Financial Statements
June 30, 2019

# Independent School District No. 150
# Hawley Area Public Schools

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June 30, 2019

| Name | Position | Term Expires |
|---|---|---|
| **School Board** | | |
| Mark Sellin | Chairperson | 2021 |
| Todd Heiberg | Vice Chairperson | 2023 |
| Paul Thompson | Clerk | 2021 |
| Steve Olson | Treasurer | 2021 |
| Jeff Lee | Director | 2023 |
| Cody Marshall | Director | 2023 |
| Scott Grani | Director | 2021 |
| **Administration** | | |
| Phil Jensen | Superintendent | |
| Alison Green | Business Manager | |
| Blake Stoltman | Business Manager | |

**Independent Auditor's Report**

The School Board of
Independent School District No. 150
Hawley Area Public Schools
Hawley, Minnesota

**Report on the Financial Statements**
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 150, Hawley, Minnesota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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.




4310 17th Ave. S. | P.O. Box 2545 | Fargo, ND 58108-2545 | T 701.239.8500 | F 701.239.8600 | EOE

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

**Opinions**

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

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the District's total OPEB liability and related ratios, schedule of employer's share of net pension liability and schedule of employer's contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of American, which consisted of inquiries of management about the methods or 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 financial statements. The school board and administration, combining and individual fund schedules, schedule of changes in student activity cash balances, and uniform accounting and reporting standards compliance table are presented for purposes of additional analysis and are not a required part of the financial statements.

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

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

**Report on Other Legal and Regulatory Requirements**

In accordance with the Legal Compliance Audit Guide prepared by the Office of the State Auditor pursuant to Minn. Stat. §6.65, we have also issued a report dated October 28, 2019 on our consideration of the District's compliance with aspects of the provisions of the Minnesota Legal Compliance Audit Guide for School Districts. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with the Office of the State Auditor's Minnesota Legal Compliance Audit Guide for School Districts in considering the District's compliance with certain regulatory requirements pursuant to Minn. Stat. §6.65.

Eide Bailly LLP

Fargo, North Dakota
October 28, 2019

This section of Hawley Public Schools – Independent School District 150's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019.

**Financial Highlights**

Key financial highlights for the 2018-2019 fiscal year:

General Fund 01 – The overall revenues were $10,596,033 while the overall expenditures were $10,392,136, increasing fund balance by $69,085.

Food Service Fund 02 – The revenues were $501,178 and the expenditures were $558,619, decreasing fund balance by $57,441.

Community Service Fund 04 – The revenues were $561,719 while the expenditures were $498,228, increasing fund balance by $63,491.

Debt Service Fund 07 – The overall revenues were $802,630 while the expenditures were $1,005,965, decreasing fund balance by $43,260.

**Overview of the Financial Statements**

The financial section of the annual report consists of three parts – Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section) and the basic financial statements. 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 relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The following outline shows how the various parts of this annual report are arranged and related to one another.

1. Management's Discussion and Analysis
2. Basic Financial Statements
   - District-Wide Financial Statements
   - Fund Financial Statements

Footnote 1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

**District-Wide Statements**

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

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

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

**Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds – focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific 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 (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has two kinds of funds:

Governmental Funds – All of the District's basic services are included in governmental funds, which generally focus on:

1. How cash and other financial assets that can readily be converted to cash flow in and out and
2. The balances left at year-end that are available for spending.

Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. 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 a positive $3,485,956 on June 30, 2019. A condensed version of the Statement of Net Position at June 30, 2019 and 2018 is as follows:

Statement of Net Position
June 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Assets | | |
| Current assets | $ 5,340,016 | $ 4,909,672 |
| Capital assets | 20,549,979 | 21,014,405 |
| Total assets | 25,889,995 | 25,924,077 |
| Deferred Outflows of Resources | 7,911,024 | 10,642,416 |
| Liabilities | | |
| Other liabilities | 870,601 | 841,024 |
| Long-term liabilities | 17,006,290 | 29,958,686 |
| Total liabilities | 17,876,891 | 30,799,710 |
| Deferred Inflows of Resources | 12,438,172 | 4,651,390 |
| Net Position | | |
| Net investment in capital assets | 10,549,979 | 10,374,405 |
| Restricted | 1,032,055 | 1,049,876 |
| Unrestricted | (8,096,078) | (10,308,888) |
| Total net position | $ 3,485,956 | $ 1,115,393 |

Changes in Net Position – The District's total revenues were $12,288,809 for the year ended June 30, 2019.

The total cost of all programs and services was $9,918,246. The District's expenses are predominantly related to educating and caring for students.

Total revenues surpassed expenses, increasing net position $2,370,563.

Statement of Activities
Years Ended June 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Revenues | | |
| Program revenues | | |
| Charges for service | $ 809,938 | $845,984 |
| Operating grants and contributions | 270,204 | 344,052 |
| General | | |
| Property taxes | 1,602,825 | 1,452,580 |
| Aids and payments from state and other | 9,511,496 | 8,862,628 |
| Unrestricted investment earnings | 50,480 | 21,300 |
| Miscellaneous revenues | 43,866 | 43,403 |
| Total revenues | 12,288,809 | 11,569,947 |
| Expenses | | |
| District and school administration | 605,223 | 596,979 |
| District support services | 301,367 | 345,024 |
| Regular instruction | 3,260,021 | 7,555,535 |
| Vocational instruction | 260,657 | 209,020 |
| Exceptional instruction | 1,217,192 | 1,230,395 |
| Community education and services | 493,651 | 463,579 |
| Instructional support services | 375,832 | 304,327 |
| Pupil support services | 1,142,336 | 1,091,656 |
| Site, buildings and equipment | 1,833,069 | 1,625,650 |
| Fiscal and other fixed-cost programs | 428,898 | 418,894 |
| Total expenses | 9,918,246 | 13,841,059 |
| Change in Net Position | 2,370,563 | (2,271,112) |
| Net Position - Beginning | 1,115,393 | 3,386,505 |
| Net Position - Ending | $ 3,485,956 | $ 1,115,393 |

**Financial Analysis of the District's Funds**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of $3,196,907. Revenues for the District's governmental funds were $12,461,560, while total expenditures were $12,454,948.

**General Fund**

The General Fund includes the primary operations of the District in providing educational services to students from pre-k/Special Education through grade 12 including pupil transportation activities and capital outlay projects.

The following schedule presents a summary of General Fund Revenues.

| | Year Ended June 30, | | Amount of Increase (Decrease) | Percent Increase (Decrease) |
|---|---|---|---|---|
| | 2019 | 2018 | | |
| Local property taxes | $ 840,692 | $ 579,077 | $ 261,615 | 45.2% |
| Other local sources | 429,666 | 409,225 | 20,441 | 5.0% |
| State sources | 9,247,313 | 8,700,077 | 547,236 | 6.3% |
| Federal sources | 74,061 | 139,522 | (65,461) | -46.9% |
| Sales and other conversions | 4,301 | 1,092 | 3,209 | 293.9% |
| Total General Fund revenues | $ 10,596,033 | $ 9,828,993 | $ 767,040 | 7.8% |

The revenues increased in the General Fund by $767,040 or 7.8% from the previous fiscal year. The increase in state sources was attributed to an increase in student counts from 2018 to 2019, which resulted in additional general education aid. The mix of property tax and state aid can change significantly from year to year without any net change on revenue.

The following schedule presents a summary of General Fund expenditures.

| | Year Ended June 30, | | Amount of Increase (Decrease) | Percent Increase (Decrease) |
|---|---|---|---|---|
| | 2019 | 2018 | | |
| Salaries and employee benefits | $ 7,142,999 | $ 7,446,985 | $ (303,986) | -4.1% |
| Purchased services | 1,112,637 | 942,340 | 170,297 | 18.1% |
| Supplies, materials and equipment | 533,194 | 582,050 | (48,856) | -8.4% |
| Capital expenditures | 663,018 | 421,940 | 241,078 | 57.1% |
| Other expenditures | 940,288 | 244,151 | 696,137 | 285.1% |
| Total General Fund expenditures | $ 10,392,136 | $ 9,637,466 | $ 754,670 | 7.8% |

The expenses increased in the General Fund by $754,670 or 7.8% from the previous fiscal year. The increase in other expenditures was attributed to recording the State's direct aid revenue and expense related to PERA and TRA's special funding situation. The mix of property tax and state aid can change significantly from year to year without any net change on revenue.

Basic general education revenue is determined by the state on a per student funding formula. Other state-authorized revenue, including levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue. The District will continue to look at various cost containment measures to minimize the effect of the uncertainty of education funding by the State of Minnesota.

The total fund balance of $2,821,555 at June 30, 2019 represents a $69,085 increase in the fund balance from the previous year.

**General Fund Budgetary Highlights**

Over the course of the year, the District did not complete any revisions to the budget. However, Administration compares actual revenues and expenditures to review the District's performance. Any budget amendments fall into three categories:

- Implementing budgets for specially funded projects, which include both federal and state grants, and budgeting for clearing, resale, and gifts.
- Increasing appropriations for significant unbudgeted costs.
- Revising budgets to reflect all salary settlements.

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

- Actual revenues were $519,292 less than expected.
- Actual expenditures were $7,709 less than budgeted.

**Other Non-Major Funds**

The Food Service Fund maintains a fund balance of $131,019. The Community Service Fund maintains a fund balance of $244,333. Both of these funds continue to operate on a sound financial basis.

## Capital Asset and Debt Administration

By the end of 2018-2019, the District had invested $32,364,933 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. Total depreciation expense for the year was $962,108.

Capital Assets
June 30, 2019 and 2018

| | 2019 | 2018 |
|---|---|---|
| Land | $ 112,700 | $ 112,700 |
| Construction in progress | - | 4,778 |
| Site improvements | 841,483 | 765,693 |
| Buildings | 29,129,068 | 28,822,033 |
| Equipment | 2,281,682 | 2,162,047 |
| Accumulated depreciation | (11,814,954) | (10,852,846) |
| Total capital assets | $ 20,549,979 | $ 21,014,405 |

See the notes to the financial statements for additional information on capital assets.

## Long-Term Liabilities

At year-end, the District had $10,000,000 in general obligation bonds, $322,495 in deferred bond premiums, and $17,145 capital lease payable. The District had $262,161 in post-employment severance and $552,968 in other post-employment benefit obligations at June 30, 2019. The District had $6,574,108 in net pension liability at year-end.

- The District continued to pay down its debt, retiring $640,000 of outstanding bonds.

See the notes to the financial statements for additional information on long-term liabilities.

## Factors Bearing on the District's Future

With the exception of the voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. At the time these financial statements were prepared and audited, the District was aware of the following factors that could significantly affect its financial health in the future:

- The political environment at the state level will have a significant effect on future finances. The state legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive.

- Enrollment fluctuations can have a significant effect on the District's revenue. We will continue to monitor enrollment closely and adjust budgets as necessary.

**Contacting the District's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Hawley Public Schools, Independent School District 150, PO Box 608, Hawley, Minnesota 56549.

| | |
|---|---|
| Assets | |
| Cash and investments | $ 3,338,183 |
| Receivables | |
| Current property taxes | 1,063,987 |
| Delinquent property taxes | 37,533 |
| Due from other governmental units | 793,728 |
| Accounts | 93,480 |
| Prepaid items | 304 |
| Inventories | 12,801 |
| | 5,340,016 |
| Capital assets | |
| Non-depreciable | |
| Land | 112,700 |
| Depreciable | |
| Improvements | 841,483 |
| Buildings | 29,129,068 |
| Equipment | 2,281,682 |
| Less accumulated depreciation | (11,814,954) |
| Total capital assets, net of depreciation | 20,549,979 |
| Total assets | 25,889,995 |
| Deferred Outflows of Resources | |
| Other post-employment benefits | 38,268 |
| Pension plans | 7,872,756 |
| Total deferred outflows of resources | 7,911,024 |
| Liabilities | |
| Accounts payable | 73,489 |
| Salaries payable | 15,208 |
| Accrued interest payable | 58,629 |
| Unearned revenue | 688 |
| Long-term liabilities | |
| Due within one year - bonds, premiums, capital lease, and severance | 722,587 |
| Due in more than one year - bonds, premiums, capital lease, and severance | 9,879,214 |
| Due in more than one year - OPEB | 552,968 |
| Due in more than one year - net pension liability | 6,574,108 |
| Total liabilities | 17,876,891 |
| Deferred Inflows of Resources | |
| Unavailable revenue-property taxes | 2,016,191 |
| Pension plans | 10,421,981 |
| Total deferred inflows of resources | 12,438,172 |
| Net Position | |
| Net investment in capital assets | 10,549,979 |
| Restricted | 1,032,055 |
| Unrestricted | (8,096,078) |
| Total net position | $ 3,485,956 |

| Functions/Programs | Expenses | Program Revenues: Charges for Services | Program Revenues: Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Position |
|---|---|---|---|---|
| Governmental activities | | | | |
| Administration | $ 605,223 | $ - | $ - | $ (605,223) |
| District support services | 301,367 | - | - | (301,367) |
| Regular instruction | 3,260,021 | 243,590 | 66,761 | (2,949,670) |
| Vocational educational instruction | 260,657 | - | - | (260,657) |
| Special education instruction | 1,217,192 | - | 7,300 | (1,209,892) |
| Community education and services | 493,651 | 261,881 | - | (231,770) |
| Instructional support services | 375,832 | - | - | (375,832) |
| Pupil support services | 1,142,336 | 299,057 | 196,143 | (647,136) |
| Sites and buildings | 1,833,069 | 5,410 | - | (1,827,659) |
| Fiscal and other fixed-cost programs | 428,898 | - | - | (428,898) |
| Total governmental activities | $ 9,918,246 | $ 809,938 | $ 270,204 | (8,838,104) |
| General Revenues | | | | |
| Property taxes, levied for general purposes | | | | 861,794 |
| Property taxes, levied for community service | | | | 49,414 |
| Property taxes, levied for debt service | | | | 691,617 |
| Aids and payments from the state | | | | 9,496,789 |
| County apportionment | | | | 14,707 |
| Unrestricted investment earnings | | | | 50,480 |
| Miscellaneous revenues | | | | 43,866 |
| Total general revenues | | | | 11,208,667 |
| Changes in net position | | | | 2,370,563 |
| Net position - beginning | | | | 1,115,393 |
| Net position - ending | | | | $ 3,485,956 |

Governmental Funds
Balance Sheet
June 30, 2019

| | General | Debt Service | Other Governmental Funds | Totals |
|---|---|---|---|---|
| Assets | | | | |
| Cash and investments | $ 2,476,790 | $ 473,375 | $ 388,018 | $ 3,338,183 |
| Receivables | | | | |
| Current property taxes | 471,568 | 565,207 | 27,212 | 1,063,987 |
| Delinquent property taxes | 18,969 | 17,331 | 1,233 | 37,533 |
| Due from other governmental units | 777,058 | 11,101 | 5,569 | 793,728 |
| Accounts | 89,980 | - | 3,500 | 93,480 |
| Prepaid items | 304 | - | - | 304 |
| Inventories | - | - | 12,801 | 12,801 |
| Total assets | $ 3,834,669 | $ 1,067,014 | $ 438,333 | $ 5,340,016 |
| Liabilities | | | | |
| Accounts payable | $ 69,062 | $ - | $ 4,427 | $ 73,489 |
| Salaries payable | 15,208 | - | - | 15,208 |
| Unearned revenue | 688 | - | - | 688 |
| Total liabilities | 84,958 | - | 4,427 | 89,385 |
| Deferred inflows of resources | | | | |
| Unavailable revenue-property taxes | 928,156 | 1,067,014 | 58,554 | 2,053,724 |
| Fund Balance | | | | |
| Nonspendable | 304 | - | 12,801 | 13,105 |
| Restricted | 664,471 | - | 407,649 | 1,072,120 |
| Committed | 262,161 | - | - | 262,161 |
| Assigned | 1,555,000 | - | - | 1,555,000 |
| Unassigned | 339,619 | - | (45,098) | 294,521 |
| Total fund balance | 2,821,555 | - | 375,352 | 3,196,907 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 3,834,669 | $ 1,067,014 | $ 438,333 | $ 5,340,016 |

Independent School District No. 150
Hawley Area Public Schools
Governmental Funds
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2019

| | |
|---|---|
| Total Fund Balances - Governmental Funds | $ 3,196,907 |
| 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 in the funds. | 20,549,979 |
| Accrued interest payable for long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. | (58,629) |
| Delinquent property taxes are not considered available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds. | 37,533 |
| Total OPEB obligation liabilities are not recognized in the funds. | (552,968) |
| Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds | (2,510,957) |
| Long-term liabilities, including bonds payable, deferred bond premiums, net pension liability and severance payable, are not due and payable in the current period and therefore, are not reported as liabilities in the funds. | (17,175,909) |
| Total Net Position - Governmental Activities | $ 3,485,956 |

| | General | Debt Service | Other Governmental Funds | Totals |
|---|---|---|---|---|
| Revenues | | | | |
| Local property tax levies | $ 840,692 | $ 691,617 | $ 56,035 | $ 1,588,344 |
| Other local and county sources | 429,666 | - | 437,810 | 867,476 |
| State sources | 9,247,313 | 111,013 | 105,077 | 9,463,403 |
| Federal sources | 74,061 | - | 167,265 | 241,326 |
| Sales and other conversion of assets | 4,301 | - | 296,710 | 301,011 |
| Total revenues | 10,596,033 | 802,630 | 1,062,897 | 12,461,560 |
| Expenditures | | | | |
| Administration | 611,201 | - | - | 611,201 |
| District support services | 338,825 | - | - | 338,825 |
| Regular instruction | 5,431,877 | - | - | 5,431,877 |
| Vocational education instruction | 260,501 | - | - | 260,501 |
| Special education instruction | 1,391,037 | - | - | 1,391,037 |
| Community education and service | - | - | 498,228 | 498,228 |
| Instructional support services | 375,832 | - | - | 375,832 |
| Pupil support services | 568,151 | - | 558,619 | 1,126,770 |
| Sites and buildings | 1,323,553 | - | - | 1,323,553 |
| Fiscal and other fixed cost programs | 91,159 | 1,005,965 | - | 1,097,124 |
| Total expenditures | 10,392,136 | 1,005,965 | 1,056,847 | 12,454,948 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 203,897 | (203,335) | 6,050 | 6,612 |
| Other Financing Sources (Uses) | | | | |
| Capital lease proceeds | 25,263 | - | - | 25,263 |
| Transfers in (out) | (160,075) | 160,075 | - | - |
| Total other financing sources (uses) | (134,812) | 160,075 | - | 25,263 |
| Net Change in Fund Balance | 69,085 | (43,260) | 6,050 | 31,875 |
| Fund Balance, Beginning of Year | 2,752,470 | 43,260 | 369,302 | 3,165,032 |
| Fund Balance, End of Year | $ 2,821,555 | $ - | $ 375,352 | $ 3,196,907 |

| | | |
|---|---|---|
| Net Change in Fund Balances - Total Governmental Funds | $ | 31,875 |
| Amounts reported for governmental activities in the statement of activities are different because: | | |
| Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay and net disposals in the current period. | | (464,426) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | | 15,102 |
| In the statement of activities compensated absences 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. | | 51,342 |
| In the statement of activities OPEB obligations 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. | | (9,659) |
| In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense. | | 2,095,247 |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | | 651,082 |
| Change in Net Position of Governmental Activities | $ | 2,370,563 |

# Independent School District No. 150
## Hawley Area Public Schools
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual
Year Ended June 30, 2019

| | Original Budget | Final Budget | Actual | Variance With Final Budget |
|---|---|---|---|---|
| Revenues | | | | |
| Local property tax levies | $ 873,871 | $ 873,871 | $ 840,692 | $ (33,179) |
| Other local and county sources | 349,207 | 349,207 | 429,666 | 80,459 |
| State sources | 8,690,817 | 8,690,817 | 9,247,313 | 556,496 |
| Federal sources | 162,296 | 162,296 | 74,061 | (88,235) |
| Sales and other conversion of assets | 550 | 550 | 4,301 | 3,751 |
| Total revenues | 10,076,741 | 10,076,741 | 10,596,033 | 519,292 |
| Expenditures | | | | |
| Administration | 627,469 | 627,469 | 611,201 | 16,268 |
| District support services | 380,818 | 380,818 | 338,825 | 41,993 |
| Regular instruction | 5,269,519 | 5,269,794 | 5,431,877 | (162,083) |
| Vocational education instruction | 174,001 | 174,001 | 260,501 | (86,500) |
| Special education instruction | 1,447,745 | 1,447,745 | 1,391,037 | 56,708 |
| Instructional support services | 327,349 | 327,349 | 375,832 | (48,483) |
| Pupil support services | 642,003 | 642,003 | 568,151 | 73,852 |
| Sites and buildings | 1,456,748 | 1,456,748 | 1,323,553 | 133,195 |
| Fiscal and other fixed cost programs | 58,500 | 58,500 | 91,159 | (32,659) |
| Total expenditures | 10,384,152 | 10,384,427 | 10,392,136 | (7,709) |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (307,411) | (307,686) | 203,897 | 511,583 |
| Other Financing Sources (Uses) | | | | |
| Capital lease proceeds | - | - | 25,263 | 25,263 |
| Transfer out | - | - | (160,075) | (160,075) |
| Total other financing sources (uses) | - | - | (134,812) | (134,812) |
| Net Change in Fund Balance | $ (307,411) | $ (307,686) | 69,085 | $ 376,771 |
| Fund Balance, Beginning of Year | | | 2,752,470 | |
| Fund Balance, End of Year | | | $ 2,821,555 | |

Independent School District No. 150
Hawley Area Public Schools
Fiduciary Fund
Statement of Fiduciary Net Position
June 30, 2019

| | Student Activities Agency Fund |
|---|---|
| **Assets** | |
| Cash | $ 92,299 |
| **Liabilities** | |
| Due to other organizations | $ 92,299 |

## Note 1 - Summary of Significant Accounting Policies

### A. Organization

Independent School District No. 150, Hawley Area Public Schools, Hawley, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America 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 accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

Component units are legally separate 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 include 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 burden or benefit with the potential component unit, or is fiscally depended 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 determined 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 not to control or be otherwise financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are included in these financial statements as an agency fund.

### C. District-Wide Financial Statement Presentation

The district-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position at the fund financial statement level. Generally, the effect of interfund activity has been removed from the district-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 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 internally directed revenues are reported as general revenues.

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 of the related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

**D. Fund Financial Statement Presentation**

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

Fiduciary Funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust, private-purpose trust, and agency. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the district-wide statements.

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. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to Minnesota Statutes. Federal revenue is recorded in the year in which the related expenditure is made. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

Recording of Expenditures – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, severance and healthcare benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are included within the applicable functional areas.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes.

**Description of Funds**

The existence of the various district funds has been established by the Minnesota Department of Education. Each fund is accounted for as an independent entity. A description of the funds included in this report are as follows:

**Major Governmental Funds**

General Fund – The general fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, and health and safety projects.

Debt Service Fund – The debt service fund is used to account for the accumulation of resources for, and payment of, general obligation bond principal, interest, and related costs.

**Nonmajor Governmental Funds**

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

Community Service Fund – The community service fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, extended day programs, or other similar services.

**Other Funds**

Agency Fund – The Student Activities Agency Fund is used to account for assets held by the District as an agent for others. The student activity fund is used for extracurricular student activities.

## E. Other Significant Accounting Policies

### Budgeting

An operating budget is adopted by July 1 of each fiscal year for all governmental funds on the same modified accrual basis used to reflect actual revenues and expenditures. The superintendent is authorized to transfer budget amounts within line items; however, supplemental appropriations that amend total appropriations of any fund require a board resolution. Reported budgeted amounts are as originally adopted or as amended by board resolution. Unencumbered appropriations lapse at year-end.

### Cash and Investments

Cash and 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.

Short-term, highly liquid debt instruments (including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

### Receivables

All receivables are shown net of any allowance for uncollectibles. No allowances for uncollectibles have been recorded. The only receivables not expected to be collected within one year are property taxes receivable.

### Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as an expense or expenditure at the time of consumption.

### Inventories

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

### Property Taxes

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

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

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

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

**Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historic cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of $2,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 3 to 50 years.

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

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

**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. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

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.

**Compensated Absences Payable**

Vacation – The District compensates substantially all full-time noncertified employees for unused vacation upon termination; however, no employee is allowed to accumulate more than a one-year vacation allowance. The expenditure for vacation pay is recognized when payment is made. Vacation is immaterial as of June 30, 2019, and is not accrued.

Sick Pay – Substantially all District employees are allowed to accrue sick leave at varying amounts each year and accumulate within specified limits. Employees are not compensated for unused sick leave upon termination of employment. Since the employees accumulating rights to receive compensation for future absences being caused by future illnesses such amounts cannot be reasonably estimated, a liability for unused sick leave has not been recorded in the financial statements. In some instances, unused sick leave does enter into the calculation of severance pay for some employees upon termination.

Severance Benefits – The district has a severance pay plan for teachers who have taught at least 10 years of teaching service in the District and 25 years of teaching experience. Eligible teachers, upon resignation, shall receive as severance pay an amount representing a maximum of 108 days of the teacher's final salary, reduced by the amount of contributions to the teacher's 403(b) plan made by the District. As of June 30, 2019, the district owes $262,161 for severance pay of which $214,495 is recorded as a long-term liability on the district-wide statements.

**Pensions**

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015). Additional information can be found in Note 8.

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.

**Deferred Outflows and Inflows of Resources**

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

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

**Risk Management**

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

**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 district-wide and fiduciary fund 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.

**Fund Balance**

The following classifications describe the relative strength of the spending constraints:

Nonspendable Fund Balance – represents a portion of fund balance that includes amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

Restricted Fund Balances – represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which is the School Board through an ordinance or resolution.

Assigned Fund Balance – represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed.

Unassigned Fund Balance – represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The District's policy is to strive to maintain a minimum unrestricted general fund balance of three months of operating expenditures. The first priority is to utilize the balance as restricted fund balance. Committed funds will be considered second with assigned fund balance third when expenditures is incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used like assigned or unassigned.

**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. Actual results could differ from those estimates.

## Note 2 - Deposits and Investments

### Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the District's School Board. All such depositories are members of the Federal Reserve System.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

At June 30, 2019, all deposits were insured or collateralized by securities held by the District's agent in the District's name.

### Investments

Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, certain repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. The District had no such investments during the year or at year end.

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 No. 40.

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

| | |
|---|---|
| Minnesota School District Liquid Asset Fund | $ 2,332,074 |
| Investments | 726,742 |
| Deposits | 371,666 |
| | $ 3,430,482 |

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

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

| | |
|---|---|
| Cash and investments - Statement of Net Position | $ 3,338,183 |
| Cash - Statement of Fiduciary Net Position | 92,299 |
| | $ 3,430,482 |

## Note 3 - Due from Other Governmental Units

Amounts receivable from other governments as of June 30, 2019, include:

| Fund | State |
|---|---|
| Major funds | |
| General | $ 777,058 |
| Debt service | 11,101 |
| Non-major funds | 5,569 |
| | $ 793,728 |

## Note 4 - Capital Assets

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

| | Balance July 1, 2018 | Additions | Deletions | Balance June 30, 2019 |
|---|---|---|---|---|
| Capital assets not being depreciated | | | | |
| Land | $ 112,700 | $ - | $ - | $ 112,700 |
| Construction in progress | 4,778 | 79,810 | 84,588 | - |
| Total capital assets not being depreciated | 117,478 | 79,810 | 84,588 | 112,700 |
| Capital assets being depreciated | | | | |
| Improvements | 765,693 | 75,790 | - | 841,483 |
| Buildings | 28,822,033 | 307,035 | - | 29,129,068 |
| Equipment | 2,162,047 | 119,635 | - | 2,281,682 |
| Total capital assets being depreciated | 31,749,773 | 502,460 | - | 32,252,233 |
| Less accumulated depreciation for: | | | | |
| Improvements | 508,545 | 25,363 | - | 533,908 |
| Buildings | 8,979,901 | 809,618 | - | 9,789,519 |
| Equipment | 1,364,400 | 127,127 | - | 1,491,527 |
| Total accumulated depreciation | 10,852,846 | 962,108 | - | 11,814,954 |
| Net capital assets, depreciated | 20,896,927 | (459,648) | - | 20,437,279 |
| Total capital assets, net | $ 21,014,405 | $ (379,838) | $ 84,588 | $ 20,549,979 |

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

| | |
|---|---|
| Regular instruction | $ 32,241 |
| Vocational instruction | 156 |
| Special education | 3,451 |
| Business | 3,270 |
| Pupil support services | 46,183 |
| Sites and buildings | 876,807 |
| Total depreciation expense | $ 962,108 |

## Note 5 - Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2019 are as follows:

| | Balance July 1, 2018 | Additions | Deletions | Balance June 30, 2019 | Due Within One Year |
|---|---|---|---|---|---|
| Bonds payable | $ 10,640,000 | $ - | $ 640,000 | $ 10,000,000 | $ 645,000 |
| Deferred bond premiums | 343,995 | - | 21,500 | 322,495 | 21,500 |
| Capital lease (direct borrowing) | - | 25,263 | 8,118 | 17,145 | 8,421 |
| Severance payable | 313,503 | - | 51,342 | 262,161 | 47,666 |
| | $ 11,297,498 | $ 25,263 | $ 720,960 | $ 10,601,801 | $ 722,587 |

Following is a summary of bonds payable as of June 30, 2019:

| Bond Description | Final Maturities | Interest Rate | Original Principal | Outstanding Balance |
|---|---|---|---|---|
| General Obligation Building Bonds of 2014A | 3/34 | 2.00%-4.00% | $ 10,000,000 | $ 10,000,000 |

Bond principal and interest payments are made by the debt service fund.

Following is a summary of capital lease payable as of June 30, 2019:

| Capital Lease Description | Final Maturities | Interest Rate | Original Principal | Outstanding Balance |
|---|---|---|---|---|
| Copier Lease | 2/21 | 2.00%-4.00% | $ 25,263 | $ 17,145 |

Annual capital lease principal and interest payments of $$8,421 are made by the general fund. The outstanding capital lease contains a provision that in the event of default the copier equipment will be repossessed. The total cost of the asset was $25,563 and had accumulated depreciation of $2,526 as of June 30, 2019.

<u>Severance Payable</u> – This amount consists of vested severance benefits as discussed in Note 1.

Remaining principal and interest payments on general long-term debt are as follows:

| Years Ending June 30, | Bonds Payable Principal | Bonds Payable Interest | Capital Lease Payable Principal | Capital Lease Payable Interest |
|---|---|---|---|---|
| 2020 | $ 645,000 | $ 351,775 | $ 8,421 | $ 799 |
| 2021 | 670,000 | 338,875 | 8,724 | 409 |
| 2022 | 700,000 | 325,475 | - | - |
| 2023 | 770,000 | 299,225 | - | - |
| 2024 | 540,000 | 270,350 | - | - |
| 2025-2029 | 3,030,000 | 1,031,688 | - | - |
| 2030-2034 | 3,645,000 | 414,700 | - | - |
| | $ 10,000,000 | $ 3,032,088 | $ 17,145 | $ 1,208 |

| Years Ending June 30, | Severance Payable Principal | Severance Payable Interest | Total Principal | Total Interest |
|---|---|---|---|---|
| 2020 | $ 47,666 | $ - | $ 701,087 | $ 352,574 |
| 2021 | 47,666 | - | 726,390 | 339,284 |
| 2022 | 47,666 | - | 747,666 | 325,475 |
| 2023 | 47,665 | - | 817,665 | 299,225 |
| 2024 | 47,665 | - | 587,665 | 270,350 |
| 2025-2029 | 23,833 | - | 3,053,833 | 1,031,688 |
| 2030-2034 | - | - | 3,645,000 | 414,700 |
| | $ 262,161 | $ - | $ 10,279,306 | $ 3,033,296 |

**Note 6 - Fund Balance**

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

At June 30, 2019 the District has recorded the following restrictions of net position for the following purposes:

| | General Fund | Debt Service Fund | Other Governmental Funds | Total |
|---|---|---|---|---|
| Fund Balances | | | | |
| Nonspendable | | | | |
| Inventories | $ - | $ - | $ 12,801 | $ 12,801 |
| Prepaid items | 304 | - | - | 304 |
| Total nonspendable | 304 | - | 12,801 | 13,105 |
| Restricted | | | | |
| Medical assistance | 33,732 | - | - | 33,732 |
| Staff development | 18,923 | - | - | 18,923 |
| Gifted and talented | 29,446 | - | - | 29,446 |
| Long term facilities maintenance | 582,370 | - | - | 582,370 |
| Food service | - | - | 118,218 | 118,218 |
| Community education | - | - | 45,640 | 45,640 |
| E.C.F.E. | - | - | 147,949 | 147,949 |
| School readiness | - | - | 95,842 | 95,842 |
| Total restricted | 664,471 | - | 407,649 | 1,072,120 |
| Committed Severance | 262,161 | - | - | 262,161 |
| Assigned | | | | |
| Roofing | 175,000 | - | - | 175,000 |
| Facilities repair | 150,000 | - | - | 150,000 |
| Vehicles | 55,000 | - | - | 55,000 |
| Bus | 95,000 | - | - | 95,000 |
| Garage | 325,000 | - | - | 325,000 |
| Flooring | 80,000 | - | - | 80,000 |
| Windows | 105,000 | - | - | 105,000 |
| Paving/Curb | 20,000 | - | - | 20,000 |
| Tuck pointing | 50,000 | - | - | 50,000 |
| HVAC systems | 500,000 | - | - | 500,000 |
| Total assigned | 1,555,000 | - | - | 1,555,000 |
| Unassigned | 339,619 | - | (45,098) | 294,521 |
| Total fund balance | $ 2,821,555 | $ - | $ 375,352 | $ 3,196,907 |

The UFARS fund balance reporting standards are slightly different than the reporting standards under GASB 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Below is a reconciliation between the fund balance reporting under GASB 54 and UFARS reporting standards:

| | GASB Balance | Reconciling Items | UFARS Balance |
|---|---|---|---|
| Fund Balances | | | |
| Nonspendable | | | |
| Inventory | $ 12,801 | $ - | $ 12,801 |
| Prepaids | 304 | - | 304 |
| Total nonspendable | 13,105 | - | 13,105 |
| Restricted | | | |
| Medical assistance | 33,732 | - | 33,732 |
| Staff development | 18,923 | - | 18,923 |
| Operating capital | - | - | - |
| Gifted and talented | 29,446 | - | 29,446 |
| Safe school - crime levy | - | (72,492) | (72,492) |
| Long term facilities maintenance | 582,370 | - | 582,370 |
| Food service | 118,218 | - | 118,218 |
| Community education | 45,640 | - | 45,640 |
| E.C.F.E. | 147,949 | - | 147,949 |
| School readiness | 95,842 | - | 95,842 |
| Community service | - | (45,098) | (45,098) |
| Total restricted | 1,072,120 | (117,590) | 954,530 |
| Committed Severance | 262,161 | - | 262,161 |
| Assigned | | | |
| Roofing | 175,000 | - | 175,000 |
| Facilities repair | 150,000 | - | 150,000 |
| Vehicles | 55,000 | - | 55,000 |
| Bus lease | 95,000 | - | 95,000 |
| Garage | 325,000 | - | 325,000 |
| Flooring | 80,000 | - | 80,000 |
| Windows | 105,000 | - | 105,000 |
| Technology | 20,000 | - | 20,000 |
| Paving/Curb | 50,000 | - | 50,000 |
| Tuck pointing | 500,000 | - | 500,000 |
| Total assigned | 1,555,000 | - | 1,555,000 |
| Unassigned | 294,521 | 117,590 | 412,111 |
| Total fund balance | $ 3,196,907 | $ - | $ 3,196,907 |

## Note 7 - Other Postemployment Benefits

### A. Plan Description

All employees are allowed upon meeting the eligibility requirements under Minn. Stat. 471.61 subd, 2b, to participate in the District's health insurance plan after retirement. This plan covers active and retired employees who have reached age 55, with teachers needing at least 3 years of service and all other district employees needing 5 years of service. Benefit provisions are established through negotiations between the District and the union representing District employees and are renegotiated at the end of each contract period. A separately issued report is not available.

### B. Benefits Provided

The contract groups have access to other post-retirement benefits of blended medical premiums of $575 for single and $1,534 for family coverage. The implicit rate subsidy is only until Medicare eligibility. There are no subsidized post-employment medical, dental, or life insurance benefits.

### C. Employees Covered by Benefit Terms

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

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefit payments | 4 |
| Inactive employees entitled to but not yet receiving benefit payments | - |
| Active employees | 137 |
| | 141 |

### D. Total OPEB Liability

The District's total OPEB liability of $552,968 was measured as of July 1, 2018, and was determined by an actuarial valuation as of July 1, 2017.

## E. Actuarial Assumptions and Other Inputs

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

| | | |
|---|---|---|
| Inflation | 2.50 percent | |
| Salary increases | 3.00 percent | |
| Discount rate | 3.40 percent | |
| Healthcare cost trend rates | 6.25 percent as of July 1, 2018, grading to 5.00% over 5 years | |
| Retiree plan participation | Future retirees electing coverage: | |
| | - Teachers, administrators, and business managers | 50% |
| | - All others | 5% |
| Percent of married retirees electing spouse coverage | 25% | |

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

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

The actuarial assumptions used in the July 1, 2017, valuation were based on the results of an actuarial experience study as of that date.

## F. Changes in Total OPEB Liability

| | |
|---|---|
| Balance at June 30, 2018 | $ 536,519 |
| Changes from the Prior Year | |
| Service Cost | 29,221 |
| Interest Cost | 18,705 |
| Benefit Payments | (31,477) |
| Net Change | 16,449 |
| Balance at June 30, 2019 | $ 552,968 |

### G. Sensitivity of the Total OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower and 1 percentage point higher than the current discount rate:

| | 1% Decrease in Discount Rate | Discount Rate | 1% Increase in Discount Rate |
|---|---|---|---|
| Discount rate | 2.40% | 3.40% | 4.40% |
| Total OPEB Liability | $ 585,806 | $ 552,968 | $ 521,091 |

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

| | 1% Decrease in Healthcare Trend Rate | Selected Healthcare Trend Rate | 1% Increase in Healthcare Trend Rate |
|---|---|---|---|
| Medical trend rate | 5.25% decreasing to 4% over 5 years | 6.25% decreasing to 5% over 5 years | 7.25% decreasing to 6% over 5 years |
| Total OPEB Liability | $ 498,960 | $ 552,968 | $ 616,457 |

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

For the year ended June 30, 2019, the District recognized OPEB expense of $47,926. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Employer contributions made after the measurement date | $ 38,268 | $ - |

$38,268 reported as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020.

## Note 8 - Defined Benefit Pension Plans

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

**Public Employees Retirement Association (PERA)**

### A. Plan Description

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

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

### B. Benefits Provided

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

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2 percent for each of the first 10 years of service and 1.7 percent for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7 percent for all years of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

**C. Contribution Rate**

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

Coordinated Plan members were required to contribute 6.50 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 $103,223. The District's contributions were equal to the required contributions for each year as set by state statute.

**D. Pension Costs**

At June 30, 2019, the District reported a liability of $1,087,328 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 $35,591. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0196% at the end of the measurement period and 0.0193% for the beginning of the period.

| | |
|---|---|
| District's proportionate share of net pension liability | $ 1,087,328 |
| State of Minnesota's proportionate share of the net pension liability associated with the District | 35,591 |
| Total | $ 1,122,919 |

For the year ended June 30, 2019, the District recognized pension expense of $67,846 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional $8,300 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 28,359 | $ 34,463 |
| Changes in actuarial assumptions | 112,876 | 120,893 |
| Net collective difference between projected and actual investment earnings | - | 97,839 |
| Changes in proportion | 27,320 | 81,196 |
| Contributions paid to PERA subsequent to measurement date | 103,223 | - |
| Total | $ 271,778 | $ 334,391 |

The $103,223 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Years Ended June 30, | Pension Expense Amount |
|---|---|
| 2020 | $ 27,877 |
| 2021 | (88,391) |
| 2022 | (82,627) |
| 2023 | (22,695) |
| 2024 | - |

**D. Actuarial Assumptions**

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

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

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

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

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

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

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

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

**E. 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.

**G. Pension Liability Sensitivity**

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

Sensitivity Analysis
Net Pension Liability (Asset) at Different Discount Rates

| | General Employees Fund | |
|---|---|---|
| 1% Lower | 6.50% | $ 1,767,047 |
| Current Discount Rate | 7.50% | $ 1,087,328 |
| 1% Higher | 8.50% | $ 526,239 |

**H. Pension Plan Fiduciary Net Position**

Detailed information about the 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.

**Teachers Retirement Association (TRA)**

**A. Plan Descriptions**

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

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

**B. Benefits Provided**

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

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

*Tier I Benefits*

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

With these provisions:

1. Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
2. 3 percent per year early retirement reduction factor for all years under normal retirement age.
3. Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

*Tier II Benefits*

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

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

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

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

**C. Contribution Rate**

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ending 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.

| | |
|---|---|
| Employer contributions reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position | $ 378,728,000 |
| Add employer contributions not related to future contribution efforts | 522,000 |
| Deduct TRA's contributions not included in allocation | (471,000) |
| Total employer contributions | 378,779,000 |
| Total non-employer contributions | 35,588,000 |
| Total contributions reported in *Schedule of Employer and Non-Employer Allocations* | $ 414,367,000 |

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

### D. Actuarial Assumptions

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

**Key Methods and Assumptions Used in Valuation of Total Pension Liability**

| | |
|---|---|
| Actuarial Information | |
| Valuation date | July 1, 2018 |
| Experience study | June 5, 2015<br>November 6, 2017 (economic assumptions) |
| Actuarial cost method | Entry Age Normal |
| Actuarial Assumptions | |
| Investment rate of return | 7.50% |
| Price inflation | 2.50% |
| Wage growth rate | 2.85% for 10 years; 3.25% thereafter |
| Projected salary increase | 2.85 - 8.85% for 10 years; 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 Assumptions | |
| Pre-retirement | RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale. |
| Post-retirement | RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale. |
| Post-disability | RP-2014 disabled retiree mortality table, without adjustment. |

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

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

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

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is six years. The “Difference Between Expected and Actual Experience,” “Changes of Assumptions,” and “Changes in Proportion” use the amortization period of 6 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is 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 age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.

**E. Discount Rate**

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

**F. Net Pension Liability**

At June 30, 2019, the District reported a liability of $5,486,780 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District's proportionate share was 0.0874% at the end of the measurement period and 0.0882% 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 | $ 5,486,780 |
| State's proportionate share of the net pension liability associated with the district | $ 515,695 |

For the year ended June 30, 2019, the District recognized pension revenue of $3,779,488. It also recognized $359,922 as a decrease to pension expense for the support provided by direct aid.

At June 30, 2019, the District reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 1,869 | $ 111,593 |
| Changes in actuarial assumptions | 7,103,185 | 9,374,518 |
| Difference between projected and actual investment earnings | - | 431,257 |
| Change in proportion and differences between contributions made and District's proportionate share of contributions | 113,967 | 170,222 |
| District's contributions to TRA subsequent to the measurement date | 381,957 | - |
| Total | $ 7,600,978 | $ 10,087,590 |

$381,957 was reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

| Years Ended June 30, | Pension Expense Amount |
|---|---|
| 2020 | $ 461,962 |
| 2021 | 310,437 |
| 2022 | (22,389) |
| 2023 | (2,109,136) |
| 2024 | (1,509,443) |

### G. Net Pension Liability

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 7.50% as well as the liability measured using one percent lower and one percent higher:

| | 1% Decrease in Discount Rate | Discount Rate | 1% Increase in Discount Rate |
|---|---|---|---|
| TRA discount rate | 6.50% | 7.50% | 8.50% |
| District's proportionate share of the TRA net pension liability | $ 8,707,497 | $ 5,486,780 | $ 2,829,709 |

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

### H. Pension Plan Fiduciary Net Position

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

## Note 9 - Flexible Benefit Plan

The District has a flexible benefit plan which is classified as a "cafeteria plan" (the Plan) under section 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the Plan for healthcare and dependent care benefits.

Before the beginning of the Plan year, which is from September 1 to August 31, each participant designates a total amount of pre-tax dollars to be contributed to the Plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the medical reimbursement portion of the Plan, whether or not such contributions have been made.

Payment of insurance premiums (health, dental, life, and disability) is made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund and special revenue funds.

Amounts withheld for medical reimbursement and dependent care are paid by the District to an outside administrator upon an employee submitting a request for reimbursement. Payments are made by the outside administrator to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the employee.

All property of the Plan and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the plan are equal to those of general creditors of the District in an amount equal to eligible healthcare and dependent care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

## Note 10 - Employee Benefit Plan 403(b)

Contracted District employees are eligible to participate in the 403(b) program as described by the District. Employee's participation in the 403(b) program and 403(b) matching program is in accordance with the Master Agreement between Independent School District No. 150, Hawley Area Public Schools and Education Minnesota Hawley.

## Note 11 - Operating Lease

The District has entered into an operating lease agreement for two photocopiers with Kinetic Leasing, Inc. The lease agreement expires June 30, 2019. Lease expense for the year ended June 30, 2019 was $31,728. Future minimum lease payments for the terms of the lease are as follows:

| | |
|---|---|
| 2020 | $ 50,044 |
| 2021 | 50,044 |
| 2022 | 50,044 |
| 2023 | 26,637 |
| Total future lease payments | $ 176,769 |

## Note 12 - Commitments and Contingencies

### Federal Revenue

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

## Note 13 - Interfund Transfers

The District made the following operating transfers to cover deficit fund balances:

| | Transfer In | Transfer out |
|---|---|---|
| General Fund | $ - | $ 160,075 |
| Debt Service Fund | 160,075 | - |
| | $ 160,075 | $ 160,075 |

## Note 14 - Issued But Non-effective Accounting Pronouncements

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

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

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

As a result of implementing GASB Statement No. 84, management expects assets of $92,299 currently reported within the Student Activities Agency Fund will be reported within the General Fund beginning July 1, 2019. Management has not yet determined the effect GASB Statements No. 87 and 89 will have on the District's financial statements.

## Note 15 - Stewardship, Compliance, and Accountability

Budget control for the fund is established by its total appropriations. The General Fund had expenditures exceeding appropriations of $7,709 for the year ended June 30, 2019. These over expenditures were funded by revenues exceeding budget and existing fund balance. During 2019, all school districts were required to record the additional pension expense related to the support received from the State of Minnesota for TRA and PERA special funding situations per GASB statement No. 68. During 2019, the District's additional pension expense totaled $368,222. Therefore, the District's General Fund expenditures budget did exceed expenditures by $$360,513 prior to this additional expense being recorded.

## Note 16 - Subsequent Events

Subsequent to year-end, the District approved an HVAC proposal in the amount of $2,724,897 that will begin in the spring of 2020. The District has approved to go out for bond in an amount not to exceed $2,285,000 and with an interest rate not to exceed 2.85%.

Required Supplementary Information
June 30, 2019

# Independent School District No. 150
# Hawley Area Public Schools

**Schedule of Changes in the District’s Total OPEB Liability and Related Ratios, Last 10 Fiscal Years***

| | 2019 | 2018 |
|---|---|---|
| Service cost | $ 29,221 | $ 28,370 |
| Interest | 18,705 | 18,209 |
| Benefit payments | (31,477) | (34,220) |
| Net change in total OPEB liability | 16,449 | 12,359 |
| Total OPEB liability - beginning | 536,519 | 524,160 |
| Total OPEB liability - ending | $ 552,968 | $ 536,519 |
| Covered-employee payroll | $ 5,888,367 | $ 5,716,861 |
| District's total OPEB liability as a percentage of covered-employee payroll | 9.39% | 9.38% |

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

**Schedule of Employer's Share of Net Pension Liability**
**Last 10 Fiscal Years ***

| Pension Plan | Measurement Date | Employer's Proportion (Percentage) of the Net Pension Liability (Asset) | Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a) | State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b) | Total (d) (a+b) | Employer's Covered-Payroll (e) | Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Payroll (a/e) | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|---|---|---|---|---|---|---|---|---|
| PERA | 6/30/2018 | 0.0196% | $ 1,087,328 | $ 35,591 | $ 1,122,919 | $ 1,314,547 | 82.7% | 79.53% |
| PERA | 6/30/2017 | 0.0193% | 1,232,099 | 15,453 | 1,247,552 | 1,242,634 | 99.2% | 75.90% |
| PERA | 6/30/2016 | 0.0213% | 1,729,454 | $ 22,610 | 1,729,454 | 1,324,481 | 130.6% | 68.91% |
| PERA | 6/30/2015 | 0.0203% | 1,052,051 | N/A | 1,052,051 | 1,175,293 | 89.5% | 78.19% |
| PERA | 6/30/2014 | 0.0209% | 981,777 | N/A | 981,777 | 1,098,644 | 89.4% | 78.80% |
| TRA | 6/30/2018 | 0.0874% | $ 5,486,780 | $ 515,695 | $ 6,002,475 | $ 4,826,333 | 113.7% | 78.07% |
| TRA | 6/30/2017 | 0.0882% | 17,606,320 | 1,701,489 | 19,307,809 | 4,747,133 | 370.9% | 51.57% |
| TRA | 6/30/2016 | 0.0876% | 20,894,690 | 2,097,439 | 22,992,129 | 4,554,493 | 458.8% | 44.88% |
| TRA | 6/30/2015 | 0.0870% | 5,381,810 | 660,324 | 6,042,134 | 4,413,657 | 121.9% | 76.80% |
| TRA | 6/30/2014 | 0.0930% | 4,285,373 | 301,342 | 4,586,715 | 4,246,288 | 100.9% | 81.50% |

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

**Schedule of Employer's Contributions**
**Last 10 Fiscal Years ***

| Pension Plan | Fiscal Year Ending | Statutorily Required Contribution (a) | Contributions in Relation to the Statutorily Required Contribution (b) | Contribution Deficiency (Excess) (a-b) | Covered-Payroll (d) | Contributions as a Percentage of Covered-Payroll (b/d) |
|---|---|---|---|---|---|---|
| PERA | 6/30/2019 | $ 103,223 | $ 103,223 | $ - | $ 1,376,307 | 7.5% |
| PERA | 6/30/2018 | 98,591 | 98,591 | - | 1,314,547 | 7.5% |
| PERA | 6/30/2017 | 93,024 | 93,024 | - | 1,242,634 | 7.5% |
| PERA | 6/30/2016 | 99,148 | 99,148 | - | 1,324,481 | 7.5% |
| PERA | 6/30/2015 | 88,147 | 88,147 | - | 1,175,293 | 7.5% |
| TRA | 6/30/2019 | $ 381,957 | $ 381,957 | $ - | $ 4,954,047 | 7.7% |
| TRA | 6/30/2018 | 361,975 | 361,975 | - | 4,826,333 | 7.5% |
| TRA | 6/30/2017 | 356,035 | 356,035 | - | 4,747,133 | 7.5% |
| TRA | 6/30/2016 | 341,587 | 341,587 | - | 4,554,493 | 7.5% |
| TRA | 6/30/2015 | 331,026 | 331,026 | - | 4,413,657 | 7.5% |

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

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

PERA Changes in Actuarial Assumptions:

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

PERA 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.

TRA Changes in Actuarial Assumptions

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to zero percent beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 6 years (7.71% in 2018, 7.92% in 2019, 8.13% in 2020, 8.34% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.
- PERA's CAFR may be obtained on the PERA's website at www.mnpera.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.
- Additional financial and actuarial information can be found in TRA's GASB 67-68 report. Both reports can be obtained at https://minnesotatra.org/wp-content/uploads/2019/01/2018-MN-TRA-GASB-67-68-Reportscombined.pdf.

Combining and Individual Fund Schedules
June 30, 2019

# Independent School District No. 150

## Hawley Area Public Schools

| | Fund Balance (Deficit) Beginning of Year | Net Change in Fund Balance | Fund Balance (Deficit) End of Year |
|---|---|---|---|
| Nonspendable | $ 117,170 | $ (116,866) | $ 304 |
| Restricted for health and safety | (35,834) | 35,834 | - |
| Restricted for medical assistance | 16,894 | 16,838 | 33,732 |
| Restricted for staff development | 80,938 | (62,015) | 18,923 |
| Restricted for gifted and talented | 26,591 | 2,855 | 29,446 |
| Restricted for safe school - crime levy | (50,747) | (21,745) | (72,492) |
| Restricted for long term facilities maintenance | 538,299 | 44,071 | 582,370 |
| Committed for severance | 313,504 | (51,343) | 262,161 |
| Assigned | 1,485,000 | 70,000 | 1,555,000 |
| Unassigned | 260,655 | 151,456 | 412,111 |
| | $ 2,752,470 | $ 69,085 | $ 2,821,555 |

Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2019

| | Food Service | Community Service | Totals |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | $ 118,218 | $ 269,800 | $ 388,018 |
| Receivables | | | |
| Current property taxes | - | 27,212 | 27,212 |
| Delinquent property taxes | - | 1,233 | 1,233 |
| Due from other governmental units | - | 5,569 | 5,569 |
| Accounts | - | 3,500 | 3,500 |
| Inventories | 12,801 | - | 12,801 |
| Total assets | $ 131,019 | $ 307,314 | $ 438,333 |
| **Liabilities** | | | |
| Accounts payable | $ - | $ 4,427 | $ 4,427 |
| **Deferred inflows of resources** | | | |
| Unavailable revenue-property taxes | - | 58,554 | 58,554 |
| **Fund Balance** | | | |
| Nonspendable | 12,801 | - | 12,801 |
| Restricted | 118,218 | 289,431 | 407,649 |
| Unassigned | - | (45,098) | (45,098) |
| | 131,019 | 244,333 | 375,352 |
| Total liabilities, deferred inflows of resources, and fund balances | $ 131,019 | $ 307,314 | $ 438,333 |

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

| | Food Service | Community Service | Totals |
|---|---|---|---|
| Revenues | | | |
| Local property tax levies | $ - | $ 56,035 | $ 56,035 |
| Other local and county sources | 8,325 | 429,485 | 437,810 |
| State sources | 28,878 | 76,199 | 105,077 |
| Federal sources | 167,265 | - | 167,265 |
| Sales and other conversion of assets | 296,710 | - | 296,710 |
| Total revenues | 501,178 | 561,719 | 1,062,897 |
| Expenditures | | | |
| Community education and service | - | 498,228 | 498,228 |
| Pupil support services | 558,619 | - | 558,619 |
| Total expenditures | 558,619 | 498,228 | 1,056,847 |
| Net Change in Fund Balance | (57,441) | 63,491 | 6,050 |
| Fund Balance, Beginning of Year | 188,460 | 180,842 | 369,302 |
| Fund Balance, End of Year | $ 131,019 | $ 244,333 | $ 375,352 |

Other Supplementary Information
June 30, 2019

# Independent School District No. 150
# Hawley Area Public Schools

# Independent School District No. 150
## Hawley Area Public Schools
### Changes in Student Activity Cash Balances
Year Ended June 30, 2019

| Activity | Balance 7/1/18 | Receipts and and Transfers | Disbursements and Transfers | Balance 6/30/19 |
|---|---|---|---|---|
| Accelerated Reading | $ 2,045 | $ 9,729 | $ 8,796 | $ 2,978 |
| Applied Science | 128 | 252 | 252 | 128 |
| Art Club | 870 | 2,068 | 1,650 | 1,288 |
| Band | 41,899 | 77,457 | 86,298 | 33,058 |
| Baseball | 2,119 | 50 | - | 2,169 |
| Boy's Basketball | 3,196 | 5,458 | 7,297 | 1,357 |
| Boy's Golf | 356 | 190 | - | 546 |
| Citizenship Group | 306 | - | 306 | - |
| Class of 2020 | 637 | 8,895 | 8,267 | 1,265 |
| Class of 2019 | 1,175 | 2,287 | 3,462 | - |
| Close Up | 10,132 | 36,202 | 37,803 | 8,531 |
| Concessions | 1,200 | 17,104 | 17,104 | 1,200 |
| Cross Country | 137 | - | - | 137 |
| Danceline | 3,062 | 1,606 | - | 4,668 |
| Drama Club | 2,429 | 3,604 | 4,362 | 1,671 |
| F.F.A. | 3,465 | 55,331 | 57,180 | 1,616 |
| F.F.A. Leadership | 1,813 | 4,749 | 2,645 | 3,917 |
| Football | 293 | 9,405 | 7,264 | 2,434 |
| Girl's Basketball | 864 | 3,840 | 3,888 | 816 |
| Girl's Golf | 613 | 6,736 | 5,912 | 1,437 |
| Honor Society | 5,107 | 3,009 | 4,283 | 3,833 |
| Interest Income | 288 | 389 | 213 | 464 |
| Nature Center | 1,362 | - | 334 | 1,028 |
| Playground Fund | 68 | - | - | 68 |
| PTO Donations | 460 | - | 460 | - |
| Riverwatch | 17 | - | - | 17 |
| School Patrol | 56 | - | 56 | - |
| School Store | 1,189 | 10,830 | 10,837 | 1,182 |
| Sixth Grade Trip | 4,769 | 20,511 | 17,426 | 7,854 |
| Softball | 4,101 | 2,325 | 4,801 | 1,625 |
| Spanish Club | 599 | - | - | 599 |
| Summer Student Travel | 3,249 | 8,693 | 8,174 | 3,768 |
| Student Council | 1,182 | 3,132 | 3,381 | 933 |
| Tech Ed Club | 345 | 700 | 669 | 376 |
| Track/Cross Country | 370 | 254 | - | 624 |
| Volleyball | 1,413 | 375 | 1,143 | 645 |
| Wrestling | 67 | 358 | 358 | 67 |
| | $ 101,381 | $ 295,539 | $ 304,621 | $ 92,299 |

# Fiscal Compliance Report - 6/30/2019

Help Logoff

## District: HAWLEY (150-1)

Back Print

## 01 GENERAL FUND

| | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $10,596,033 | $10,596,032 | $1 |
| Total Expenditures | $10,392,136 | $10,392,139 | ($3) |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $304 | $304 | $0 |
| *Restricted / Reserved:* | | | |
| 4.03 Staff Development | $18,923 | $18,923 | $0 |
| 4.06 Health and Safety | $0 | $0 | $0 |
| 4.07 Capital Projects Levy | $0 | $0 | $0 |
| 4.08 Cooperative Revenue | $0 | $0 | $0 |
| 4.13 Project Funded by COP | $0 | $0 | $0 |
| 4.14 Operating Debt | $0 | $0 | $0 |
| 4.16 Levy Reduction | $0 | $0 | $0 |
| 4.17 Taconite Building Maint | $0 | $0 | $0 |
| 4.24 Operating Capital | $0 | $0 | $0 |
| 4.26 $25 Taconite | $0 | $0 | $0 |
| 4.27 Disabled Accessibility | $0 | $0 | $0 |
| 4.28 Learning & Development | $0 | $0 | $0 |
| 4.34 Area Learning Center | $0 | $0 | $0 |
| 4.35 Contracted Alt. Programs | $0 | $0 | $0 |
| 4.36 State Approved Alt. Program | $0 | $0 | $0 |
| 4.38 Gifted & Talented | $29,446 | $29,446 | $0 |
| 4.40 Teacher Development and Evaluation | $0 | $0 | $0 |
| 4.41 Basic Skills Programs | $0 | $0 | $0 |
| 4.48 Achievement and Integration | $0 | $0 | $0 |
| 4.49 Safe School Crime - Crime Levy | ($72,492) | ($72,492) | $0 |
| 4.50 Pre-Kindergarten | $0 | $0 | $0 |
| 4.51 QZAB Payments | $0 | $0 | $0 |
| 4.52 OPEB Liab Not In Trust | $0 | $0 | $0 |
| 4.53 Unfunded Sev & Retiremt Levy | $0 | $0 | $0 |
| 4.59 Basic Skills Extended Time | $0 | $0 | $0 |
| 4.67 LTFM | $582,370 | $582,370 | $0 |
| 4.72 Medical Assistance | $33,732 | $33,732 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $0 | $0 | $0 |
| 4.75 Title VII Impact Aid | $0 | $0 | $0 |
| 4.76 Payments in Lieu of Taxes | $0 | $0 | $0 |
| *Committed:* | | | |
| 4.18 Committed for Separation | $262,161 | $262,161 | $0 |
| 4.61 Committed Fund Balance | $0 | $0 | $0 |
| *Assigned:* | | | |
| 4.62 Assigned Fund Balance | $1,555,000 | $1,555,000 | $0 |
| *Unassigned:* | | | |
| 4.22 Unassigned Fund Balance | $412,111 | $412,108 | $3 |

## 06 BUILDING CONSTRUCTION

| | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted / Reserved:* | | | |
| 4.07 Capital Projects Levy | $0 | $0 | $0 |
| 4.13 Project Funded by COP | $0 | $0 | $0 |
| 4.67 LTFM | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $0 | $0 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | $0 | $0 | $0 |

## 07 DEBT SERVICE

| | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $802,630 | $802,630 | $0 |
| Total Expenditures | $1,005,965 | $1,005,965 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted / Reserved:* | | | |
| 4.25 Bond Refundings | $0 | $0 | $0 |
| 4.33 Maximum Effort Loan Aid | $0 | $0 | $0 |
| 4.51 QZAB Payments | $0 | $0 | $0 |
| 4.67 LTFM | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $0 | $0 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | $0 | $0 | $0 |

## 08 TRUST

| | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $0 | $0 | $0 |

## 20 INTERNAL SERVICE

| | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $0 | $0 | $0 |

## 25 OPEB REVOCABLE TRUST

| | Audit | UFARS | Audit - UFARS |
|---|---|---|---|
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $0 | $0 | $0 |

## 45 OPEB IRREVOCABLE TRUST

## 02 FOOD SERVICES

| | | | |
|---|---|---|---|
| Total Revenue | $501,178 | $501,178 | $0 |
| Total Expenditures | $558,619 | $558,619 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $12,801 | $12,801 | $0 |
| *Restricted / Reserved:* | | | |
| 4.52 OPEB Liab Not In Trust | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | $118,218 | $118,218 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balancee | $0 | $0 | $0 |

## 04 COMMUNITY SERVICE

| | | | |
|---|---|---|---|
| Total Revenue | $561,719 | $561,717 | $2 |
| Total Expenditures | $498,228 | $498,225 | $3 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted / Reserved:* | | | |
| 4.26 $25 Taconite | $0 | $0 | $0 |
| 4.31 Community Education | $45,640 | $45,643 | ($3) |
| 4.32 E.C.F.E | $147,949 | $147,949 | $0 |
| 4.40 Teacher Development and Evaluation | $0 | $0 | $0 |
| 4.44 School Readiness | $95,842 | $95,841 | $1 |
| 4.47 Adult Basic Education | $0 | $0 | $0 |
| 4.52 OPEB Liab Not In Trust | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.64 Restricted Fund Balance | ($10,544) | ($10,544) | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | ($34,554) | ($34,554) | $0 |

| | | | |
|---|---|---|---|
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| 4.22 Unassigned Fund Balance (Net Assets) | $0 | $0 | $0 |

## 47 OPEB DEBT SERVICE

| | | | |
|---|---|---|---|
| Total Revenue | $0 | $0 | $0 |
| Total Expenditures | $0 | $0 | $0 |
| *Non Spendable:* | | | |
| 4.60 Non Spendable Fund Balance | $0 | $0 | $0 |
| *Restricted:* | | | |
| 4.25 Bond Refundings | $0 | $0 | $0 |
| 4.64 Restricted Fund Balance | $0 | $0 | $0 |
| *Unassigned:* | | | |
| 4.63 Unassigned Fund Balance | $0 | $0 | $0 |

Additional Reports
June 30, 2019

# Independent School District No. 150
# Hawley Area Public Schools

**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***

The School Board of
Independent School District No. 150
Hawley Area Public Schools
Hawley, 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. 150, Hawley, Minnesota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 28, 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 entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of audit findings as items 2019-001, 2019-002, and 2019-003 that we consider to be material weaknesses.

**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.*

**Response to Findings**
The District's responses to the findings identified in our audit are described in the corrective action plan. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Eide Bailly LLP

Fargo, North Dakota
October 28, 2019

**Report on Compliance over Financial Reporting of the Student Activity Accounts**

The School Board of
Independent School District No. 150
Hawley Area Public Schools
Hawley, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the *Manual for Activity Fund Accounting (MAFA)*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 150, Hawley, Minnesota, as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 28, 2019.

**Compliance**
As part of obtaining reasonable assurance about whether the District's student activity accounts are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of student activity amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. Finding 2019-004 in the attached schedule of audit findings was noted to be noncompliance found through testing of these requirements.

**Response to Finding**
The District's response to the finding identified in our audit is described in the District's 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.

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

Eide Bailly LLP

Fargo, North Dakota
October 28, 2019

EideBailly
CPAs & BUSINESS ADVISORS

**Independent Auditor's Report on *Minnesota Legal Compliance***

The School Board of
Independent School District No. 150
Hawley Area Public Schools
Hawley, 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. 150 as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated October 28, 2019.

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

In connection with our audit, no items came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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

Eide Bailly LLP

Fargo, North Dakota
October 28, 2019

## Section I – Financial Statement Findings

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

*Criteria* – A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping, and reconciliation functions.

*Condition* – The District has a lack of segregation of duties in certain areas due to a limited staff.

*Cause* – There is a limited amount of office employees.

*Effect* – Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

*Recommendation* – While we recognize that your staff may not be large enough to permit complete segregation of duties in all material respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping, and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

*View of Responsible Officials* – There is no disagreement with the finding.

**2019-002** **Material Adjustments**
**Material Weakness**

*Criteria* – A good system of internal accounting control contemplates an adequate system for recording and processing entries to the financial statements and for adequate knowledge and interpretation of reporting standards.

*Condition* – During the course of our engagement, we proposed audit adjustments that would not have been identified as a result of the District's existing internal controls.

*Cause* – The District does not have an internal control system designed to identify all necessary adjustments or properly interpret all new reporting standards.

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

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

*View of Responsible Officials* – There is no disagreement with the finding.

**2019-003** **Preparation of Financial Statements**
**Material Weakness**

*Criteria* – A good system of internal accounting control contemplates an adequate system for internally preparing the District's financial statements.

*Condition* – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the financial statements and accompanying notes to the financial statements.

*Cause* – The District does not have an internal control system designed to provide for the preparation of the financial statements being audited.

*Effect* – The disclosures in the financial statements could be incomplete.

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

*View of Responsible Officials* – There is no disagreement with the finding.

## Section II – Student Activity Findings

**2019-004 Improper Use of Student Activity Funds**

*Criteria* – A good system of internal accounting control contemplates an adequate system for compliance with the MAFA guidelines of the proper use of student funds. Page 8 of the MAFA guidelines state that funds must be raised by students and for students. Page 17 of the MAFA guidelines state that gifts are inappropriate expenditures for student activities.

*Condition* – During the course of our engagement, we noted an instance where amounts were contributed by District staff to purchase gifts for the graduating class through the student activities funds.

*Cause* – The District did not follow the procedures in making appropriate expenditures.

*Effect* – The finding could result in funds intended for the betterment of student activities being used for the personal gain of individuals.

*Recommendation* – District should review the MAFA guidelines to determine which funding sources and payments are appropriate for student activity accounts.

*Views of Responsible Officials* – There is no disagreement with the audit finding.

## Section III – Minnesota Legal Compliance Findings

None reported