for projects.

Restricted for Debt Service – This amount represents the resources available to pay the principal and interest on outstanding debt.

Assigned for Future Projects – This amount represents the portion of General Fund balance that is approved for spending for future capital projects.

B. Net Position

Net position restricted for other purposes on the Statement of Net Position is comprised of the total positive position of the restricted fund balance portion of the General Fund with the exception of the operating capital reserve. This reserve is reported as restricted for capital acquisition.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans. Total pension expense for the year ended June 30, 2019, was (\$28,277,926). The components of pension expense are noted in the following plan summaries.

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

Teachers' Retirement Association

A. Plan Description

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

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

**Independent School District No. 742
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

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 I 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:

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

Tier II Benefits

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

**Independent School District No. 742
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits (Continued)

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

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

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

C. Contribution Rate

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

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

Independent School District No. 742
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

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

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.

**Independent School District No. 742
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation date	July 1, 2018
Experience study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% for ten years and 3.25% thereafter
Projected salary increase	2.85% to 8.85% for ten years and 3.25% to 9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

Mortality 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 projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

Independent School District No. 742
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

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

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

Changes in actuarial assumptions since the 2017 valuation:

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

**Independent School District No. 742
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

- Augmentation on deferred benefits will be reduced to 0.0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

E. Discount Rate

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

F. Net Pension Liability

On June 30, 2019, the District reported a liability of \$69,661,861 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019, 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 1.1091% at the end of the measurement period and 1.1630% 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	\$ 69,661,861
State's proportionate share of the net pension liability associated with the District	6,544,927

For the year ended June 30, 2018, the District recognized pension expense of (\$28,960,959). It recognized (\$4,567,936) as an increase to this pension expense for the support provided by direct aid.

**Independent School District No. 742
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 758,516	\$ 1,465,068
Net difference between projected and actual earnings on plan investments	-	5,816,626
Changes of assumptions	90,400,389	119,987,894
Changes in proportion	8,342,308	8,966,181
Contributions to TRA subsequent to the measurement date	4,871,249	-
Total	\$ 104,372,462	\$ 136,235,769

\$4,871,249 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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

Year Ended June 30,	Pension Expense Amount
2020	\$ 6,976,053
2021	4,111,443
2022	(316,601)
2023	(26,885,785)
2024	(20,619,666)
Total	\$ (36,734,556)

**Independent School District No. 742
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

G. Pension Liability Sensitivity

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

District proportionate share of NPL		
1% decrease (6.50%)	Current (7.50%)	1% increase (8.50%)
\$ 110,553,092	\$ 69,661,861	\$ 35,926,866

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

H. Pension Plan Fiduciary Net Position

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

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Plan

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

B. Benefits Provided

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

Independent School District No. 742
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

General Employees Plan Benefits

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

Beginning January 1, 2019, benefit recipients will receive a future annual increase equal to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2019, were \$1,613,178. The District's contributions were equal to the required contributions as set by state statute.

**Independent School District No. 742
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2019, the District reported a liability of \$17,524,837 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 \$574,913. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the District's proportionate share was 0.3159% at the end of the measurement period and 0.3392% for the beginning of the period.

School's proportionate share of the net pension liability	\$ 17,524,837
State of Minnesota's proportionate share of the net pension liability associated with the School	<u>574,913</u>
Total	<u><u>\$ 18,099,750</u></u>

For the year ended June 30, 2019, the District recognized pension expense of \$683,033 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$134,069 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, 2018, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the sources on the following page:

Independent School District No. 742
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 496,533	\$ 497,370
Changes in actuarial assumptions	1,629,015	2,068,515
Difference between projected and actual investments earnings	-	2,035,930
Changes in proportion	1,291,002	1,163,530
District's contributions to PERA subsequent to the measurement date	1,613,178	-
Total	\$ 5,029,728	\$ 5,765,345

\$1,613,178 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2020	\$ 669,628
2021	(795,654)
2022	(1,856,997)
2023	(365,772)
Total	\$ (2,348,795)

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:

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

Independent School District No. 742
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

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

The following changes in actuarial assumptions occurred in 2018:

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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.

**Independent School District No. 742
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

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

F. Discount Rates

The discount rate used to measure the total pension liability in 2018 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
District's proportionate share of the PERA net pension liability	\$ 28,480,103	\$ 17,524,837	\$ 8,481,577

**Independent School District No. 742
Notes to Financial Statements**

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

H. Pension Plan Fiduciary Net Position

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees and their spouses through the District's self-insured health insurance plan. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Benefits Paid

At retirement, employees of the District receiving a retirement or disability benefit, or eligible to receive a benefit, from a Minnesota public pension plan may continue to participate in the District's group health insurance plan. Certain employees are also eligible for retiree insurance benefits as described in Note 1.N.

C. Members

As of June 30, 2018, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	26
Active employees waiving coverage	425
Active employees electing coverage	988
Total	1,439

D. Contributions

Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with health insurance providers. The required contributions are based on projected pay-as-you-go financing requirements. For 2019, the District contributed \$635,208 in District paid premiums for retirees to the plan.

**Independent School District No. 742
Notes to Financial Statements**

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of June 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Discount Rate	3.62%, used index rate for 20-Year, tax exempt municipal bonds (fidelity 20-Year Municipal G.O. AA Index)
Inflation	2.50%
Healthcare cost trend increases	6.9% initially, decreasing over several decades to an ultimate rate of 4.0% in FY 2076 and later years.
Mortality Assumption	RP-2014 mortality tables, with projected mortality improvements based in scale MP-2015 and other adjustments for teachers and scale MP-2017 and other adjustments for non-teachers

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period July 1, 2017 – June 30, 2018.

The discount rate used to measure the total OPEB liability was 3.62%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at rates equal to the actuarially determined contribution rates.

F. Total OPEB Liability

The District's total OPEB liability of \$8,059,418 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

Independent School District No. 742
Notes to Financial Statements

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Total OPEB Liability (Continued)

Changes in the total OPEB liability are as follows:

	<u>Total OPEB Liability</u>
Balances at June 30, 2018	<u>\$ 8,043,185</u>
Changes for the year	
Service cost	533,823
Interest	285,572
Differences between expected and actual economic experience	54,882
Changes of assumptions	252,614
Employer contributions	<u>(1,110,658)</u>
Net changes	<u>16,233</u>
Balances at June 30, 2019	<u><u>\$ 8,059,418</u></u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.56% in 2017 to 3.62% in 2018.

G. OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.56% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	(2.62%)	(3.62%)	(4.62%)
Total OPEB Liability	\$ 8,494,229	\$ 8,059,418	\$ 7,631,501

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

	1% decrease (5.9% decreasing to 3.0%)	Current (6.9% decreasing to 4.0%)	1% increase (7.9% decreasing to 5.0%)
Total OPEB Liability	\$ 7,908,048	\$ 8,059,418	\$ 8,236,851

Independent School District No. 742
Notes to Financial Statements

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

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

For the year ended June 30, 2019, the District recognized OPEB expense of \$824,091. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Outflows of Resources	Inflows of Resources
Difference between expected and actual liability	\$ 49,861	\$ -
Changes of assumptions	229,502	202,025
Contributions made subsequent to the measurement date	635,208	-
Total	\$ 914,571	\$ 202,025

\$635,208 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

Year Ending June 30,	Total
2020	\$ 4,696
2021	4,696
2022	4,696
2023	4,696
2024	4,696
Thereafter	53,858
Total	\$ 77,338

Independent School District No. 742
Notes to Financial Statements

NOTE 9 – RISK MANAGEMENT

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

Since 2009, the District has provided a dental care self-insurance program. Under this program, the fund provides up to a maximum of \$1,000 for each dental claim. All funds of the District participate in this program and make payments to the Dental Insurance Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The total claims liability reported in the fund at June 30, 2019, was \$106,242 which is comprised of the liability for known claims as well as an estimate for claims incurred but not yet reported. Changes in the fund's claims liability amounts for the past three years are as follows.

Year	Beginning Balance	Claims Expense and Estimates	Claims Payments	Ending Balance
2017	\$ 82,719	\$ 1,242,349	\$ 1,213,401	\$ 111,667
2018	111,667	1,049,496	1,069,017	92,146
2019	92,146	1,107,382	1,093,286	106,242

Since 2014, the District has provided a health care self-insurance program. Under this program, the fund provides up to a maximum of \$200,000 for each health claim. All funds of the District participate in this program and make payments to the Health Insurance Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates it is probable a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The total claims liability reported in the fund at June 30, 2019, was \$1,656,597 which is comprised of the liability for known claims as well as an estimate for claims incurred but not yet reported. Changes in the fund's claims liability amounts for the past three years are as follows:

Year	Beginning Balance	Claims Expense and Estimates	Claims Payments	Ending Balance
2017	\$ 1,447,679	\$ 14,103,894	\$ 14,222,258	\$ 1,329,315
2018	1,329,315	14,625,595	14,432,605	1,522,305
2019	1,522,305	13,181,218	13,046,926	1,656,597

Independent School District No. 742
Notes to Financial Statements

NOTE 10 – CONTINGENCIES

A. Lawsuits

There are several lawsuits pending in which the District is involved. The District estimates the potential claims against the District, not covered by insurance resulting from such litigation, would not materially affect the financial statements of the District.

B. Program Compliance

Federal and state program activities are subject to financial and compliance regulation. To the extent any expenditures are disallowed or other compliance features are not met, a liability to the respective grantor agencies could result.

NOTE 11 – COMMITMENTS

As of June 30, 2019, the District had construction commitments totaling \$5,866,912 related to various projects in process.

NOTE 12 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 742
Schedule of Changes in Total OPEB Liability
and Related Ratios

	<u>June 30, 2018</u>	<u>June 30, 2019</u>
Total OPEB Liability		
Service cost	\$ 551,968	\$ 533,823
Interest	248,357	285,572
Differenced between expected and actual experience	-	54,882
Changes of assumptions	(248,899)	252,614
Benefit payments	<u>(923,271)</u>	<u>(1,110,658)</u>
Net change in total OPEB liability	<u>(371,845)</u>	<u>16,233</u>
Beginning of year	<u>8,415,030</u>	<u>8,043,185</u>
End of year	<u>\$ 8,043,185</u>	<u>\$ 8,059,418</u>
Covered payroll	\$ 85,506,873	\$ 85,312,922
Total OPEB liability as a percentage of covered-employee payroll	9.41%	9.45%

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

Independent School District No. 742
Schedule of District's and Non-Employer Proportionate Share
(if Applicable) of Net Pension Liability
Last Ten Years General Employees Retirement Fund

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.3412%	\$16,027,867	\$ -	\$ 16,027,867	\$ 17,914,041	89.5%	78.7%
2015	0.3111%	16,122,817	-	16,122,817	17,982,867	89.7%	78.2%
2016	0.3074%	24,959,355	325,963	25,285,318	19,074,613	130.9%	68.9%
2017	0.3392%	21,654,304	272,264	21,926,568	21,850,400	99.1%	75.9%
2018	0.3159%	17,524,837	574,913	18,099,750	21,232,667	82.5%	79.5%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	1.1334%	\$52,226,256	\$ 3,673,947	\$ 55,900,203	\$ 51,738,486	100.9%	81.50%
2015	1.0964%	67,823,183	8,319,269	76,142,452	55,648,787	121.9%	76.77%
2016	1.1151%	265,977,956	26,696,660	292,674,616	58,007,307	458.5%	44.88%
2017	1.1630%	232,155,897	22,441,352	254,597,249	62,603,053	370.8%	51.57%
2018	1.1091%	69,661,861	6,544,927	76,206,788	61,275,573	113.7%	78.07%

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

**Independent School District No. 742
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years**

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 1,298,768	\$ 1,298,768	\$ -	\$ 17,914,041	7.25%
2015	1,348,715	1,348,715	-	17,982,867	7.50%
2016	1,430,596	1,430,596	-	19,074,613	7.50%
2017	1,638,780	1,638,780	-	21,850,400	7.50%
2018	1,592,450	1,592,450	-	21,232,667	7.50%
2019	1,613,178	1,613,178	-	21,509,040	7.50%

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

**Schedule of District Contributions
TRA Retirement Fund
Last Ten Years**

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 3,621,694	\$ 3,621,694	\$ -	\$ 51,738,486	7.00%
2015	4,173,659	4,173,659	-	55,648,787	7.50%
2016	4,350,548	4,350,548	-	58,007,307	7.50%
2017	4,695,229	4,695,229	-	62,603,053	7.50%
2018	4,595,668	4,595,668	-	61,275,573	7.50%
2019	4,871,249	4,871,249	-	63,180,921	7.71%

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

Independent School District No. 742
Notes to the Required Supplementary Information

TRA Retirement Fund

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was increased to 7.5% from 5.12%.
- The cost of living adjustment (COLA) was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% on January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019, and ending July 1, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0.0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers was reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next six years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

2017 Changes

Changes in Actuarial Assumptions

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

Independent School District No. 742
Notes to the Required Supplementary Information

TRA Retirement Fund (Continued)

2016 Changes

Changes in Actuarial Assumptions

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

2015 Changes

Changes of Benefit Terms

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

Changes in Actuarial Assumptions

The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

Independent School District No. 742
Notes to the Required Supplementary Information

General Employees Fund

2018 Changes

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0% to 3.0%, beginning July 1, 2018.
- Deferred augmentation was changed to 0.0%, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

Changes in Actuarial Assumptions

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

2016 Changes

Changes in Actuarial Assumptions

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

Independent School District No. 742
Notes to the Required Supplementary Information

General Employees Fund (Continued)

2015 Changes

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

OPEB Health Care Plan

2018 Changes

Changes in Actuarial Assumptions

- The discount rate was increased to 3.62% from 3.56%.
- The inflation rate was decreased to 2.5% from 2.75%.

SUPPLEMENTARY INFORMATION

Independent School District No. 742
Combining Statement of Net Position - Internal Service Funds
June 30, 2019

	Dental Insurance	Health Insurance	OPEB	Total Internal Service Funds
Assets				
Cash and investments	\$ 601,338	\$ 6,583,234	\$ 1,255,644	\$ 8,440,216
Due from other funds	-	269,825	-	269,825
Total assets	\$ 601,338	\$ 6,853,059	\$ 1,255,644	\$ 8,710,041
Liabilities				
Insurance claims payable	\$ 106,242	\$ 1,656,597	\$ -	\$ 1,762,839
Due to other funds	-	-	269,825	269,825
Total liabilities	106,242	1,656,597	269,825	2,032,664
Net Position				
Unrestricted	495,096	5,196,462	985,819	6,677,377
Total liabilities and net position	\$ 601,338	\$ 6,853,059	\$ 1,255,644	\$ 8,710,041

Independent School District No. 742
Combining Statement of Revenues, Expenses, and Changes
in Fund Net Position - Internal Service Funds
Year Ended June 30, 2019

	Dental Insurance	Health Insurance	OPEB	Total Internal Service Funds
Operating Revenue				
Charges for services	\$ 1,140,932	\$ 15,983,753	\$ -	\$ 17,124,685
Retiree contributions	-	-	530,718	530,718
Total operating revenues	<u>1,140,932</u>	<u>15,983,753</u>	<u>530,718</u>	<u>17,655,403</u>
Operating Expenses				
Insurance claims	1,107,382	13,242,800	-	14,350,182
Insurance premiums	-	-	530,718	530,718
Total operating expenses	<u>1,107,382</u>	<u>13,242,800</u>	<u>530,718</u>	<u>14,880,900</u>
Operating income	33,550	2,740,953	-	2,774,503
Nonoperating Revenue				
Investment income	<u>6,866</u>	<u>38,728</u>	<u>31,232</u>	<u>76,826</u>
Change in net position	40,416	2,779,681	31,232	2,851,329
Net Position				
Beginning of year	<u>454,680</u>	<u>2,416,781</u>	<u>954,587</u>	<u>3,826,048</u>
End of year	<u>\$ 495,096</u>	<u>\$ 5,196,462</u>	<u>\$ 985,819</u>	<u>\$ 6,677,377</u>

Independent School District No. 742
Combining Statement of Cash Flows - Internal Service Funds
Year Ended June 30, 2019

	<u>Dental Insurance</u>	<u>Health Insurance</u>	<u>OPEB</u>	<u>Total Internal Service Funds</u>
Cash Flows - Operating Activities				
Employee insurance deductions received from other funds	\$ 1,140,932	\$ 16,383,753	\$ -	\$ 17,524,685
Receipts from retirees	-	-	530,718	530,718
Insurance claims and fees paid	(1,093,286)	(13,108,508)	-	(14,201,794)
Insurance premiums paid	-	-	(930,718)	(930,718)
Net cash flows - operating activities	<u>47,646</u>	<u>3,275,245</u>	<u>(400,000)</u>	<u>2,922,891</u>
Cash Flows - Investing Activities				
Interest received	<u>6,866</u>	<u>38,728</u>	<u>31,232</u>	<u>76,826</u>
Net Change in Cash and Cash Equivalents	54,512	3,313,973	(368,768)	2,999,717
Cash and Cash Equivalents				
Beginning of year	<u>546,826</u>	<u>3,269,261</u>	<u>1,624,412</u>	<u>5,440,499</u>
End of year	<u>\$ 601,338</u>	<u>\$ 6,583,234</u>	<u>\$ 1,255,644</u>	<u>\$ 8,440,216</u>
Reconciliation of Operating Income (Loss) to Net Cash Flows- Operating Activities				
Operating income	\$ 33,550	\$ 2,740,953	\$ -	\$ 2,774,503
Adjustments to reconcile operating income to net cash flows - operating activities				
Change in due from other funds	-	400,000	-	400,000
Change in insurance claims payable	14,096	134,292	-	148,388
Change in due to other funds	-	-	(400,000)	(400,000)
Net cash flows - operating activities	<u>\$ 47,646</u>	<u>\$ 3,275,245</u>	<u>\$ (400,000)</u>	<u>\$ 2,922,891</u>

Independent School District No. 742
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 Fund			
Total revenue	\$ 147,192,262	\$ 147,192,263	\$ (1)	Total revenue	\$ 1,844,739	\$ 1,844,739	\$ -
Total expenditures	144,339,633	144,339,633	-	Total expenditures	63,165,562	63,165,559	3
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	255,970	255,970	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
406 Health and Safety	-	-	-	413 Building Projects Funded by COP	2,026,779	2,026,779	-
407 Capital Projects Levy	-	-	-	467 Long-term Facilities Maintenance	-	-	-
408 Cooperative Programs	-	-	-	<i>Restricted:</i>			
413 Project Funded by COP	-	-	-	464 Restricted fund balance	16,448,953	16,448,954	(1)
414 Operating Debt	-	-	-	<i>Unassigned:</i>			
416 Levy Reduction	-	-	-	463 Unassigned fund balance	-	-	-
417 Taconite Building Maintenance	-	-	-	07 Debt Service Fund			
424 Operating Capital	2,247,048	2,247,048	-	Total revenue	\$ 13,329,983	\$ 13,329,982	\$ 1
426 \$25 Taconite	-	-	-	Total expenditures	12,679,937	12,679,939	(2)
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable fund balance	-	-	-
434 Area Learning Center	767,509	767,509	-	<i>Restricted/reserved:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond refundings	-	-	-
436 State Approved Alternative Program	-	-	-	433 Maximum effort loan aid	-	-	-
438 Gifted and Talented	87,395	87,395	-	451 QZAB payments	-	-	-
440 Teacher Development and Evaluation	23,428	23,428	-	<i>Restricted:</i>			
441 Basic Skills Programs	-	-	-	464 Restricted fund balance	2,374,203	2,374,201	2
448 Achievement and Integration	-	-	-	<i>Unassigned:</i>			
449 Safe School Crime	-	-	-	463 Unassigned fund balance	-	-	-
450 Transition to Pre-Kindergarten	-	-	-	08 Trust Fund			
451 QZAB Payments	-	-	-	Total revenue	\$ 65,555	\$ 65,555	\$ -
452 OPEB Liabilities not Held in Trust	-	-	-	Total expenditures	52,332	52,332	-
453 Unfunded Severance and Retirement Levy	-	-	-	<i>Unassigned:</i>			
459 Basic Skills - Extended Time	657,053	657,053	-	422 Net position	240,888	240,888	-
467 Long-term Facilities Maintenance	61,184	61,184	-	20 Internal Service Fund			
472 Medical Assistance	-	-	-	Total revenue	\$ 17,170,279	\$ 17,170,279	\$ -
475 Title VII - Impact Aid	-	-	-	Total expenditures	14,350,182	14,350,181	1
476 Payments in Lieu of Taxes	-	-	-	<i>Unassigned:</i>			
<i>Restricted:</i>				422 Net position	5,691,558	5,691,558	-
464 Restricted fund balance	-	-	-	25 OPEB Revocable Trust			
<i>Committed:</i>				Total revenue	\$ 561,950	\$ 561,950	\$ -
418 Committed for separation	-	-	-	Total expenditures	530,718	530,718	-
461 Committed	-	-	-	<i>Unassigned:</i>			
<i>Assigned:</i>				422 Net position	985,819	985,819	-
462 Assigned fund balance	312,405	312,405	-	45 OPEB Irrevocable Trust			
<i>Unassigned:</i>				Total revenue	\$ -	\$ -	\$ -
422 Unassigned fund balance	12,455,987	12,455,986	1	Total expenditures	-	-	-
02 Food Services Fund				<i>Unassigned:</i>			
Total revenue	\$ 5,823,157	\$ 5,823,159	\$ (2)	422 Net position	-	-	-
Total expenditures	5,799,058	5,799,059	(1)	47 OPEB Debt Service			
<i>Nonspendable:</i>				Total revenue	\$ -	\$ -	\$ -
460 Nonspendable fund balance	135,456	135,456	-	Total expenditures	-	-	-
<i>Restricted/reserved:</i>				<i>Nonspendable:</i>			
452 OPEB liabilities not held in trust	-	-	-	460 Nonspendable fund balance	-	-	-
<i>Restricted:</i>				<i>Restricted:</i>			
464 Restricted fund balance	450,348	450,348	-	425 Bond refunding	-	-	-
<i>Unassigned:</i>				464 Restricted fund balance	-	-	-
463 Unassigned fund balance	-	-	-	<i>Unassigned:</i>			
04 Community Service Fund				463 Unassigned fund balance	-	-	-
Total revenue	\$ 6,509,017	\$ 6,509,018	\$ (1)				
Total expenditures	5,887,832	5,887,831	1				
<i>Nonspendable:</i>							
460 Nonspendable fund balance	736	736	-				
<i>Restricted/reserved:</i>							
426 \$25 Taconite	-	-	-				
431 Community Education	893,545	893,545	-				
432 ECFE	480,995	480,995	-				
444 School Readiness	636,724	636,724	-				
447 Adult Basic Education	272,141	272,141	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted fund balance	115,172	115,173	(1)				
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-				

Independent School District No. 742
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
School Breakfast Program	10.553	\$ 946,234
Child Nutrition Type A Lunch	10.555	2,765,920
Commodities (Noncash)	10.555	475,467
Commodities Rebates	10.555	17,824
Special Milk	10.556	4,766
Total Child Nutrition Cluster		4,210,211
Fresh Fruit and Vegetable Program	10.582	128,835
Total U.S. Department of Agriculture		4,339,046
U.S. Department of Education		
Received Directly		
Indian Education Grants to Local Education Agencies	84.060	35,513
Through Minnesota Department of Education		
Adult Basic Education	84.002	128,164
Title I, Part A	84.010	2,870,249
Title I, Part D	84.013	25,063
Special Education Cluster		
Special Education	84.027	2,029,605
Disabled Early Education	84.173	98,362
Total Special Education Cluster		2,127,967
Autism Spectrum Disorder	84.323	6,236
Infants and Toddlers	84.181	70,208
Education for Homeless Children and Youths	84.196	40,002
Title III, Part A - English Language Acquisition	84.365	270,587
Title II, Part A - Supporting Effective Instruction	84.367	437,485
Title IV - Well Rounded Education	84.424	38,861
Through Independent School District No. 966 - Wright Technical Center:		
Carl Perkins	84.048	97,613
Total U.S. Department of Education		6,147,948
Total Federal Expenditures		\$ 10,486,994

Independent School District No. 742
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2019

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – PASS-THROUGH GRANT NUMBERS

All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 3 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

NOTE 4 – INDIRECT COST RATE

The District did not elect to use the 10 percent de minimis indirect cost rate.

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**Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an Audit
of Financial Statements Performed in Accordance
with *Government Auditing Standards***

Independent Auditor's Report

To the School Board
Independent School District No. 742
St. Cloud, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 742, St. Cloud, Minnesota, as of and for the year ending June 30, 2019, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 31, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance that we consider to be a significant deficiency in internal control, Audit Finding 2019-001.

Compliance and Other Matters

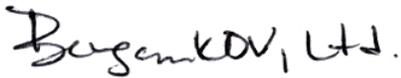
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

District's Response to the Findings

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

Purpose of this Report

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



St. Cloud, Minnesota
October 31, 2019

**Report on Compliance for each Major Federal Program and on Internal Control
over Compliance Required by the Uniform Guidance**

Independent Auditor's Report

To the School Board
Independent School District No. 742
St. Cloud, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the compliance of Independent School District No. 742, St. Cloud, Minnesota with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 742 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

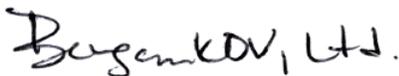
Report on Internal Control over Compliance

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

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

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

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



St. Cloud, Minnesota
October 31, 2019

**Independent School District No. 742
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes, Audit Finding 2019-001
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

CFDA No.:	84.027, 84.173
Name of Federal Program or Cluster:	Special Education Cluster
	84.010
	Title I, Part A
Dollar threshold used to Distinguish between type A and type B programs:	\$750,000
Auditee qualified as low risk auditee?	No

**Independent School District No. 742
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2019-001

Criteria or Specific Requirement:

Internal control that supports the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:

During the year ended June 30, 2019, the District had a lack of segregation of accounting duties due to a limited number of office employees. Examples of the lack of segregation of accounting duties include, but are not limited to the following:

- The Executive Director of Finance and Business Services has full access to the general ledger.
- The Controller records and maintains capital asset records and can also approve purchase orders.
- Secretaries at the elementary schools receipt cash, prepare the deposit, and bring the deposit to the bank. In addition, there is no reconciliation of these receipts to the actual deposit.
- The Business Services Bookkeeper receipts cash, posts amounts into the finance system, prepares the deposit, and makes the deposit.
- There is no documentation that amounts deposited into the bank are reconciled with revenues recorded in the general ledger.
- The Payroll Secretary enters timecard information into the system, reviews information, and processes payroll.
- There is no documentation of approval on bank reconciliations by District Office staff.
- The Secretary to the Community Education Director receipts, community education cash, prepares the deposit, and brings the deposit to the bank.
- The process for entering NPA forms and changes into the HR system is inefficient. Many employees are authorized to enter these changes based on the type of change. No one is reviewing changes made to the system.

Context:

This finding impacts the internal control for all significant accounting functions.

Effect:

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

**Independent School District No. 742
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2019-001 (Continued)

Cause:

There are a limited number of office employees.

Recommendation:

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding
The District will continue to evaluate the benefits compared to the costs of increased internal controls.
3. Official Responsible for Ensuring CAP
Amy Skaalerud, Executive Director of Finance and Business Services, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is June 30, 2020.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP by following up on these items as needed with the Interim Executive Director of Business Services.

SCHEDULE III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

**Independent School District No. 742
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Audit Finding 2018-001

During the course of our June 30, 2018 engagement, we noted the District was not following its procurement policy.

CORRECTIVE ACTION TAKEN:

The District followed the approved procurement policy during the year ended June 30, 2019.

Minnesota Legal Compliance

Independent Auditor's Report

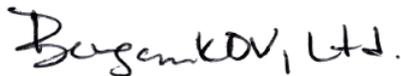
To the School Board
Independent School District No. 742
St. Cloud, Minnesota

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. 742, St. Cloud, Minnesota, as of and for the year ended June 30, 2019, and the related notes to financial statements, and have issued our report thereon dated October 31, 2019.

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

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

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



St. Cloud, Minnesota
October 31, 2019