INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
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ROSTER OF SCHOOL OFFICIALS
June 30, 2019

School Board Members and Officers

Michael Barrett	Chairperson
Chris Jourdain	Vice-Chairperson
Rob McClain	Treasurer
Barbara Thomas	Clerk
Douglas Desjarlait	Director
Roy Nelson	Director
Marcus Tyler	Director

Administration

Melinda Crowley	Superintendent
Willie Larson	Business Manager

BradyMartz

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Independent School District No. 38
Red Lake, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 38, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 38, as of June 30, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

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 combining statements, schedule of changes in fund balances, compliance table, and student activity detail as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The 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 not a required part of the basic financial statements.

The combining statements, schedule of changes in fund balances, compliance table, schedule of expenditures of federal awards, notes to schedule of expenditures of federal awards, and student activity detail are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, schedule of changes in fund balances, compliance table, schedule of expenditures of federal awards, and student activity detail 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 November 22, 2019 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

November 22, 2019

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This section of Independent School District No. 38's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

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

- General fund balance increased by $3,355,746.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and 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.
  - The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short-term* as well as what remains for future spending.
  - The *fiduciary fund statement* provides information about the financial relationship in which the District acts solely as an agent for the benefit of others.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general fund budget for the year, and supplementary information that is presented for additional 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, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. 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, liabilities, and deferred inflows/outflows of resources – is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional nonfinancial factors such as 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*: All of the District's basic services are included here, such as regular and special education, transportation, and administration. Federal and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as accounting for capital projects) or to show that it is properly using certain revenues.

The District has two kinds of funds:

- Governmental funds: The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, reconciliations have been provided following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances to help explain the relationship (or differences) between the governmental funds and governmental activities.

  The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data is provided in the form of combining statements elsewhere in this report.

- 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 the funds are used only by those to whom the assets belong. The District's fiduciary activities (Scholarship Trust Fund) 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

Net Position

The District's combined net position was $(72,210,510) on June 30, 2019 (see details in Table A-1). This was an increase of 6.5 percent from the prior year.

Table A-1
Statement of Net Position

	2019	2018	Total Percentage Change
Current and Other Assets	$ 25,487,185	$ 21,068,139	21.0 %
Capital Assets	51,559,442	51,078,071	0.9
Total Assets	77,046,627	72,146,210	6.8
Deferred Outflows of Resources	20,160,477	25,640,059	(21.4)
Long-term Liabilities	139,145,260	162,491,229	(14.4)
Other Liabilities	4,644,111	3,814,032	21.8
Total Liabilities	143,789,371	166,305,261	(13.5)
Deferred Inflows of Resources	25,628,243	8,743,397	193.1
Net Position			
Net Investment in Capital Assets	(5,052,999)	(5,534,370)	8.7
Restricted	2,157,378	1,617,556	33.4
Unrestricted	(69,314,889)	(73,345,575)	5.5
Total Net Position	$ (72,210,510)	$ (77,262,389)	6.5 %

Change in Net Position

Table A-2 presents the change in net position of the District.

Table A-2
Change in Net Position

	2019	2018	Total Percentage Change
Revenues			
Program Revenues			
Charges for Services	$ 330,326	$ 222,097	48.7 %
Operating Grants and Contributions	10,613,511	11,091,951	(4.3)
Capital Grants and Contributions	1,426,969	689,933	106.8
General Revenues			
Property Taxes	4,171	7,567	(44.9)
Unrestricted State Aid	13,935,836	13,814,922	0.9
Unrestricted Federal Aid	14,351,805	10,832,148	32.5
Other Sources	754,842	423,845	78.1
Total Revenues	41,417,460	37,082,463	11.7
Expenses			
Administration	1,985,906	1,868,120	6.3
District Support Services	1,202,990	1,019,611	18.0
Elementary & Secondary Regular Instruction	9,488,773	20,055,093	(52.7)
Vocational Education Instruction	142,696	234,011	(39.0)
Special Education Instruction	5,710,398	5,273,597	8.3
Community Education and Services	637,912	618,693	3.1
Instructional Support Services	2,812,485	2,129,020	32.1
Pupil Support Services	3,277,116	3,265,139	0.4
Sites and Buildings	4,986,501	4,473,755	11.5
Fixed Costs	180,462	169,364	6.6
Interest on Long-Term Debt	4,638,948	4,445,305	4.4
Depreciation - Unallocated	1,301,394	1,302,364	(0.1)
Total Expenses	36,365,581	44,854,072	(18.9)
Change in Net Position	5,051,879	(7,771,609)	165.0
Net Position - Beginning	(77,262,389)	(69,490,780)	(11.2)
Net Position - Ending	$ (72,210,510)	$ (77,262,389)	6.5 %

The District’s total revenues were $41,417,460 for the year ended June 30, 2019. Federal and state aid payments accounted for 99 percent of total revenue for the year.

The total cost of all programs and services was $36,365,581. The District’s expenses are predominantly related to educating and caring for students.

Total revenues surpassed expenses, increasing net position $5,051,879 over last year. For the year ended June 30, 2019, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA increased net position by $5,577,937. For the year ended June 30, 2018, the net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA decreased net position by $5,383,453.

The net cost of governmental activities is their total costs less program revenues applicable to each category.

Table A-3 presents these net costs.

Table A-3
Net Cost of Governmental Activities

	Total Cost of Services		Total Percentage	Net Cost of Services		Total Percentage
	2019	2018	Change	2019	2018	Change
Expenses						
Administration	$ 1,985,906	$ 1,868,120	6.3 %	$ 1,985,906	$ 1,868,120	6.3 %
District Support Services	1,202,990	1,019,611	18.0	1,202,990	1,019,611	18.0
Elementary & Secondary Regular Instruction	9,488,773	20,055,093	(52.7)	3,866,685	13,842,385	(72.1)
Vocational Education Instruction	142,696	234,011	(39.0)	125,909	210,624	(40.2)
Special Education Instruction	5,710,398	5,273,597	8.3	2,897,202	2,557,110	13.3
Community Education and Services	637,912	618,693	3.1	102,650	144,002	(28.7)
Instructional Support Services	2,812,485	2,129,020	32.1	2,266,986	1,741,847	30.1
Pupil Support Services	3,277,116	3,265,139	0.4	1,652,963	1,507,389	9.7
Sites and Buildings	4,986,501	4,473,755	11.5	3,772,680	4,041,970	(6.7)
Fixed Costs	180,462	169,364	6.6	180,462	169,364	6.6
Interest on Long-Term Debt	4,638,948	4,445,305	4.4	4,638,948	4,445,305	4.4
Depreciation - Unallocated	1,301,394	1,302,364	(0.1)	1,301,394	1,302,364	(0.1)
	$ 36,365,581	$ 44,854,072	(18.9) %	$ 23,994,775	$ 32,850,091	(27.0) %

Financial Analysis of the District's Funds

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

Table A-4
Major Funds

	Fund Balance			Percentage
	2019	2018	Increase	Increase
Governmental Funds				
General	$ 20,714,571	$ 17,358,825	$ 3,355,746	19.3 %

The general fund balance increased as a result of the District monitoring and controlling expenses.

General Fund

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

Table A-5 presents a summary of general fund revenue.

Table A-5
General Fund Revenue

	2019	2018	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	$ 4,171	$ 3,349	$ 822	24.5 %
Interest Earnings	473,703	229,411	244,292	106.5
Other	310,002	240,527	69,475	28.9
State Sources	22,412,312	22,093,452	318,860	1.4
Federal Sources	17,256,698	12,749,824	4,506,874	35.3
Other	40,173	10,279	29,894	290.8
Total General Fund Revenue	$ 40,497,059	$ 35,326,842	$ 5,170,217	14.6 %

Total general fund revenue increased by $5,170,217 or 14.6 percent from the previous year. Basic general education revenue is determined by a state per student funding formula.

Table A-6 presents a summary of general fund expenditures.

Table A-6
General Fund Expenditures

	2019	2018	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 19,315,444	$ 17,799,788	$ 1,515,656	8.5 %
Employee Benefits	8,526,006	7,675,146	850,860	11.1
Purchased Services	3,606,458	3,496,802	109,656	3.1
Supplies and Materials	2,018,084	2,031,900	(13,816)	(0.7)
Capital Expenditures	3,166,500	913,097	2,253,403	246.8
Debt Service	180,708	180,708		
Other Expenditures	197,331	168,852	28,479	16.9
Total General Fund Expenditures	$ 37,010,531	$ 32,266,293	$ 4,744,238	14.7 %

Total general fund expenditures increased $4,744,238 or 14.7 percent from the previous year.

General Fund Budgetary Highlights

The District adopted its original budget in June 2018. During the year ended June 30, 2019, the District revised its budget.

The District's budget for the general fund anticipated that revenues would exceed expenditures and other financing uses by $2,424,728 and the actual results for the year show a surplus of $3,355,746.

Capital Assets and Debt Administration

Capital Assets

Note 3 to the financial statements presents an analysis of capital asset transactions occurring during the year ended June 30, 2019. Additions totaling $2,489,756 mainly consisting of a construction project, building remodeling, a cooling unit, oven, water heater, and four vehicles. The District also had disposals of $43,542 which consisted of one vehicle.

Long-Term Debt

At year-end, the District had $118,007,810 of long-term debt. This consisted of capital loan payable of $56,612,441 and accrued interest on the capital loan payable of $61,395,369. Note 6 to the financial statements presents the details and payment provisions of these items.

Factors Bearing on the District's Future

Student Enrollment

The District closely monitors and evaluates student enrollment (ADM) and attendance.

In the FY 2007 the District adopted a strategic plan which included a comprehensive review of its curriculum and a student behavior management plan that focuses on community building and personal responsibility. The implementation of these and many other initiatives are designed to help bolster the District's academic rigor and provide students with a safe and healthy learning environment. With the implementation of these initiatives, the District has seen an increase in student enrollment, a decrease in student absenteeism and a decrease in student disciplinary referral actions.

An analysis of District enrollment trends reveals steady to slight increase in K-12 enrollment. This is due to the following factors.

- A flattening of the birth rate among district residents.
- A decrease in the number of students who open enroll out of the District beginning in the 5th grade.
- A decrease in the number of students dropping out of school.
- An increase in the number of students accessing district alternative education programs.

The District anticipates enrollment growth will begin to level off beginning in FY 2020.

Staffing

The District estimates the annual rate of staff turnover will be approximately 5% for FY 2020 and 2021. The District is expecting four (4) retirements at the end of FY 2020.

The District continues to struggle with attracting adequate pools of candidates for all open positions (licensed and non-licensed). Looking forward, the District anticipates that it will not be able to fill all open positions. Specifically, positions in special education, language arts and mathematics will go unfilled or will be filled with licensed staff requiring personnel variances.

As of June 30, 2019, the District entered into employment agreements with the Teachers Union. This agreement expires on June 30, 2021. The employment agreements with the Principals Union and MSEA Union expire on June 30, 2019; the District and unions are currently in negotiations.

Political Environment - Federal

The political environment at the Federal level has a significant effect on Red Lake School District's future finances. Federal funding accounts for approximately 40% of the District's General Fund budget. Federal Impact Aid, which accounts for 28% of the District's general fund budget is not forward funded and therefore subject to the annual appropriation process. The District is a member of the National Association of Federally Impact Schools (NAFIS) which provides Congress and the President with eligibility data regarding federally impacted students who reside on Indian lands, military bases, federal properties and low rent units. NAFIS members actively receive the support of a bipartisan coalition in both the U.S. Senate and U.S. House of Representatives in regard to Federal Impact Aid Appropriations.

Political Environment - State

State General Education Aid accounts for 60% of the District's General Fund budget.

Due to 99% of the real property within the District boundaries being held in federal trust, the District does not have a large enough tax base to be able to issue capital building bonds to build or remodel capital facilities. Rather, the Red Lake School District must request Maximum Effort Capital Loans from the State of Minnesota. As per Minnesota Statute 126C.69, the District may apply to the State for a Maximum Effort Capital Loan. The loan must be approved by the legislature and approved by the governor. The District first requested a capital loan in 1992 to build a new elementary school and develop a plan for further improvement of facilities. The legislature has never fully funded the District's loan requests, but provided partial funding in 2000, 2002, 2005, 2014 and 2018. The term of each loan is 50 years. Since the District is not able to levy adequate funds to fully pay the loan, the State of Minnesota will forgive the unpaid balance at the maturity of each loan.

Educational Initiatives – School Improvements

Four of the district's schools continue to be designated as Priority or Focus Schools, which is an indicator that they are performing among the lowest five percent in academically, and/or among those with the highest achievement gap. The designation, first assigned in October of 2014, by the Minnesota Department of Education (MDE), requires ongoing documentation of continuous improvement efforts. The District high school graduation rate increased from 26.1% in 2014, to 39.2% in 2018.

There are currently a number of interventions and improvement initiatives underway in all Red Lake Schools including Professional Learning Communities (PLC) that support job-embedded professional development on a weekly basis, and engage teachers in data-driven discussion regarding curriculum, instruction and assessment. Principals in all schools facilitate school leadership teams, which engage teacher leaders in continuous school improvement planning, and oversight of the implementation of research-based instructional strategies to improve outcomes for all students. The district superintendent meets weekly with the principals in each building, individually and also in small groups to provide coaching in the development of instructional leadership skills. To ensure teachers receive support to improve their practices, all licensed staff are evaluated between one and three times each year by the building principals, and engage in a summative conference at the conclusion of the school year. Instructional time has also been increased, by lengthening the school day, providing for afterschool programming, and summer school. Finally, the District has taken steps to increase parent and community involvement, launched the implementation an initiative to install for a guaranteed and viable curriculum that is culturally responsive, and partnered with Tribal agencies to provide for Tribal Truancy Court to increase attendance, enrollment and ultimately, graduation.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Willie Larson, Business Manager, at the District Administration Office, PO Box 499, Red Lake, MN 56671.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2019

GOVERNMENTAL ACTIVITIES	
ASSETS	
Cash and Investments	$ 22,325,678
Property Taxes Receivable	266
Accounts Receivable	2,041
Interest Receivable	12,699
Due From MN School Districts	7,280
Due From Department of Education	2,011,760
Due From Federal Govt. - DOE	375,880
Due From Federal Govt.	705,824
Due from Other Governments	14,441
Inventory	31,316
Capital Assets	
Construction in Process	2,044,545
Other Capital Assets, Net of Depreciation	49,514,897
TOTAL ASSETS	77,046,627
DEFERRED OUTFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan	19,971,617
Other Postemployment Benefit	188,860
TOTAL DEFERRED OUTFLOWS OF RESOURCES	20,160,477
LIABILITIES	
Accounts Payable	1,244,937
Salaries Payable	1,450,789
Payroll Deductions	1,921,895
Long-Term Liabilities Due Within One Year	26,490
Long-Term Liabilities	
Compensated Absences Payable	163,385
Severance Payable	1,648,779
Capital Loan	56,612,441
Accrued Interest Payable	61,395,369
Total Other Postemployment Benefit Liability	1,159,339
Net Pension Liability	18,192,437
Less Amounts Due Within One Year	(26,490)
Total Long-Term Liabilities	139,145,260
TOTAL LIABILITIES	143,789,371
DEFERRED INFLOWS OF RESOURCES	
Property Taxes Levied - Subs. Years	4,126
Cost Sharing Defined Benefit Pension Plan	25,624,117
TOTAL DEFERRED INFLOWS OF RESOURCES	25,628,243

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF NET POSITION (CONTINUED)
June 30, 2019

NET POSITION	
Net Investment in Capital Assets	(5,052,999)
Restricted	
Staff Development	14,665
Operating Capital	325,744
Learning and Development	3,344
St. Approved Alt Program	648,357
Gifted and Talented	4,221
Basic Skills Extended Time	212,048
Long-Term Facilities Maintenance	90,666
Medical Assistance	19,061
Impact Aid	746,987
Community Education	32,620
ECFE	31,997
Community Service	26,531
Building Fund	1,137
Unrestricted	(69,314,889)
TOTAL NET POSITION	$ (72,210,510)

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

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INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES					
Administration	$ 1,985,906	$	$	$	$ (1,985,906)
District Support Services	1,202,990				(1,202,990)
Elementary & Secondary					
Regular Instruction	9,488,773	40,887	5,545,383	35,818	(3,866,685)
Vocational Education Instruction	142,696		16,787		(125,909)
Special Education Instruction	5,710,398		2,813,196		(2,897,202)
Community Education and Services	637,912	188,167	347,095		(102,650)
Instructional Support Services	2,812,485	6,057	362,112	177,330	(2,266,986)
Pupil Support Services	3,277,116	95,215	1,528,938		(1,652,963)
Sites and Buildings	4,986,501			1,213,821	(3,772,680)
Fixed Costs	180,462				(180,462)
Interest on Long-Term Debt	4,638,948				(4,638,948)
Depreciation - Unallocated	1,301,394				(1,301,394)
TOTAL GOVERNMENTAL ACTIVITIES	$ 36,365,581	$ 330,326	$ 10,613,511	$ 1,426,969	(23,994,775)

GENERAL REVENUES	
Taxes	
Property Taxes, Levied for General Purposes	4,171
Unrestricted State Aid	13,935,836
Unrestricted Federal Aid	14,351,805
Unrestricted Investment Earnings	473,708
Other General Revenue	281,134
TOTAL GENERAL REVENUES	29,046,654
Change in Net Position	5,051,879
Net Position - Beginning	(77,262,389)
Net Position - Ending	$ (72,210,510)

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2019

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	$ 22,169,121	$ 156,557	$ 22,325,678
Current Property Taxes Receivable	266		266
Accounts Receivable	1,599	442	2,041
Interest Receivable	12,699		12,699
Due From MN School Districts	7,280		7,280
Due From Department of Education	1,956,781	54,979	2,011,760
Due From Federal Govt. - DOE	342,864	33,016	375,880
Due From Federal Govt.	705,824		705,824
Due From Other Governments	14,441		14,441
Inventory	23,530	7,786	31,316
TOTAL ASSETS	$ 25,234,405	$ 252,780	$ 25,487,185
LIABILITIES			
Accounts Payable	$ 1,244,446	$ 491	$ 1,244,937
Salaries Payable	1,349,367	101,422	1,450,789
Payroll Deductions	1,921,895		1,921,895
TOTAL LIABILITIES	4,515,708	101,913	4,617,621
DEFERRED INFLOWS OF RESOURCES			
Property Taxes Levied - Subs. Years	4,126		4,126
TOTAL DEFERRED INFLOWS OF RESOURCES	4,126		4,126
FUND BALANCES			
Nonspendable: Inventory	23,530	7,786	31,316
Restricted for Staff Development	14,665		14,665
Restricted for Operating Capital	325,744		325,744
Restricted for Learning and Development	3,344		3,344
Restricted for St. Approved Alt Program	648,357		648,357
Restricted for Gifted and Talented	4,221		4,221
Restricted for Basic Skills Extended Time	212,048		212,048
Restricted for Long-Term Facilities Maintenance	90,666		90,666
Restricted for Medical Assistance	19,061		19,061
Restricted for Impact Aid	746,987		746,987
Restricted for Community Education		32,620	32,620
Restricted for ECFE		31,997	31,997
Restricted for Community Service		26,531	26,531
Restricted for Building Fund		1,137	1,137
Restricted for Max Effort Loan		50,796	50,796
Assigned for Red Lake Early Childhood Center	845,747		845,747
Unassigned	17,780,201		17,780,201
TOTAL FUND BALANCES	20,714,571	150,867	20,865,438
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 25,234,405	$ 252,780	$ 25,487,185

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2019

Total fund balances - governmental funds	$	20,865,438
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Cost of capital assets		82,656,285
Less accumulated depreciation		(31,096,843)
Deferred outflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		20,160,477
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.		
Compensated Absences Payable		(163,385)
Severance Payable		(1,648,779)
Capital Loan		(56,612,441)
Accrued Interest Payable		(61,395,369)
Total Other Postemployment Benefit Liability		(1,159,339)
Net Pension Liability		(18,192,437)
Deferred inflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		(25,624,117)
Net position - governmental activities	$	(72,210,510)

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES			
Local Property Tax Levies	$ 4,171	$	$ 4,171
Other Local & County Revenues	783,705	206,248	989,953
Revenue From State Sources	22,412,312	369,056	22,781,368
Revenue From Federal Sources	17,256,698	1,220,228	18,476,926
Sale/Other Conversion of Asset	40,173	55,042	95,215
TOTAL REVENUES	40,497,059	1,850,574	42,347,633
EXPENDITURES			
Current			
Administration	1,984,200		1,984,200
District Support Services	1,181,269		1,181,269
Elementary & Secondary Regular Instruction	15,560,612		15,560,612
Vocational Instruction	141,133		141,133
Special Education Instruction	5,709,779		5,709,779
Community Education and Services		637,194	637,194
Instructional Support Services	2,318,137		2,318,137
Pupil Support Services	2,065,559	1,289,208	3,354,767
Sites and Buildings	4,522,172		4,522,172
Fixed Costs	180,462		180,462
Debt Service			
Principal	176,732		176,732
Interest	3,976	7,817	11,793
Capital Outlay	3,166,500	8,533	3,175,033
TOTAL EXPENDITURES	37,010,531	1,942,752	38,953,283
Revenues Over (Under) Expenditures	3,486,528	(92,178)	3,394,350
OTHER FINANCING SOURCES (USES)			
Transfers In		130,782	130,782
Transfers Out	(130,782)		(130,782)
TOTAL OTHER FINANCING SOURCES (USES)	(130,782)	130,782	
Net Change in Fund Balances	3,355,746	38,604	3,394,350
Fund Balances - Beginning	17,358,825	112,263	17,471,088
Fund Balances - Ending	$ 20,714,571	$ 150,867	$ 20,865,438

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

Total net change in fund balances - governmental funds	$ 3,394,350
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 outlay	2,489,756
Depreciation expense	(2,008,385)
Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	176,732
Change in net pension liability.	27,965,439
Changes in deferred outflows and inflows of resources related to net pension liability.	(22,387,502)
Changes in deferred outflows and inflows of resources related to other postemployment benefit liability.	23,074
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(4,627,155)
Recognition of additional pension expense and grant revenue for the District's proportionate share of the State of Minnesota's contribution to the PERA and TRA.	
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid.)	
Other postemployment benefits	81,484
Severance payable	(44,699)
Compensated absences payable	(11,215)
Change in net position - governmental activities	$ 5,051,879

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF FIDUCIARY NET POSITION
June 30, 2019

		Scholarship Trust Fund
ASSETS		
Cash and Investments	$	11,806
Interest Receivable		49
TOTAL ASSETS		11,855
LIABILITIES		
Other Payables		11,025
TOTAL LIABILITIES		11,025
NET POSITION		
Held in Trust	$	830

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2019

	Scholarship Trust Fund
ADDITIONS	
Donations	$ 2,800
Investment Earnings	29
TOTAL ADDITIONS	2,829
DEDUCTIONS	
Scholarship Payments	3,000
TOTAL DEDUCTIONS	3,000
Change in Net Position	(171)
Net Position - Beginning	1,001
Net Position - End of Year	$ 830

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 38 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separated entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

Extracurricular student activities are carried on primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's school board has elected to control or be otherwise financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are included in these basic financial statements.

C. Basic Financial Statement Presentation

The district-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 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 purposes for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

D. Measurement Focus and Basis of Accounting

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

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

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 available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.

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

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. Descriptions of the major funds included in this report are as follows:

Major Governmental Funds

General Fund – Accounts for all financial resources and transactions except those required to be accounted for in other funds including pupil transportation and capital outlay activities, which were previously (prior to July 1, 1996) accounted for in separate special revenue funds.

GASB No. 34 also requires that budget vs. actual information be presented for the general fund and all major special revenue funds.

Fiduciary Funds

Scholarship Trust Fund – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring the assets reported in these funds are being used only for their intended purposes and by those to whom the assets belong.

Nonmajor Governmental Funds

Special Revenue Funds:

Food Service Fund – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches, or snacks in connection with school activities.

Community Service Fund – Accounts for all resources designated for programs other than those for elementary and secondary students.

Building Construction Fund – Accounts for resources used for the acquisition and construction of major capital facilities.

Debt Redemption Fund – Accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

E. Specific Account Information

Cash and Investments – Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Investments are carried at fair value. The District considers certificates of deposit to be cash.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data
Level 3: Unobservable market inputs that are not corroborated by market data

Taxes Receivable – Taxes receivable represents taxes levied in 2018 which are not payable until 2019, net of the amount received prior to June 30.

Property Taxes – Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as the taxes are collected.

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

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as unavailable revenue (property taxes levied for subsequent years).

The majority of the revenue in the general fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between property taxes and state aids by the legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year.

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

Capital Assets – Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

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

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

Unearned Revenue – Governmental funds report unearned revenue in connection with resources that have been received, but not yet earned.

Vacation and Sick Leave – Teachers and principals do not receive paid vacation but are paid only for the number of days they are required to work each year, 184 days for teachers and 209 days for principals. Employees other than teachers and principals earn vacation pay. Employees lose vacation time if not taken before August 15 and are not compensated for any unused time upon termination or retirement. Therefore, a liability for vacation is not recorded in the financial statements.

All employees are entitled to accrue sick leave days at various rates for each year of employment, with limits. Sick days do not vest, and accordingly, employees can be paid personal leave only when sick or for emergencies. Since the employees accumulating rights to receive compensation for future absences are contingent upon the absences being accrued by future illnesses and such amounts cannot be reasonably estimated, a liability for accrued sick leave is not recorded in the financial statements.

Compensated Absences – Employees are afforded two days leave each year with pay for emergency matters. After being in the District for five years, employees may accumulate the unused days to a maximum of five days. A liability named "Compensated Absences" has been recorded on the Statement of Net Position for the qualifying accumulated personal leave.

Severance Pay – A maximum of five full-time teacher employees per year who have attained the age of 50 and accumulated 15 years of full-time service are eligible to receive severance benefits in the amount of accumulated unused sick leave up to a maximum of one years' pay. The teacher's daily rate of pay at the time of retirement is used to calculate this amount. Selection of teachers granted severance pay is based on seniority in the District. Severance is paid in one lump sum or equal annual installments over a period of time, at the discretion of the District, not to exceed two years from the effective date of severance.

Administrators shall receive as severance pay, accumulated sick leave, not to exceed one years' pay. Severance shall be paid by the District in one lump sum or equal annual installments not to exceed five years from the effective date of severance. The Superintendent shall receive severance pay, up to 130 days of accumulated sick leave upon separation.

Non-licensed employees who have completed 10 years of service in the District will receive 30 percent of the accumulated sick leave days as pay figured on the employees' average daily pay when leaving the District. Non-licensed employees who have completed 15 years of service in the District will receive 60 percent of the accumulated sick leave days as pay figured on the employees' average daily pay when leaving the District.

Non-licensed employees hired after February 1, 2004 are not eligible to participate in the severance plan, but may participate in the District's matching deferred compensation plan. Non-licensed employees hired prior to February 1, 2004 may participate in both the matching deferred compensation plan and the severance plan. Upon retirement, an employee's severance pay will be calculated and all matching contributions under the provisions of the matching deferred compensation plan contributed by the District will be subtracted from the qualifying severance amount.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued in the future, bond premiums and discounts will be deferred and amortized over the life of the bonds using the effective interest method. Bonds payable will be reported net of the applicable bond premium or discount. Bond issuance costs will be expensed in the period incurred.

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

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 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.

PERA has a special funding situation created by direct aid contributions of $16 million made by the State of Minnesota to the fund in 2018.

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.

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. The District has two items that qualify for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* which represents actuarial differences within PERA and TRA pension plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – delinquent taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The item, *property taxes levied – subs. years,* is reported as a deferred inflow of resources for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent property tax revenue levied for a subsequent period. The third item, *Cost Sharing Defined Benefit Pension Plan*, represents actuarial differences within PERA and TRA pension plans.

Net Position – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance – The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

> Nonspendable – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
>
> Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the Minnesota Department of Education.
>
> Committed – Consists of amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned – Consists of amounts a government intends to use for a specific purpose. These constraints are established by the Board of Education and/or management. The Board of Education delegates the power to assign fund balances to the superintendent and business manager.

Unassigned – Consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

The District will strive to maintain a minimum unassigned general fund balance of three months of operating expenditures.

F. 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 and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

NOTE 2 DEPOSITS AND INVESTMENTS

The District maintains a cash account at its depository bank.

The District's interest income for the year ended June 30, 2019, was $473,737.

The pooled cash and investment account is comprised of the following:

	Governmental Activities	Fiduciary Funds	Total
Cash	$ 1,734,634	$ 11,806	$ 1,746,440
Investments	20,591,044		20,591,044
Total	$ 22,325,678	$ 11,806	$ 22,337,484

As of June 30, 2019, the District's investments were in the Minnesota School District Liquid Asset Fund external investment pool.

Investment	Fair Value (Level 1)
Minnesota School District Liquid Asset Fund	$20,591,044

The Minnesota School District Liquid Asset Fund is a common law trust organized and existing under the laws of the State of Minnesota, in accordance with the provisions of the Minnesota Joint Powers Act. The general objective of the Fund is to provide a high yield for the participants while maintaining liquidity and preserving capital by investing only in instruments authorized by Minnesota Statutes, which govern the temporary investment of School District monies. In addition, the fixed rate/fixed term portion of the program is also structured with safety of principal as the major objective.

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

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

Credit Risk - The District may invest idle funds as authorized in Minnesota Statutes, as follows:

(a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
(b) General obligations and revenue obligations of any state or local government with taxing powers rated “A” and “AA”, respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated “A” or better.
(c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
(d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
(e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
(f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
(g) Guaranteed investment contracts (GIC’s) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC’s issued by Minnesota banks.
(h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

The Minnesota School District Liquid Asset Fund is rated AAA by Standard & Poor’s.

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk - Deposits – The District does not have a formal custodial credit risk policy. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2019, the District was not exposed to custodial credit risk.

Custodial Credit Risk - Investments - The investment in the Minnesota School District Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

NOTE 3 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Construction in Process	$	$ 2,044,545	$	$ 2,044,545
Capital Assets, Being Depreciated:				
Land Improvements	663,877			663,877
Buildings	72,398,312	171,443		72,569,755
Equipment	7,147,882	273,768	43,542	7,378,108
Total Capital Assets, Being Depreciated	80,210,071	445,211	43,542	80,611,740
Less Accumulated Depreciation For:				
Land Improvements	513,546	13,226		526,772
Buildings	23,268,417	1,541,521		24,809,938
Equipment	5,350,037	453,638	43,542	5,760,133
Total Accumulated Depreciation	29,132,000	2,008,385	43,542	31,096,843
Total Capital Assets, Being Depreciated, Net	51,078,071	(1,563,174)		49,514,897
Governmental Activities Capital Assets, Net	$ 51,078,071	$ 481,371	$	$ 51,559,442

In the statement of activities, depreciation expense was charged to the following governmental functions:

Administration	$ 1,706
District Support Services	524
Elementary & Secondary Regular Instruction	144,448
Vocational Education Instruction	1,563
Special Education Instruction	619
Community Education and Services	718
Instructional Support Services	48,149
Pupil Support Services	164,722
Sites and Buildings	344,542
	706,991
Unallocated	1,301,394
Total Depreciation Expense	$ 2,008,385

NOTE 4 DEFINED BENEFIT PENSION PLANS- STATEWIDE

Substantially, all employees of the District are required by state law to belong to pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis.

Disclosures relating to these plans follow:

A. Public Employees Retirement Association

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

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

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

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

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. General Employees Plan benefit recipients receive a future annual 1.0 percent increase. If the General Employees Plan is at least 90 percent funded for two consecutive years, the benefit increase will revert to 2.5 percent. If, after reverting to a 2.5 percent benefit increase, the funding ratio declines to less than 80 percent for one year or less than 85 percent for two consecutive years, the benefit increase will decrease to 1.0 percent. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2019, were $513,731. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2019, the District reported a liability of $4,915,165 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 $161,215. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. The District's proportion was 0.0886% at the end of the measurement period and 0.0889% for the beginning of the period.

District's proportionate share of net pension liability	$	4,915,165
State of Minnesota's proportionate share of the net pension liability associated with the District		161,215
Total	$	5,076,380

For the year ended June 30, 2019, the District recognized pension expense of $15,897 for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized an additional $37,595 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 130,517	$ 142,546
Difference between projected and actual investment earnings		498,427
Changes in actuarial assumptions	466,875	553,548
Changes in proportion	24,390	234,742
Contributions paid to PERA subsequent to the measurement date	513,731	
Total	$ 1,135,513	$ 1,429,263

$513,731 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30		Pension Expense
2020	$	(39,243)
2021		(261,186)
2022		(404,468)
2023		(102,584)

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%

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 and plan provisions 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 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

Changes in Plan Provisions:
- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36.00%	5.10%
International Stocks	17.00%	5.30%
Bonds (Fixed Income)	20.00%	0.75%
Alternative Assets (Private Markets)	25.00%	5.90%
Cash	2.00%	0.00%

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

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

District Proportionate Share of NPL		
1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
$ 7,987,772	$ 4,915,165	$ 2,378,815

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

B. Teachers Retirement Association

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

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

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

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

Tier I Benefits:

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

With these provisions:

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

or

Tier II Benefits:

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

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

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

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

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

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

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

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

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

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2018
Experience Study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	7.5%
Price Inflation	2.50%
Wage Growth Rate	2.85% for 10 years and 3.25% thereafter
Projected Salary Increase	2.85 to 8.85% for 10 years and 3.25 – 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 Assumption

RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.

Post-retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality table, without adjustment.

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

Asset Class	Allocations as of June 30, 2018	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	33.00%	36.00%	5.10%
International Equity	16.00%	17.00%	5.30%
Private Markets	25.00%	25.00%	5.90%
Fixed Income	16.00%	20.00%	0.75%
Treasuries	8.00%	0.00%	0.50%
Unallocated Cash	2.00%	2.00%	0.00%

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The “Difference Between Expected and Actual Experience” and “Changes of Assumptions” and “Changes in Proportion” use the amortization period of 6 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is over a period of 5 years as required by GASB 68.

Changes in actuarial assumptions since the 2017 valuation:

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

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

Net Pension Liability - On June 30, 2019, the District reported a liability of $13,277,272 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.2114% at the end of the measurement period and 0.2028% 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	$	13,277,272
State's proportionate share of the net pension liability associated with the District	$	1,247,702

For the year ended June 30, 2019, the District recognized pension expense of $(4,807,935). It also recognized $(870,816) as a decrease to pension expense for the support provided by direct aid.

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

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual experience	$	153,168	$	292,067
Net difference between projected and actual earnings on plan inv.				895,456
Changes in actuarial assumptions		16,716,916		22,448,075
Changes in proportion		990,058		559,256
Contributions paid to TRA subsequent to the measurement date		975,962		
Total	$	18,836,104	$	24,194,854

$975,962 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 ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ending June 30		Expense Amount
2020	$	1,234,777
2021		726,055
2022		53,348
2023		(4,934,076)
2024		(3,414,816)

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

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

1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.50%)
$ 21,070,977	$ 13,277,272	$ 6,847,517

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.

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

The District recognized total pension expense of $(4,792,038) for all of the pension plans in which it participates.

NOTE 5 OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups. In as much as the Plan has no assets, reporting another employee benefit trust fund in the accompanying financial statements is not required nor was a separate or stand-alone report issued.

Benefits Provided – The District provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan. The District provides full single coverage healthcare for a retiring principal or teacher until Medicare eligibility. All principals and teachers have a service requirement of three years.

Funding Policy - Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. The District provides postemployment healthcare benefits to qualifying retirees.

Employees Covered by Benefit Term – At June 30, 2019, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	14
Active plan members	190
Total Members	204

Total OPEB Liability – The District's total OPEB liability of $1,159,339 was measured as of July 1, 2018 and was determined by an actuarial valuation as of July 1, 2017.

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

Inflation	2.5 percent
Salary increases	3.0 percent, average, including inflation
Healthcare Cost Trend Rates	6.5 percent decreasing to 5.0 percent over 6 years

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

The discount rate is based on the estimated yield of 20-year AA-rated municipal bonds. The overall single discount rate is 3.40%.

In the July 1, 2017 actuarial valuation, the entry age, level percentage of pay actuarial cost method was used.

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 6/30/2018	$ 1,240,823
Changes for the year:	
Service Cost	43,432
Interest Cost	40,870
Benefit Payments	(165,786)
Net Changes	(81,484)
Balance at 6/30/2019	$ 1,159,339

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.4 percent) or one percentage point higher (4.4 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (2.4%)	Current (3.4%)	1% Increase (4.4%)
$ 1,215,252	$ 1,159,339	$ 1,105,818

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.25 percent decreasing to 4.0 percent over 5 years) or one percentage point higher (7.25 percent decreasing to 6.0 percent over 5 years) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.25% decreasing to 4.0% over 5 years)	(6.25% decreasing to 5.0% over 5 years)	(7.25% decreasing to 6.0% over 5 years)
$ 1,075,743	$ 1,159,339	$ 1,256,000

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 $84,302. At June 30, 2019, the District reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions paid subsequent to the measurement date	$ 188,860	$
Total	$ 188,860	$

$188,860 reported as deferred outflows of resources related to OPEB resulting from District contributions to OPEB subsequent to the measurement date will be recognized as a reduction of the total other postemployment benefit liability in the year ending June 30, 2020.

NOTE 6 LONG-TERM LIABILITIES

Changes in the District's long-term liabilities for the year ended June 30, 2019 are as follows:

Summary of Long-Term Liabilities

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
Capital Loans Payable	$ 56,612,441	$	$	$ 56,612,441	$
Accrued Interest on Capital Loan	56,768,214	4,634,972	7,817	61,395,369	
Capital Lease	176,732		176,732		
Severance Payable	1,604,080	151,304	106,605	1,648,779	26,490
Total Long-Term Liabilities	$ 115,161,467	$ 4,786,276	$ 291,154	$ 119,656,589	$ 26,490

The District's interest expense for the year ended June 30, 2019 was $4,638,948.

The severance payable is generally liquidated by the general fund.

A. Capital Loan

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Additions	Balance 6/30/2019	Amounts Due in 2019-2020 Principal	Amounts Due in 2019-2020 Interest
1992	5.15-5.90%	2042	$ 10,000,000	$	$ 10,000,000	$	$
2001	4.03-4.30%	2051	11,166,000		11,166,000		
2002	4.00-4.03%	2052	11,736,595		11,736,595		
2005	2.18-4.03%	2055	18,391,198		18,391,198		
2015	2.93%	2065	5,318,648		5,318,648		
			$ 56,612,441	$	$ 56,612,441	$	$

During the 1992 fiscal year, the District received approval for a capital loan from the State of Minnesota through the Department of Education to fund the construction of a new school building and renovations to existing buildings. The loan is in the amount of $10,000,000.

During the 2001 fiscal year, the District received approval for an additional capital loan from the State of Minnesota to fund construction and renovations for the Middle School, Ponemah Elementary and the Early Learning Center. The loan is for $11,166,000.

During the 2002 fiscal year, the District received approval for new construction and remodeling of the Red Lake High School, Ponemah Elementary and the Early Learning Center. The loan is a capital loan from the State of Minnesota for $11,736,595.

During the 2005 fiscal year, the District received an additional capital loan for $18,391,198 from the State of Minnesota to remodel the Red Lake High School and Middle School.

During the 2015 fiscal year, the District received approval for the construction of the new kitchen and cafeteria at the Red Lake High/Middle School. The loan is a capital loan from the State of Minnesota for $5,257,101. During fiscal year 2017, an additional amount of $61,547 was recorded.

The District will repay the loans out of the excess of its maximum effort debt service levy over its required debt service levy, including interest at a rate equal to the weighted average annual rate payable on Minnesota state school loan bonds issued for the project and disbursed to Districts on a reimbursement basis, but in no event less than 3 ½ percent per year on the principal amount from time to time unpaid. If the capital loan is not repaid within fifty years after the date it is granted, the District's liability on the loan will be satisfied and discharged and interest thereon shall cease.

NOTE 7 SEVERANCE PAY

The District has several severance pay plans for various groups of employees. The plans call for employees to be paid for unused portions of their sick leave upon termination of employment. At June 30, 2019, the estimated liability under these plans was $1,648,779.

NOTE 8 INTERFUND TRANSFERS

The composition of interfund balances as of June 30, 2019 is as follows:

Transfer In	Transfer Out	Amount
Nonmajor Governmental Funds	General	$130,782

The purpose of the transfers is to cover the operating deficit in the food service and community service funds.

NOTE 9 COMMITTED CONSTRUCTION

At June 30, 2019, the District had approximately $1,500,000 in committed construction for roofing projects.

NOTE 10 CONTINGENCIES

The District receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and aids. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2019.

NOTE 11 RISK MANAGEMENT

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

The District has joined together with other school districts in Minnesota in the Northwest Service Cooperative's Minimum Premium Funding Plan (Plan). The Plan is a public entity risk pool established as a health insurance purchasing pool for its members. The agreement for the formation of the Plan provides that the Plan will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $300,000. The pool and its members purchase reinsurance, currently with a $300,000 specific stop loss attachment point and 110% aggregate stop loss attachment point. If the assets of the Plan were to be exhausted, members would not be responsible for the Plan's liabilities. The Northwest Service Cooperative retains the risk of the Plan's liabilities.

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

NOTE 12 NEW PRONOUNCEMENTS

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

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. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. 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 is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 90, *Majority Equity Interests*, provides guidance for reporting when a government has majority equity interest in legally separate organizations. An equity interest is explicit and measureable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. If government's holding of that equity interest meets the definition of an investment, as defined by GASB No. 72, the equity interest should be reported as an investment and measured using the equity method and not as a component unit of the government. If a government's holding of a majority interest in a legally separate organization does not meet the definition of an investment, the holding of the majority equity interest results in the government being financially accountable for the organization and therefore, the government should report the legally separate organization as a component unit. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement clarifies the existing definition of a conduit debt obligation; establishes that a conduit debt obligation is not a liability of the issuer; establishes standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improves required note disclosures. This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

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

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
REVENUES				
Local Property Tax Levies	$ 4,126	$ 4,126	$ 4,171	$ 45
Other Local & County Revenues	762,235	762,235	783,705	21,470
Revenue From State Sources	22,242,332	22,242,332	22,412,312	169,980
Revenue From Federal Sources	16,494,163	16,494,163	17,256,698	762,535
Sale/Other Conversion of Asset			40,173	40,173
TOTAL REVENUES	39,502,856	39,502,856	40,497,059	994,203
EXPENDITURES				
Current				
Administration	1,948,485	1,948,485	1,984,200	35,715
District Support Services	1,340,945	1,341,300	1,181,269	(160,031)
Elementary & Secondary Regular Instruction	16,457,567	16,456,717	15,560,612	(896,105)
Vocational Education Instruction	6,100	6,100	141,133	135,033
Special Education Instruction	5,802,042	5,807,042	5,709,779	(97,263)
Instructional Support Services	1,923,124	1,923,124	2,318,137	395,013
Pupil Support Services	2,020,660	2,020,660	2,065,559	44,899
Sites and Buildings	4,823,423	4,838,681	4,522,172	(316,509)
Fixed Costs	193,888	193,888	180,462	(13,426)
Debt Service				
Principal	176,732	176,732	176,732	
Interest	3,976	3,976	3,976	
Capital Outlay	2,361,778	2,361,423	3,166,500	805,077
TOTAL EXPENDITURES	37,058,720	37,078,128	37,010,531	(67,597)
Revenues Over (Under) Expenditures	2,444,136	2,424,728	3,486,528	1,061,800
OTHER FINANCING USES				
Transfer Out			(130,782)	(130,782)
TOTAL OTHER FINANCING USES			(130,782)	(130,782)
Net Change in Fund Balances	2,444,136	2,424,728	3,355,746	931,018
Fund Balances - Beginning	17,358,825	17,358,825	17,358,825	
Fund Balances - Ending	$ 19,802,961	$ 19,783,553	$ 20,714,571	$ 931,018

The notes to required supplementary information are an integral part of this schedule.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
Last 10 Years

	2018	2019
Total OPEB Liability		
Service Cost	$ 42,167	$ 43,432
Interest	43,744	40,870
Benefit Payments	(177,550)	(165,786)
Net Change in Total OPEB Liability	(91,639)	(81,484)
Total OPEB Liability - Beginning	1,332,462	1,240,823
Total OPEB Liability - Ending	$ 1,240,823	$ 1,159,339
Covered Payroll	$ 11,376,047	$ 11,717,328
District's Total OPEB Liability as a Percentage of a Covered Payroll	10.91%	9.89%

The District implemented GASB No. 75 for the fiscal year ended June 30, 2018. Information from prior years is not available.

The notes to required supplementary information are an integral part of this schedule.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF DISTRICT CONTRIBUTIONS
Last 10 Years

	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	
PERA											
	2015	$	418,071	$	418,071	$		$	5,403,218	7.74	%
	2016		421,714		421,714				5,553,075	7.59	
	2017		429,139		437,086		(7,947)		5,721,852	7.64	
	2018		460,191		460,191				6,135,866	7.50	
	2019		513,731		513,731				6,852,915	7.50	
TRA											
	2015	$	771,018	$	771,018	$		$	8,739,215	8.82	%
	2016		805,447		805,447				10,800,663	7.46	
	2017		832,845		830,311		2,534		11,104,508	7.48	
	2018		886,995		886,995				11,777,290	7.53	
	2019		975,962		975,962				12,608,372	7.74	

The amounts presented for each fiscal year were determined as of the District's year end which is June 30th.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30,2015. Information for the prior years is not available

The notes to required supplementary information are an integral part of this schedule.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY
Last 10 Years

Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)	Total	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA							
2014	0.1042 %	$ 4,894,794	$	$ 4,894,794	$ 5,325,479	91.91 %	78.70 %
2015	0.0961	4,980,401		4,980,401	5,403,218	92.17	78.19
2016	0.0881	7,153,283	93,372	7,246,655	5,553,075	128.82	68.90
2017	0.0889	5,675,317	71,383	5,746,700	5,721,852	99.19	75.90
2018	0.0886	4,915,165	161,215	5,076,380	6,135,866	80.11	79.53
TRA							
2014	0.2316 %	$ 10,671,961	$ 750,870	$ 11,422,831	$ 9,111,648	117.12 %	81.50 %
2015	0.2035	12,588,488	1,544,360	14,132,848	8,739,215	144.05	76.80
2016	0.2076	49,517,553	4,969,452	54,487,005	10,800,663	458.47	44.88
2017	0.2028	40,482,559	3,913,248	44,395,807	11,104,508	364.56	51.57
2018	0.2114	13,277,272	1,247,702	14,524,974	11,777,290	112.74	78.07

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30,2015. Information for the prior years is not available

The notes to required supplementary information are an integral part of this schedule.

NOTE 1 BUDGETARY DATA

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the District.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level. The annual appropriated budget is not legally binding on the District unless the District has a deficit fund balance which exceeds 2.5% of expenditures.

NOTE 2 DEFINED BENEFIT PLANS

PERA

2018 Changes

<u>Changes in Actuarial Assumptions</u>:

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

<u>Changes in Plan Provisions</u>:

- The augmentation adjustment in early retirement factors is eliminated over a five-year period starting July 1, 2019, resulting in actuarial equivalence after June 30, 2024.
- Interest credited on member contributions decreased from 4.0 percent to 3.0 percent, beginning July 1, 2018.
- Deferred augmentation was changed to 0.00 percent, effective January 1, 2019. Augmentation that has already accrued for deferred members will still apply.
- Contribution stabilizer provisions were repealed.
- Post-retirement benefit increases were changed from 1.0 percent per year with a provision to increase to 2.5 percent upon attainment of 90 percent funding ratio to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019.
- For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age. Does not apply to Rule of 90 retirees, disability benefit recipients, or survivors.
- Actuarial equivalent factors were updated to reflect revised mortality and interest assumptions.

2017 Changes

<u>Changes in Actuarial Assumptions</u>:

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

<u>Changes in Plan Provisions</u>:

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

2016 Changes
<u>Changes in Actuarial Assumptions</u>:
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation

2015 Changes
<u>Changes in Actuarial Assumptions</u>:
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

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

TRA
<u>Changes in Actuarial Assumptions Since the 2016 Valuation:</u>
- The Cost of Living Adjustment (COLA) was assumed to increase from 2.0 percent annually to 2.5 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5 percent, but remain at 2.0 percent for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4 percent to 0.0 percent, the vested inactive load increased from 4.0 percent to 7.0 percent and the non-vested inactive load increased from 4.0 percent to 9.0 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

<u>Changes in actuarial assumptions since the 2017 valuation:</u>
- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payment and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.

- The employer contribution rate is increased each July 1 over the next 6 years, (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

NOTE 3 OTHER POSTEMPLOYMENT BENEFITS

Liability (Gain) Loss: The plan experienced a liability loss due to several retirements with full postemployment subsidized benefits at earlier ages than expected. There was also an increase in the number of active employees included in the valuation.

Plan Changes: None.

Assumption Changes:
- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.
- The discount rate was changed from 3.50% to 3.40%.

Method Changes: The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS
June 30, 2019

	Special Revenue Funds				
	Food Service Fund	Community Service Fund	Building Construction Fund	Debt Redemption Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and Investments	$ 25,284	$ 79,604	$ 1,137	$ 50,532	$ 156,557
Accounts Receivable		442			442
Due From Department of Education		54,715		264	54,979
Due From Federal Govt. - DOE	12,328	20,688			33,016
Inventory	7,786				7,786
TOTAL ASSETS	$ 45,398	$ 155,449	$ 1,137	$ 50,796	$ 252,780
LIABILITIES					
Accounts Payable	$ 385	$ 106	$	$	$ 491
Salary Payable	37,227	64,195			101,422
TOTAL LIABILITIES	37,612	64,301			101,913
FUND BALANCES					
Nonspendable: Inventory	7,786				7,786
Restricted for Building Fund			1,137		1,137
Restricted for Max Effort Loan				50,796	50,796
Restricted for Community Education		32,620			32,620
Restricted for ECFE		31,997			31,997
Restricted for Community Service		26,531			26,531
TOTAL FUND BALANCES	7,786	91,148	1,137	50,796	150,867
TOTAL LIABILITIES AND FUND BALANCES	$ 45,398	$ 155,449	$ 1,137	$ 50,796	$ 252,780

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

	Special Revenue Funds		Building	Debt	Total
	Food Service Fund	Community Service Fund	Construction Fund	Redemption Fund	Nonmajor Governmental Funds
REVENUES					
Other Local & County Revenues	$ 17,620	$ 188,623	$ 5	$	$ 206,248
Revenue From State Sources	28,776	309,172		31,108	369,056
Revenue From Federal Sources	1,158,817	61,411			1,220,228
Sale/Other Conversion of Asset	55,042				55,042
TOTAL REVENUES	1,260,255	559,206	5	31,108	1,850,574
EXPENDITURES					
Current					
Community Education and Services		637,194			637,194
Pupil Support Services	1,289,208				1,289,208
Capital Outlay					
Food Service	8,533				8,533
Debt Service					
Interest				7,817	7,817
TOTAL EXPENDITURES	1,297,741	637,194		7,817	1,942,752
Revenues Over (Under) Expenditures	(37,486)	(77,988)	5	23,291	(92,178)
OTHER FINANCING SOURCES					
Transfer In	34,460	96,322			130,782
TOTAL OTHER FINANCING SOURCES	34,460	96,322			130,782
Net Change in Fund Balances	(3,026)	18,334	5	23,291	38,604
Fund Balances - Beginning	10,812	72,814	1,132	27,505	112,263
Fund Balances - Ending	$ 7,786	$ 91,148	$ 1,137	$ 50,796	$ 150,867

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2019

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Balance End of Year
Governmental Funds					
General Fund					
Nonspendable	$ 26,787	$	$	$ (3,257)	$ 23,530
Restricted for:					
Staff Development	14,665	198,455	198,455		14,665
Health and Safety	147			(147)	
Operating Capital	332,513	340,476	347,245		325,744
Learning and Development	3,344	410,856	410,856		3,344
St. Approved Alt Program	398,044	563,493	313,180		648,357
Gifted and Talented	4,221	20,437	20,437		4,221
Basic Skills	411,662	3,911,016	4,322,678		
Basic Skills Extended Time	70,198	141,850			212,048
Long-Term Facilities Maintenance	2,513	471,609	383,456		90,666
Building Construction	109,346			(109,346)	
Medical Assistance	19,061				19,061
Impact Aid	177,896	14,804,779	14,235,688		746,987
Assigned for:					
Other Post-Employment Benefits (OPEB)	2,916,477			(2,916,477)	
Red Lake Early Childhood Center				845,747	845,747
Unassigned	12,871,951	19,634,088	16,778,536	2,052,698	17,780,201
Food Service Fund					
Nonspendable	10,812			(3,026)	7,786
Restricted: Food Service		1,260,255	1,297,741	37,486	
Community Service Fund					
Restricted for:					
Community Education	4,238	109,953	81,571		32,620
ECFE	45,900	126,986	140,889		31,997
School Readiness		305,684	402,006	96,322	
Community Service	22,676	16,583	12,728		26,531
Building Fund					
Restricted for Building Fund	1,132	5			1,137
Debt Service Fund					
Restricted for Max Effort Loan	27,046	28,471	7,817	3,096	50,796
Restricted for Debt Service	459	2,637		(3,096)	
Fiduciary Fund					
Scholarship Trust Fund					
Net Position Held in Trust	1,001	2,829	3,000		830

BradyMartz

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Education
Independent School District No. 38
Red Lake, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 38 as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated November 22, 2019**.**

Legal Compliance

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

In connection with our audit, nothing came to our attention that caused us to believe that 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.

Purpose of the Report

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

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

November 22, 2019

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BradyMartz

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

To the Board of Education
Independent School District No. 38
Red Lake, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 38, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 22, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002 that we consider to be significant deficiencies.

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.*

The District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs and corrective action plan. 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 result 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.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

November 22, 2019

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

To the Board of Education
Independent School District No. 38
Red Lake, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 38's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

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 for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

Management of Independent School District No. 38 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 have not been identified.

Purpose of the Report

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.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

November 22, 2019

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program Title	Pass-Through Number	Federal CFDA Number	Amount
U.S. Department of Education			
Direct Programs:			
Impact Aid		84.041	$ 14,966,688
Indian Education		84.060	370,952
Total Direct			15,337,640
Passed-Through Minnesota Department of Education:			
Title I		84.010	1,439,511
Title II, Part A		84.367	84,321
Rural Education Achievement Program		84.358	11,417
Special Education (IDEA) Cluster:			
Special Education Grants to States		84.027	390,531
Special Education Preschool Grants		84.173	18,164
Total Special Education (IDEA) Cluster:			408,695
Special Education Grants for Infants and Families		84.181	12,482
Passed-Through Bemidji Regional Inter-District Council:			
Special Education Grants for Infants and Families		84.181	7,280
Total CFDA #84.181			19,762
Passed-Through North Country Vocational Cooperative:			
Carl Perkins		84.048	3,714
Total Indirect			1,967,420
Total U.S. Department of Education			17,305,060
U.S. Department of Health and Human Services			
Passed-Through Minnesota Department of Education:			
Improving Student Health and Academic Achievement		93.981	4,275
Total U.S. Department of Agriculture			4,275
U.S. Department of Agriculture			
Passed-Through Minnesota Department of Education:			
Child Nutrition Discretionary Grants		10.579	8,773
Fresh Fruit and Vegetable Program		10.582	52,626
Child Nutrition Cluster:			
School Breakfast Program		10.553	312,746
After School Snacks		10.555	16,816
National School Lunch Program		10.555	681,248
Commodity Distribution (Nonmonetary Assistance)		10.555	82,559
Summer Food Service Program for Children		10.559	12,823
Total Child Nutrition Cluster			1,106,192
Total U.S. Department of Agriculture			1,167,591
TOTAL FEDERAL AWARDS			$ 18,476,926

The notes to the schedule of expenditures of federal awards are an integral part of this schedule.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported under generally accepted accounting principles (U.S. GAAP). Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 2 INDIRECT COST RATE

The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Independent School District No. 38 under programs of the federal government for the year ended June 30, 2019 and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Independent School District No. 38, it is not intended to be and does not present the financial position or changes in net position of Independent School District No. 38.

NOTE 4 COMMODITY DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE 5 PASS-THROUGH ENTITIES

Pass-through entities listed above without a pass-through number use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 6 SUBRECIPIENTS

During 2019, the District did not pass any federal money to subrecipients.

Section I-Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	___ yes _x_ no
Significant deficiency(ies) identified?	_x_ yes ___ none reported
Noncompliance material to financial statements noted?	___ yes _x_ no

Federal Awards

Internal Control over major programs:	
Material weakness(es) identified?	___ yes _x_ no
Significant deficiency(ies) identified?	___ yes _x_ none reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	___ yes _x_ no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.010	Title I Grants to Local Educational Agencies
84.041	Impact Aid
	Child Nutrition Cluster:
10.553	School Breakfast Program
10.555	After School Snacks
10.555	National School Lunch Program
10.555	Commodity Distribution (Nonmonetary Assistance)
10.559	Summer Food Service Program for Children

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	___ yes _x_ no

Section II-Financial Statement Findings

2019-001 FINDING

Criteria
The District does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition
The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. For the year ended June 30, 2019, the District's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the District does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements for external reporting. The Board of Education is aware of this significant deficiency and addresses it by obtaining our assistance in the preparation of the District's annual financial statements.

Cause
The District does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect
The superintendent is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Repeat Finding
Yes. Prior audit finding 2018-001.

Recommendation
For entities of the District's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will review on an annual basis.

2019-002 FINDING

Criteria
The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records of the student activity accounts. Adequate procedures should be established for completing an audit trail that creates sufficient documentary (physical) evidence for each step in the flow of transactions within the activity fund. These procedures include pre-numbered forms and receipts and maintaining a perpetual inventory of the pre-numbered cash receipts; depositing receipts intact; and making timely deposits.

Condition
Student activity account source documentation was not sufficient to support the amount of the receipts tested.

Cause
Oversight by the staff.

Effect
Failure to retain sufficient source documentation for the student activity accounts could result in misstatement of revenues and expenses.

Repeat Finding
Yes. Prior audit finding 2018-002.

Recommendation
All source documentation is retained by an advisor and or submitted to the business office. If the source documentation is retained by the advisor, the business manager performs an internal audit periodically.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendations and will implement immediately.

Section III-Federal Award Findings and Questioned Costs
There are no findings which are required to be reported under this section.

2018-001 FINDING

Criteria
The District does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition
The District's payroll liability accounts were not reconciled during the year. The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. For the year ended June 30, 2019, the District's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the District does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements for external reporting. The Board of Education is aware of this significant deficiency and addresses it by obtaining our assistance in the preparation of the District's annual financial statements.

Cause
Payroll liabilities were not reconciled due to oversight by the staff. The District does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect
Failure to reconcile the payroll liability accounts resulted in a current year misstatement of liabilities and expenses of approximately $303,000. The superintendent is aware of the financial statement reporting deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Repeat Finding
Yes. Prior audit finding 2017-001.

Recommendation
The District's staff should reconcile payroll liability accounts on a monthly basis. The District's financial statement preparation should be reviewed on an annual basis.

Corrective Action Taken
Payroll liabilities were reconciled during the year. No action taken on financial statement preparation. See current year finding 2019-001 and Corrective Action Plan.

2018-002 FINDING

Criteria
The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records of the student activity accounts. Adequate procedures should be established for completing an audit trail that creates sufficient documentary (physical) evidence for each step in the flow of transactions within the activity fund. These procedures include pre-numbered forms and receipts and maintaining a perpetual inventory of the pre-numbered cash receipts; depositing receipts intact; and making timely deposits.

Condition
Student activity account source documentation was not sufficient to support the amount of the receipt.

Cause
Oversight by the staff.

Effect
Failure to retain sufficient source documentation for the student activity accounts could result in misstatement of revenues and expenses.

Recommendation
All source documentation is retained by an advisor and or submitted to the business office. If the source documentation is retained by the advisor, the business manager performs an internal audit periodically.

Corrective Action Taken
No action taken. See current year finding 2019-002 and Corrective Action Plan.

2018-003 FINDING

Criteria
The District overpaid a severance payout to an employee.

Condition
Severance policy was not followed when the severance payment was calculated.

Cause
Oversight by the staff.

Effect
Failure to follow the severance policy resulted in a current year overpayment of $25,000.

Repeat Finding
No.

Recommendation
The District's staff should review severance payouts to ensure that the calculations follow District policies.

Corrective Action Taken
The District reviews all severance payouts to ensure that the calculations follow District policies.

2018-004 FINDING

Child Nutrition Cluster (School Breakfast Program, CFDA No. 10.553; National School Lunch Program, CFDA No. 10.555; Commodity Distribution, CFDA No. 10.555; Summer Food Service Program for Children, CFDA No. 10.559)

Criteria
To receive reimbursement payment for meals served, the District must submit the number of meals served and all claims must be supported by accurate meal counts by category and type.

Condition
Four instances were identified where the number of meals submitted for reimbursement was not accurate.

Questioned Costs
Undeterminable

Context
5 months of meal reimbursement claim reports were selected for testing. In one month, the District submitted 82 extra meals for reimbursement at one school and missed submitting 32 meals for reimbursement at another school. In two other months, the District missed submitting 2,758 meals and one meal, respectively. This was due to keying errors and software issues.

Cause
The District did not have sufficient procedures in place to ensure the correct number of meals are submitted for reimbursement.

Effect
The District submitted more meals for reimbursement in one instance and less meals for reimbursement in other instances than they were otherwise eligible for.

Recommendation
The District should review their policies and procedures for submitting meals for reimbursement.

Corrective Action Taken
The District reviewed their policies and procedures for submitting meals for reimbursement.

Red Lake Public School District #38
PO Box 499
Red Lake, MN 56671
218-679-3353 (phone)
218-679-2321 (fax)

"…where each child is valued, life-long learning is embraced, and students are empowered to become Red Lake Nation ambassadors in the global community."

Corrective Action Plan for the Year Ending June 30, 2019

2019-001 FINDING

Contact Person – Superintendent

Corrective Action Plan –School district personnel will receive additional training to better prepare personnel to understand the financial statements and to work closely with an accounting firm in the preparation of the financial statements. The District staff will review the prior year journal entries to determine training needs. The District staff has worked with their auditors and the ESV Accounting Office and is in the process of identifying required year end journal entries.

Completion Date – Ongoing

2019-002 FINDING

Contact Person – Superintendent

Corrective Action Plan – All source documentation is retained by the advisor and or submitted to the business office. If the source documentation is retained by the advisor, the business manager will perform an internal audit periodically.

Completion Date – Immediately

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
STUDENT ACTIVITY DETAIL
For the Year Ended June 30, 2019

	Fund Balance 6-30-18	Receipts	Disbursements	Transfers	Fund Balance 6-30-19
Band Activity Club	$ 862	$ 6,055	$ 6,074	$	$ 843
Boys Basketball	3,464		198		3,266
Community Gardening Project	287				287
Concessions	10,306	17,851	9,449		18,708
Design Club	5,659	7,253	7,185		5,727
Freshman Class	343				343
National Honor Society	1,945				1,945
PES ELC	1,380				1,380
PES Anishanabe Day	1,309				1,309
Prom	598	515	969		144
RLE Archery Club	1,021				1,021
RLE Elementary Activity	367	666	797		236
RLHS Art Club	827				827
RLHS Student Council	1,254	264	1,004		514
RLMS Art Club	135				135
RLMS Student Council	5,319				5,319
Science Club		5,432	5,432		
Skateboard Club	204				204
Ski Club	3,386				3,386
Special Ed	2,065	1,155	306		2,914
Special Olympics	205	2,108	1,953		360
	$ 40,936	$ 41,299	$ 33,367	$	$ 48,868

INDEPENDENT SCHOOL DISTRICT NO. 38
RED LAKE, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2019

District Name: INDEPENDENT SCHOOL DISTRICT NO. 38 **District Number:** 38

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	40,497,059	40,497,058	1
Total Expenditures	37,010,531	37,010,533	(2)
Non Spendable			
460 Non Spendable Fund Balance	23,530	23,530	
Restricted/Reserved:			
403 Staff Development	14,665	14,655	10
406 Health & Safety			
407 Capital Projects Levy			
408 Cooperative Revenue			
409 Alternative Fac Program			
413 Project Funded by COP			
414 Operating Debt			
416 Levy Reduction			
417 Taconite Building Maintenance			
423 Certain Teacher Programs			
424 Operating Capital	325,744	325,745	(1)
426 $25 Taconite			
427 Disabled Accessibility			
428 Learning & Development	3,344	3,344	
434 Area Learning Center			
435 Contracted Alt Programs			
436 State Approved Alt Program	648,357	648,357	
438 Gifted & Talented	4,221	4,221	
440 Teacher Development and Eval			
441 Basic Skills Programs			
445 Career and Technical Programs			
448 Achievement and Integration			
449 Safe Schools Levy			
450 Prekindergarten			
452 OPEB Liab Not In Trust			
459 Basic Skills Ext Time	212,048	212,049	(1)
467 LTFM	90,666	90,666	
472 Medical Assistance	19,061	19,061	
Restricted			
464 Restricted Fund Balance			
475 Title VII - Impact Aid	746,987	746,986	1
Committed			
418 Committed for Separation			
461 Committed			
Assigned			
462 Assigned Fund Balance	845,747	845,747	
Unassigned:			
422 Unassigned Fund Balance	17,780,201	17,780,202	(1)
Reconciliation of General	98,222,161	98,222,154	7

	Audit	UFARS	Variance
02 FOOD SERVICE			
Total Revenue	1,260,255	1,260,255	
Total Expenditures	1,297,741	1,297,741	
Non Spendable			
460 Non Spendable Fund Balance	7,786	7,786	
Restricted/Reserved:			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance			
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Food Service	2,565,782	2,565,782	

	Audit	UFARS	Variance
04 COMMUNITY SERVICE			
Total Revenue	559,206	559,206	
Total Expenditures	637,194	637,194	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
426 $25 Taconite			
431 Community Education	32,620	32,620	
432 E.C.F.E.	31,997	31,997	
440 Teacher Development and Eval			
444 School Readiness			
447 Adult Basic Education			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance	26,531	26,532	(1)
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Community Service	1,287,548	1,287,549	(1)

	Audit	UFARS	Variance
06 BUILDING CONSTRUCTION			
Total Revenue	5	5	
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
407 Capital Projects Levy			
413 Projects Funded By COP			
467 LTFM			
Restricted			
464 Restricted Fund Balance	1,137	1,137	
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Building Construction	1,142	1,142	

	Audit	UFARS	Variance
07 DEBT SERVICE			
Total Revenue	31,108	31,109	(1)
Total Expenditures	7,817	7,817	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
425 Bond Refundings			
433 Max Effort Loan	50,796	50,798	(2)
451 QZAB Payments			
Restricted			
464 Restricted Fund Balance			
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Debt Service	89,721	89,724	(3)

	Audit	UFARS	Variance
08 TRUST			
Total Revenue	2,829	2,829	
Total Expenditures	3,000	3,000	
Unassigned:			
422 Unassigned Fund Balance	830	829	1
Reconciliation of Trust	6,659	6,658	1

	Audit	UFARS	Variance
20 INTERNAL SERVICE			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of Internal Service			

	Audit	UFARS	Variance
25 OPEB REVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Revocable Trust			

	Audit	UFARS	Variance
45 OPEB IRREVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Irrevocable Trust			

	Audit	UFARS	Variance
47 OPEB DEBT SERVICE FUND			
Total Revenue			
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted			
425 Bond Refunding			
464 Restricted Fund Balance			
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of OPEB Debt Service			