

INDEPENDENT SCHOOL DISTRICT NO. 518

FINANCIAL STATEMENTS
AS OF JUNE 30, 2019

INDEPENDENT SCHOOL DISTRICT NO. 518

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INDEPENDENT SCHOOL DISTRICT NO. 518

SCHOOL DISTRICT OFFICIALS

JUNE 30, 2019

Mr. Bradley Shaffer	December 31, 2020	Chairman
Ms. Lori Dudley	December 31, 2022	Vice-Chairman
Mr. Stephen Schneider	December 31, 2020	Clerk
Mr. Linden Olson	December 31, 2020	Treasurer
Mr. Joel Lorenz	December 31, 2020	Director
Mr. Adam Blume	December 31, 2022	Director
Mr. Michael Harberts	December 31, 2022	Director
Mr. John Landgaard		Superintendent
Mr. David Skog		Director of Management Services

DREALAN KVILHAUG HOFKER & Co., P.A.

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MINNESOTA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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ELLEN K. HOFKER, MBA, CPA
GREG H. KVILHAUG, CPA, CFP

VICKIE L. KUIPERS, EA
CINDY M. PENNING, CPA

INDEPENDENT AUDITOR'S REPORT

To the Members of the School Board
Independent School District No. 518
Worthington, 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. 518 (the District) as of and for the year ended June 30, 2019 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Change of Accounting Principle

As described in Note 17 to the financial statements, in 2019, the District adopted new accounting guidance, *GASBS No. 72, Fair Value Measurement and Application* and *GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Our opinion is not modified with respect to these matters.

Report of Summarized Comparative Information

We have previously audited the District's 2018 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated November 6, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress for postemployment benefits plan and the schedules of proportionate share of net pension liability and employer contributions on pages 4-18, and 86-88 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The uniform financial accounting and reporting standards compliance table and combining and individual nonmajor fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost*

Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 4, 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 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 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.

Dreelan Kvilhaus Hufka & Co., P.A.

Worthington, Minnesota
November 4, 2019

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL HIGHLIGHTS

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

- Overall actual expenses in the Statement of Activities were more than \$39,990,000 and over \$19,065,000 less than revenues. Changes to the TRA pension liabilities assumptions significantly decreased the reported expenses.
- The District's General Fund unassigned fund balance (under the governmental fund presentation) increased \$1,212,867 from the prior year. Overall expenditures were less than budgeted combined with increased revenue due to enrollments above projections, especially in the VIBE on-line learning program.
- The District held an election in August, 2018 asking the voters for authorization to issue general obligation bonds in the amount of \$35,000,000 to construct a new grades 3-5 intermediate school building and \$4,000,000 to renovate Trojan field. Both questions failed. The District returned to the voters in February, 2019 asking the voters for authorization to issue general obligation bonds in the amount of \$32,000,000 to construct a new grades 3-5 intermediate school building. This vote also failed.
- Increased enrollment, participation, and formula funding increases allowed the District to maintain operations financial stability while expanding services to students and the community.
- The District called the following bonds and certificates of participation in 2019. Called were the remaining principal of the 2010C bond (\$430,000) in February, 2019 and the remaining principal of the certificates of participation 2010A (\$890,000) and 2010D ((\$1,105,000)) in April, 2019. These payments were made with committed general funds thereby reducing future interest expenditures by \$353,690.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts - Independent Auditor's Report, required supplementary information which includes the Management's Discussion and Analysis (this section), the basic financial statements, and supplemental information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-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 government-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Government-Wide Statements

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

The two government-wide statements report the District's net position and it has changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health.

- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities need to be considered.

In the government-wide financial statements, the District's activities are shown in one category titled "governmental activities":

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

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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.

For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with statutory requirements and accounting principles generally accepted in the United States of America.

- Some funds are required by State law and 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 proper utilization of certain revenues (e.g., federal grants).

The District maintains two kinds of funds:

- Governmental funds - Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or less financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide financial statements, we provide additional information on separate statements that explain the relationship (or differences) between them.
- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the Nobles County Integration Collaborative. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was \$26,995,213 on June 30, 2019. (See Table A-1.)

Table A-1
 Independent School District No. 518
 Net Position-Governmental Activities
 As of June 30

	<u>2019</u>	<u>2018</u>	<u>Percentage Change</u>
Current and other assets	\$ 48,844,205	\$ 53,101,979	(8.02%)
Capital assets	<u>45,259,768</u>	<u>38,736,005</u>	16.84%
Total assets	\$ <u>94,103,973</u>	\$ <u>91,837,984</u>	2.47%
Deferred Outflows of Resources	<u>\$ 30,876,983</u>	<u>\$ 43,295,976</u>	(28.68%)
Long-term liabilities	\$ 47,613,060	\$ 100,530,951	(52.64%)
Other liabilities	<u>4,933,393</u>	<u>4,546,745</u>	8.50%
Total liabilities	\$ <u>52,546,453</u>	\$ <u>105,077,696</u>	(49.99%)
Deferred Inflows of Resources	<u>\$ 45,439,290</u>	<u>\$ 20,682,147</u>	119.70%
Net Position			
Net investment in capital assets	\$ 27,201,218	\$ 18,166,844	49.73%
Restricted	6,060,236	9,501,632	(36.22%)
Unrestricted	<u>(6,266,241)</u>	<u>(18,294,359)</u>	(65.75%)
Total net position	<u>\$ 26,995,213</u>	<u>\$ 9,374,117</u>	187.98%

The District's financial position increased during the year.

- A change in the Pension liability actuarial assumptions decreased the District's long-term liabilities and deferred outflows of resources for pensions.

Changes in net position. The District's total revenues were \$59,056,273 for the year ended June 30, 2019. Property taxes and state formula aid accounted for 60.19% of total revenue for the year. (See Table A-2.) Another 1.84% came from other general revenues combined with investment earnings and the remainder from program revenues.

The total cost of all programs and services was \$41,839,487. The District's expenses are predominantly related to educating and caring for students (78.62%).

Total revenues exceeded expenditures, increasing net position \$17,621,096 from last year.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Changes in net position (continued)

Table A-2 is similar to the fund financial statements except it is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. It also includes depreciation expense and excludes capital asset purchase costs, debt issuance proceeds and the repayment of debt principal.

Table A-2
Independent School District No. 518
Change in Net Position
For the Year Ended June 30

	<u>2019</u>	<u>2018</u>	<u>Percentage Change</u>
Revenues			
Program revenues			
Charges for services	\$ 1,483,822	\$ 1,394,959	6.37%
Operating grants and contributions	19,256,503	16,676,680	15.47%
Capital grants and contributions	1,680,861	1,327,269	26.64%
General revenues			
Property taxes	4,894,807	4,759,710	2.84%
State aid - formula grants	30,653,151	27,070,710	13.23%
Other	1,087,129	595,489	82.56%
Total revenues	<u>\$ 59,056,273</u>	<u>\$ 51,824,817</u>	13.95%
Expenses			
District and school administration	\$ 749,589	\$ 1,379,744	(45.67%)
District support services	1,000,306	1,090,355	(8.26%)
Regular instruction	18,114,140	24,921,105	(27.31%)
Exceptional instruction	6,035,756	8,254,728	(26.88%)
Vocational instruction	356,656	660,139	(45.97%)
Instructional support services	2,576,346	3,197,314	(19.42%)
Pupil support services	5,810,463	6,493,341	(10.52%)
Site, buildings and equipment	4,633,779	4,623,396	0.22%
Fiscal and other fixed cost programs	960,699	1,023,601	(6.15%)
Community education and services	1,601,753	2,252,046	(28.88%)
Total expenses	<u>\$ 41,839,487</u>	<u>\$ 53,895,769</u>	(22.37%)
Change in net position before special item	\$ 17,216,786	\$ (2,070,952)	
Special items	404,310	104,226	
Change in net position	\$ 17,621,096	\$ (1,966,726)	
Beginning net position	9,374,117	11,340,843	
Net position - June 30	<u>\$ 26,995,213</u>	<u>\$ 9,374,117</u>	

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Figure A-3 Sources of Independent School District 518's Revenues for Fiscal Year 2019

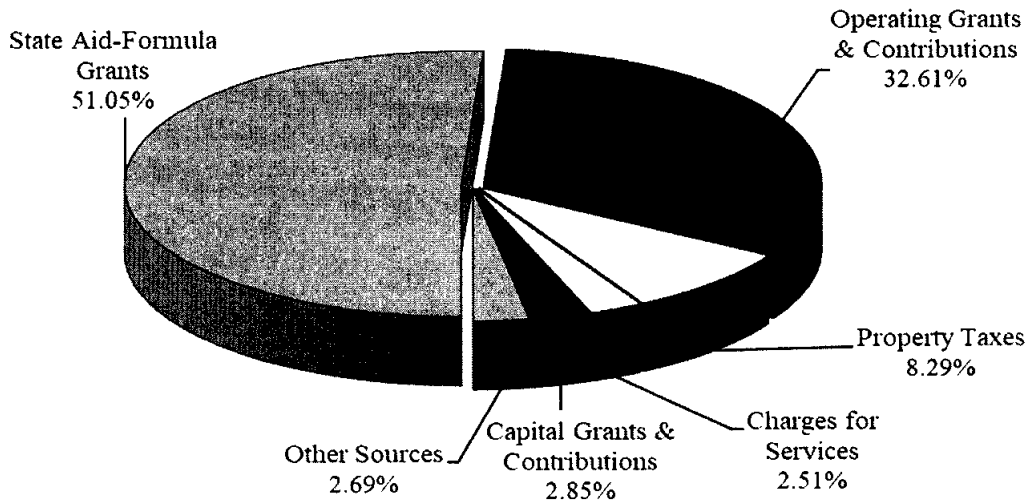
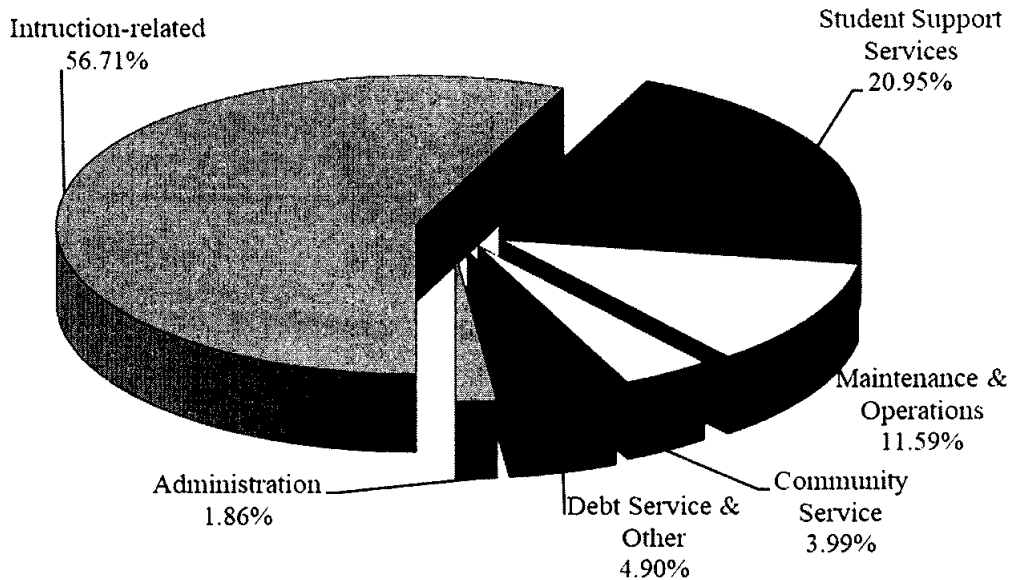


Figure A-4 Independent School District 518's Expenses for Fiscal Year 2019



- The cost of all governmental activities this year was \$41,839,487.
- Some of the cost was paid by the users of the District's programs (\$1,483,822).
- The federal and state governments subsidized certain programs with grants and contributions (\$19,256,503 operating, \$1,680,861 capital).
- Most of the District's costs (\$17,569,496), however, were paid for by District taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with \$4,894,807 in property taxes, \$30,148,923 of state aid based on the statewide education aid formula, and with investment earnings and other general revenues.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Table A-3
 Independent School District No. 518
 Net Cost of Governmental Activities
 For the Year Ended June 30

	<u>2019</u>	<u>2018</u>	<u>2018</u>
	Total Cost of Services	Net Cost of Services	Net Cost of Services
District and school administration	\$ 749,589	\$ 700,787	\$ 1,375,167
District support services	1,000,306	980,100	1,083,469
Regular instruction	18,114,140	8,418,898	16,806,006
Exceptional instruction	6,035,756	596,279	3,665,268
Vocational instruction	356,656	280,619	606,566
Instructional support services	2,576,346	1,918,139	2,664,139
Pupil support services	5,810,463	2,738,382	3,305,965
Site, buildings and equipment	4,633,779	3,184,613	3,321,127
Fiscal and other fixed cost programs	960,699	717,632	983,162
Community education and services	<u>1,601,753</u>	<u>(117,148)</u>	<u>685,992</u>
Total	<u>\$ 41,839,487</u>	<u>\$ 19,418,301</u>	<u>\$ 34,496,861</u>

The total cost of district services was \$41,839,487 as compared to the prior year total cost of district services of \$53,895,769, a decrease of \$12,056,282.

When program specific revenues are considered, the net service cost was \$19,418,301, which represents a decrease of \$15,078,560 from the prior year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$38,581,743, a decrease of \$5,662,192 from the June 30, 2018 combined fund balance of \$44,243,935, or a 12.80% decrease. The decrease resulted from the refunding of the 2010B general obligation alternate facilities bonds, the call of the 2010C general obligation capital facilities bonds, and the call of the 2010A and 2010D certificates of participation.

Revenues for the District's governmental funds were \$59,048,995, while total expenditures were \$64,711,187.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

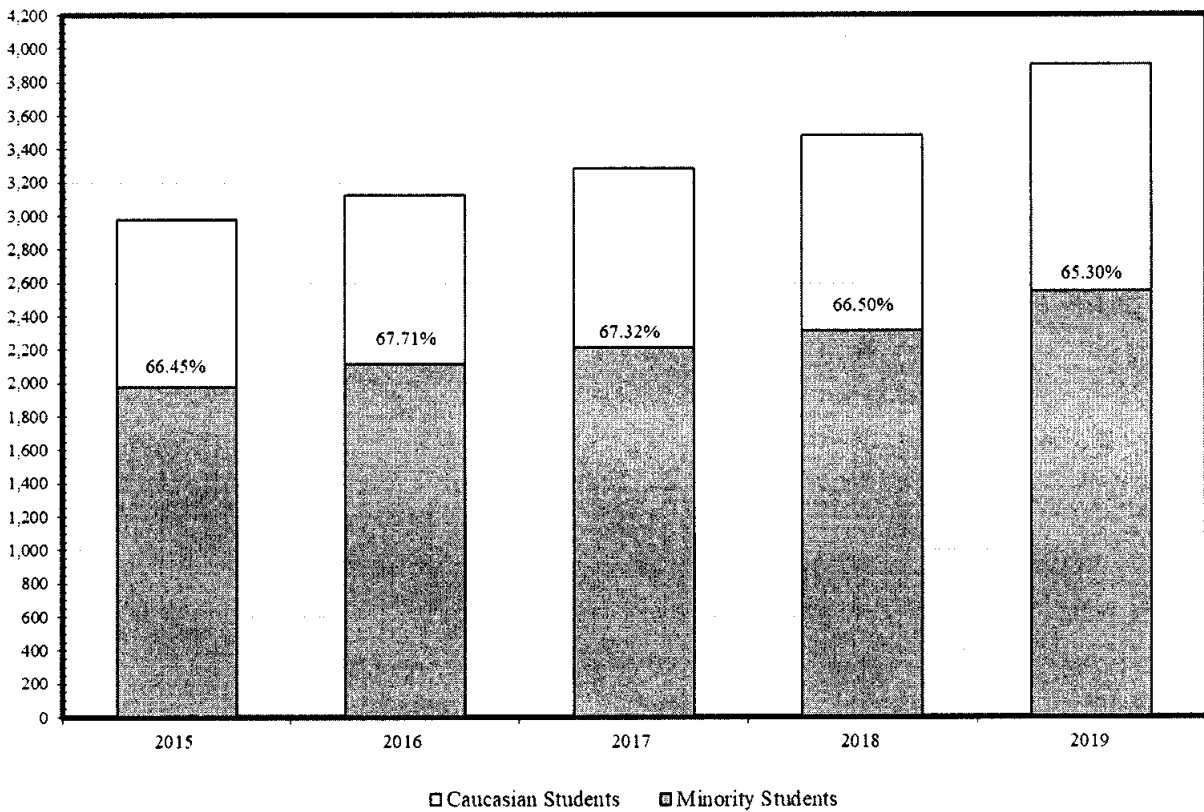
FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund

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

The following graph shows that the total number of students has increased over the last few years, while the number of minority students has increased.

Students (Average Daily Membership)



Over the past few years, the District has seen an increasing enrollment. Based on the District's birth to age 5 census counts and enrollment projections, we anticipate enrollment increases the next few years. New residents along with an increase in the number of students open enrolling in our District are factors in the increase.

Chart above includes the on-line program students. Without those students being represented in the calculation results in a minority student population of 75.54 percent for seat-based students.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund (continued)

The following schedule presents a summary of General Fund revenues (including operating, pupil transportation, and capital expenditure accounts).

	<u>Year Ended</u> <u>June 30, 2018</u>	<u>Year Ended</u> <u>June 30, 2019</u>	<u>Amount of</u> <u>Increase</u> <u>(Decrease)</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u>
Local Sources				
Property taxes	\$ 3,128,824	\$ 3,133,403	\$ 4,579	0.15%
Interest earnings	348,381	739,397	391,016	112.24%
Other	1,107,684	1,272,540	164,856	14.88%
State sources	40,274,339	45,799,344	5,525,005	13.72%
Federal sources	<u>1,118,871</u>	<u>1,433,105</u>	<u>314,234</u>	28.08%
Total revenues	\$ 45,978,099	\$ 52,377,789	\$ 6,399,690	13.92%
Other financing sources				
Certificates of Participation	164,681	-	(164,681)	(100.00%)
Land and equipment sales	<u>170,293</u>	<u>-</u>	<u>(170,293)</u>	(100.00%)
Total	<u>\$ 46,313,073</u>	<u>\$ 52,377,789</u>	<u>\$ 6,064,716</u>	13.10%

Total General Fund revenue increased by \$6,064,716 or 13.10% from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue including excess 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 on revenue.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund (continued)

The following schedule presents a summary of General Fund Expenditures (including operating, pupil transportation, and capital expenditure accounts).

	<u>Year Ended</u> <u>June 30, 2018</u>	<u>Year Ended</u> <u>June 30, 2019</u>	<u>Amount of</u> <u>Increase</u> <u>(Decrease)</u>	<u>Percent</u> <u>Increase</u> <u>(Decrease)</u>
Salaries	\$ 22,322,650	\$ 22,835,760	\$ 513,110	2.30%
Benefits	6,552,101	6,900,083	347,982	5.31%
Purchased Services	5,646,269	8,387,447	2,741,178	48.55%
Supplies, Materials and Equipment	3,817,532	2,590,812	(1,226,720)	(32.13%)
Other	703,620	4,865,010	4,161,390	591.43%
Total	<u>\$ 39,042,172</u>	<u>\$ 45,579,112</u>	<u>\$ 6,536,940</u>	16.74%

Total General Fund expenditures increased \$6,536,940 or 16.74% from the previous year.

In fiscal 2019, salaries increased 2.30% with the addition of staff to meet the needs of increased enrollment. Employee benefits increased by 5.31%. The District continues to investigate cost containment measures to minimize the effect rising insurance premiums have on the costs of the District's employee compensation packages. The increase in purchased services and decrease in supplies, materials and equipment were a result of payments for online curriculum being classified as purchased services. In the other category increases are the call of the 2010A and 2010D certificates of participation and the board approved expenditure of general funding sources for major projects.

In 2018-2019, General Fund revenues and other financing sources exceeded expenditures by \$6,798,677. Therefore, total fund balance increased to \$34,475,971 at June 30, 2019. After deducting statutory restrictions, the unassigned fund balance increased from \$13,385,123 at June 30, 2018, to \$14,597,990 at June 30, 2019.

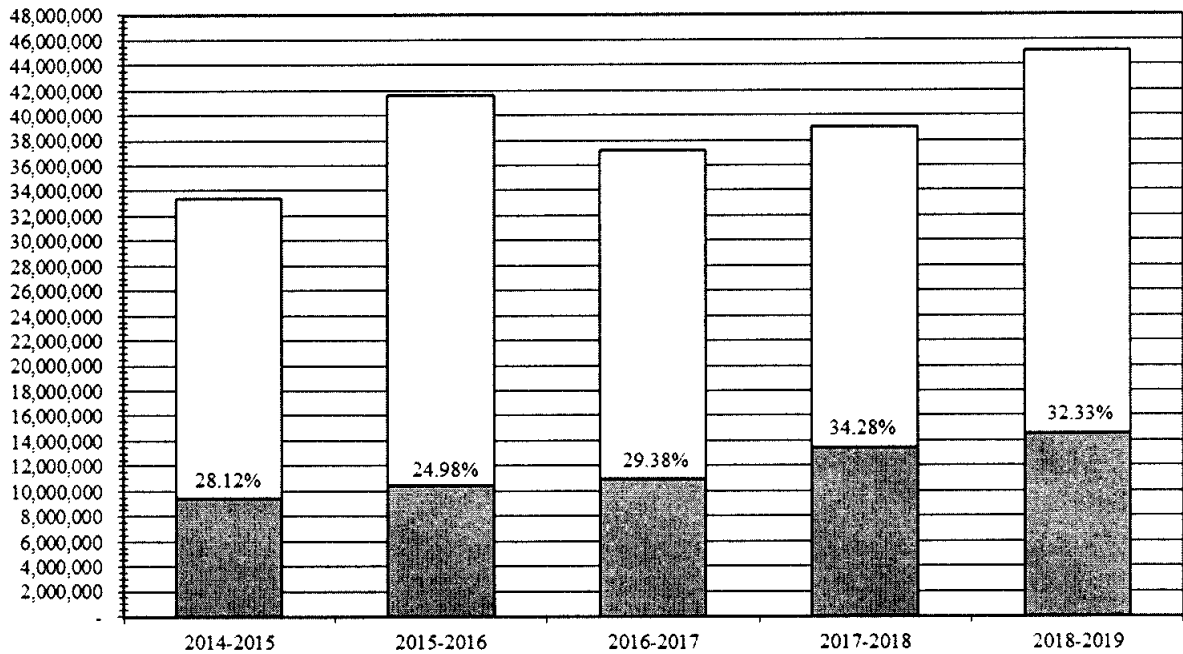
INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund (continued)

The following graph shows the General Fund unassigned fund balance as a percentage of expenditures.

**General Fund Unassigned Fund Balance as a
Percent of Expenditures**



The graph above is the single best measure of overall financial health. The unassigned fund balance of \$14,597,990 at June 30, 2019, represents 32.33% of annual expenditures or eighteen weeks of operations. Given the current state funding legislation and other economic conditions, the District will continue to monitor its spending and fund balances closely.

	<u>2013-2014</u>	<u>2014-2015</u>	<u>2015-2016</u>	<u>2016-2017</u>	<u>2017-2018</u>	<u>2018-2019</u>
Unassigned fund balance	\$ 9,243,373	\$ 9,387,340	\$ 10,403,681	\$ 10,938,156	\$ 13,385,123	\$ 14,597,990
% Increase (decrease)	(11.22%)	1.56%	10.83%	5.14%	22.37%	9.06%
Expenditures	\$ 33,337,874	\$ 33,383,519	\$ 41,642,634	\$ 37,236,113	\$ 39,042,172	\$ 45,149,112
% Increase (decrease)	16.76%	0.14%	24.74%	(10.58%)	4.85%	15.64%

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget. The budget amendments fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants, debt refunding, and budgeting for clearing, resale, and gifts.
- Increases in appropriations for significant unbudgeted costs.

	Original Budget	Final Budget	Increase (Decrease)	Percent Change
Revenue	\$ 44,981,831	\$ 48,620,692	\$ 3,638,861	8.09%
Expenditure	\$ 46,500,971	\$ 48,169,089	\$ 1,668,118	3.59%
Other financing sources (uses)	\$ (428,000)	\$ (430,000)	\$ (2,000)	0.47%

While the District's final budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by \$1,947,140, the actual results for the year show that revenues and other financing sources exceeded expenditures and other financing uses by \$6,798,677.

- Actual revenues were \$3,757,097 more than expected, a variance of 7.73%, due to higher than estimated basic formula pupil units, special education aid and other local revenues.
- The actual expenditures were \$3,019,977 under budget or a 6.27% variance.

Other Governmental Funds

The Debt Service Fund expenditures and other financing uses exceeded revenues and other financing sources by \$5,524,979 in 2018-2019 compared to a budgeted decrease of \$5,537,931. The fund balance decreased to \$367,053 at June 30, 2019, and is available for meeting future debt service obligations.

The Food Service Fund revenues and other financing sources exceeded expenditures and other financing uses by \$29,236. The Food Service fund balance increased to \$978,392 or 42.30% of annual operating expenditures. Student lunch and breakfast prices have seen mandated increases in the past couple of years. Increased free and reduced lunch eligibility helps the Food Service fund to continue to operate on a sound financial basis.

The Community Service Fund expenditures exceeded revenues by \$130,656 leaving a year-end fund balance of \$432,969 or 24.22% of annual expenditures. Increased funding for preschool programs was the primary factor in the increase in fund balance.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of June 2019, the District had invested \$72,295,436 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (See Table A-4). (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was \$2,449,441.

Construction of the Learning Center Gymnastic Center, additional technology equipment, kitchen equipment, and custodial equipment were among the capital asset additions for the year. Disposals included equipment and vehicles no longer usable for District purposes.

Table A-4
 Independent School District No. 518
 Capital Assets

	2019	2018	Increase (Decrease)
Land	\$ 3,504,003	\$ 3,504,003	\$ -
Land Improvements	3,713,763	3,713,763	-
Buildings	43,301,909	43,207,517	94,392
Equipment	11,533,746	12,365,117	(831,371)
Vehicles	415,260	415,260	-
Construction in progress	9,826,755	1,621,172	8,205,583
Less accumulated depreciation	(27,035,668)	(26,090,827)	(944,841)
Total	\$ 45,259,768	\$ 38,736,005	\$ 6,523,763
Depreciation Expense	\$ 2,449,441	\$ 2,552,177	\$ (102,736)

Construction - Next Five Years

Together with Nobles County, the City of Worthington and other community entities, the District is investigating the possibility of a collaborative project for a multi-purpose facility housing the Districts' Community Education and Early Childhood programs, the Nobles County library as well as other entities' programs serving the community.

In coordination with the City of Worthington, Nobles County, Minnesota West Community and Technical College, and other partners; the District is assessing community needs for athletic facilities and grounds.

Routine maintenance such as replacement of roofs, parking lots and building repairs will be funded through the General Fund using Long-term facility maintenance revenue when appropriate.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Long-Term Liabilities

At year-end, the District had \$21,075,000 in general obligation bonds and certificates of participation payable outstanding.

- The District retired \$9,790,000 of outstanding bonds and other long-term debt during 2018-2019.

The District's general obligation bonds carry a rating of Aa1.

Limitations on Debt

The state limits the amount of general obligation debt the District can issue to 15% of the market value of all taxable property within the District's corporate limits. Our outstanding debt of \$21,075,000 is significantly below this limit which is currently \$304,761,544.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District will be asking voters in November, 2019 to vote on three separate questions. Question #1 asks for authorization to issue general obligation bonds in the amount of \$26,700,000 to construct a new 4-5 Intermediate School. Question #2 ask for an additional \$7,000,000 to add room for a third grade. Question #3 asks voters to authorize \$14,000,000 to refinance existing Learning Center/Gymnastics Center) and expected lease levy bonds (High School second story addition) to general obligation bonds to be able to access the Ag2School tax credits for ag land.

Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. Requests for increased programming will need to be closely scrutinized for sustainability.

To meet these financial challenges, the District will continue to utilize the Site Based Budgeting process. This process has been successful in the past and will improve our allocation of resources according to District priorities. The District will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

The District continues to strive to meet Adequate Yearly Progress (AYP) as required by statute. Between 2018 and 2019, District 518 made gains in meeting AYP in some buildings and student groups while failing to meet AYP in areas such as Special Education, Free and Reduced and Limited English Proficiency in certain buildings. Areas considered to not be meeting AYP will be targeted for additional assistance in an effort to bring all groups and subgroups into compliance.

The District's Community Service fund, early childhood program was awarded a Pathways II continuation grant in the amount of \$139,117 and a School Readiness Plus grant in the amount of \$212,655 for fiscal year 2020.

Construction of the District Learning Center/Gymnastics Center was substantially completed in September, 2019 and students began attending classes in the building during the 2019-2020 school year.

Subsequent to June 30, 2019 the District was named an Equal Employment Opportunity Council (EEOC) discrimination investigation.

INDEPENDENT SCHOOL DISTRICT NO. 518
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

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 District's Administration Building:

Independent School District No. 518
1117 Marine Avenue
Worthington, Minnesota 56187-1610
(507) 372-2172

INDEPENDENT SCHOOL DISTRICT NO. 518STATEMENTS OF NET POSITIONJUNE 30, 2019(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2018)

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
ASSETS:		
Cash and investments	\$ 35,095,928	\$ 28,969,622
Cash and investments held by trustee	-	5,378,018
Receivables-		
Current property taxes	2,694,785	2,120,921
Delinquent property taxes	39,120	31,842
Other school districts and governmental units	491,581	426,030
Department of Education	5,379,066	4,048,108
Federal government	283,943	189,038
Accounts and interest receivable	289,918	202,506
Inventory	151,825	145,013
Prepaid items	405,365	364,418
Restricted assets - temporarily restricted-		
Cash and investments for debt service	996,224	930,624
Cash and investments for construction	3,016,450	10,295,839
Capital assets (net of accumulated depreciation)-		
Land	3,504,003	3,504,003
Land improvements	2,375,678	2,547,026
Buildings	25,136,221	26,149,239
Equipment	4,244,081	4,699,611
Vehicles	173,030	214,954
Construction in progress	9,826,755	1,621,172
Total assets	<u>\$ 94,103,973</u>	<u>\$ 91,837,984</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Related to OPEB	\$ 24,370	\$ 42,205
Related to Pensions	30,852,613	43,253,771
Total deferred outflows of resources	<u>\$ 30,876,983</u>	<u>\$ 43,295,976</u>
Total assets and deferred outflows of resources	<u>\$ 124,980,956</u>	<u>\$ 135,133,960</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2019

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2018)

	<u>Governmental Activities</u>	
	<u>2019</u>	<u>2018</u>
LIABILITIES:		
Accounts payable	\$ 404,989	\$ 320,462
Salaries payable	1,479,363	1,408,983
Accrued payroll taxes and other payroll deductions	1,927,163	1,832,769
Construction contract payable	689,093	442,700
Accrued interest payable	274,056	411,516
Due to other school districts and governmental units	110,035	109,569
Unearned revenue	48,694	20,746
Long-term liabilities-		
Due within one year	1,958,022	2,291,337
Due in more than one year	<u>45,655,038</u>	<u>98,239,614</u>
Total liabilities	<u>\$ 52,546,453</u>	<u>\$ 105,077,696</u>
DEFERRED INFLOWS OF RESOURCES:		
Property taxes levied for subsequent year's expenditures	\$ 5,564,005	\$ 4,690,973
Related to OPEB	78,955	9,067
Related to pensions	<u>39,796,330</u>	<u>15,982,107</u>
Total deferred inflows of resources	<u>\$ 45,439,290</u>	<u>\$ 20,682,147</u>
NET POSITION:		
Net investment in capital assets	\$ 27,201,218	\$ 18,166,844
Restricted for-		
Debt service	367,053	5,462,033
Food service	978,393	949,156
Community service	432,969	302,313
Medical Assistance	348,691	252,167
Capital projects	1,316,829	955,315
Area learning center	32,597	125,872
Health and safety	-	161,617
Other purposes	2,583,704	1,293,159
Unrestricted	<u>(6,266,241)</u>	<u>(18,294,359)</u>
Total net position	<u>\$ 26,995,213</u>	<u>\$ 9,374,117</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 124,980,956</u>	<u>\$ 135,133,960</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2019

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)

<u>Functions/Programs</u>	2019		
	<u>Expenses</u>	<u>Program Revenues</u>	
		<u>Charges for</u>	<u>Operating</u>
		<u>Services</u>	<u>Grants and</u>
			<u>Contributions</u>
<u>Governmental Activities</u>			
Instruction-			
Regular instruction	\$ 18,114,140	\$ 557,520	\$ 9,137,722
Exceptional instruction	6,035,756	286,655	5,152,822
Vocational instruction	356,656	133	75,904
Total instruction	<u>\$ 24,506,552</u>	<u>\$ 844,308</u>	<u>\$ 14,366,448</u>
Support services-			
Instructional support services	\$ 2,576,346	\$ 59,348	\$ 598,859
Pupil support services	5,810,463	411,218	2,660,863
District and school administration	749,589	875	47,927
District support services	1,000,306	7,050	13,156
Site, buildings and equipment	3,731,359	6,037	5,335
Community education and services	1,601,753	154,986	1,563,915
Fiscal and other fixed cost programs	960,699	-	-
Depreciation expense - unallocated	902,420	-	-
Total support services	<u>\$ 17,332,935</u>	<u>\$ 639,514</u>	<u>\$ 4,890,055</u>
Total governmental activities	<u>\$ 41,839,487</u>	<u>\$ 1,483,822</u>	<u>\$ 19,256,503</u>

The accompanying notes are an integral part of these financial statements.

	2019	2018
	Net (Expense)	Net (Expense)
Capital Grants and Contributions	Total Governmental Activities	Total Governmental Activities
\$ -	\$ (8,418,898)	\$ (16,806,006)
-	(596,279)	(3,665,268)
-	(280,619)	(606,566)
<u>\$ -</u>	<u>\$ (9,295,796)</u>	<u>\$ (21,077,840)</u>
\$ -	\$ (1,918,139)	\$ (2,664,139)
-	(2,738,382)	(3,305,965)
-	(700,787)	(1,375,167)
-	(980,100)	(1,083,469)
1,437,794	(2,282,193)	(2,416,099)
-	117,148	(685,992)
243,067	(717,632)	(983,162)
-	(902,420)	(905,028)
<u>\$ 1,680,861</u>	<u>\$ (10,122,505)</u>	<u>\$ (13,419,021)</u>
<u><u>\$ 1,680,861</u></u>	<u><u>\$ (19,418,301)</u></u>	<u><u>\$ (34,496,861)</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 518
STATEMENTS OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)

<u>General Revenue</u>	<u>2019</u>	<u>2018</u>
Taxes-		
Property taxes, levied for general purposes	\$ 1,909,557	\$ 2,081,502
Property taxes, levied for debt service	1,508,419	1,393,400
Property taxes, levied for specific purpose-		
Integration collaborative	-	244,312
Vocational programs	82,417	58,794
Health and Safety projects	(161,617)	(30,938)
Building Lease	202,286	644,517
Community Service	1,144,838	174,889
Safe Schools	145,097	136,467
Other local taxes	63,810	56,767
Property tax replacement aid	124,919	122,326
State aid not restricted to specific purpose-		
General Education aid	30,148,923	26,946,696
Other state aids	379,309	1,688
Interest and investment earnings	952,711	486,113
Other local revenue	134,418	109,376
	<u>\$ 36,635,087</u>	<u>\$ 32,425,909</u>
Subtotal, general revenues		
Excess of revenues over expenses before special items	<u>\$ 17,216,786</u>	<u>\$ (2,070,952)</u>
<u>Special Items</u>		
Sale or disposal of surplus property and equipment	<u>\$ 404,310</u>	<u>\$ 104,226</u>
Subtotal, special items	<u>\$ 404,310</u>	<u>\$ 104,226</u>
Total general revenues and special items	<u>\$ 37,039,397</u>	<u>\$ 32,530,135</u>
Change in net position	<u>\$ 17,621,096</u>	<u>\$ (1,966,726)</u>
NET POSITION, Beginning of year	\$ 9,374,117	\$ 12,151,838
Change in accounting principle (Note 17)	<u>-</u>	<u>(810,995)</u>
NET POSITION, Beginning of year, restated	<u>\$ -</u>	<u>\$ 11,340,843</u>
NET POSITION, End of year	<u>\$ 26,995,213</u>	<u>\$ 9,374,117</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518BALANCE SHEETSGOVERNMENTAL FUNDSJUNE 30, 2019(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2018)

	<u>General</u>	<u>Food Service</u>
ASSETS:		
Cash and investments	\$ 33,850,225	\$ 821,393
Cash and investments held by trustee	-	-
Receivables-		
Current property taxes	2,008,934	-
Delinquent property taxes	29,604	-
Accounts and interest receivable	279,812	6,406
Due from Other school districts and governmental units	381,729	-
Due from Department of Education-		
General education aid	4,119,580	-
Special education aid	913,503	-
Other education aid	226,788	-
State school lunch aid	-	-
Market value credit aid	1,858	-
Disparity aid	2,630	-
Due from Federal government-		
Federal title programs	220,466	-
School lunch program	-	63,477
Inventory	50,099	101,726
Prepaid items	396,196	8,819
	<u>\$ 42,481,424</u>	<u>\$ 1,001,821</u>
LIABILITIES:		
Salaries payable	\$ 1,479,363	\$ -
Accrued payroll taxes and other payroll deductions	1,927,163	-
Accounts payable	365,914	4,734
Construction contract payable	-	-
Due to other school districts and governmental units	85,926	-
Unearned revenue	30,000	18,694
	<u>\$ 3,888,366</u>	<u>\$ 23,428</u>
DEFERRED INFLOWS OF RESOURCES:		
Property taxes levied for subsequent year's expenditures	\$ 4,087,483	\$ -
Unavailable revenue - Delinquent taxes	29,604	-
	<u>\$ 4,117,087</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

Community Service	Capital Projects- Building Construction	Debt Service	Total Governmental Funds	
			2019	2018
\$ 424,310	\$ 3,016,450	\$ 996,224	\$ 39,108,602	\$ 40,196,085
-	-	-	-	5,378,018
81,970	-	603,881	2,694,785	2,120,921
1,028	-	8,488	39,120	31,842
3,700	-	-	289,918	202,506
109,852	-	-	491,581	426,030
-	-	-	4,119,580	3,389,561
-	-	-	913,503	398,613
44,799	-	61,903	333,490	247,231
-	-	-	-	470
292	-	3,022	5,172	4,912
413	-	4,278	7,321	7,321
-	-	-	220,466	109,296
-	-	-	63,477	79,742
-	-	-	151,825	145,013
350	-	-	405,365	364,418
<u>\$ 666,714</u>	<u>\$ 3,016,450</u>	<u>\$ 1,677,796</u>	<u>\$ 48,844,205</u>	<u>\$ 53,101,979</u>
\$ -	\$ -	\$ -	\$ 1,479,363	\$ 1,408,983
-	-	-	1,927,163	1,832,769
32,141	-	2,200	404,989	320,462
-	689,093	-	689,093	442,700
24,109	-	-	110,035	109,569
-	-	-	48,694	20,746
<u>\$ 56,250</u>	<u>\$ 689,093</u>	<u>\$ 2,200</u>	<u>\$ 4,659,337</u>	<u>\$ 4,135,229</u>
\$ 176,467	\$ -	\$ 1,300,055	\$ 5,564,005	\$ 4,690,973
1,028	-	8,488	39,120	31,842
<u>\$ 177,495</u>	<u>\$ -</u>	<u>\$ 1,308,543</u>	<u>\$ 5,603,125</u>	<u>\$ 4,722,815</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

BALANCE SHEETS (CONTINUED)

GOVERNMENTAL FUNDS

JUNE 30, 2019

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2018)

	<u>General</u>	<u>Food Service</u>
FUND BALANCES:		
Nonspendable for-		
Nonspendable amounts	\$ 446,295	\$ 110,545
Restricted for-		
Operating capital	\$ 1,316,829	\$ -
Health and safety	-	-
Medical assistance	348,691	-
Long term facility maintenance	2,085,219	-
Gifted and talented	111,569	-
Area learning center	32,597	-
Safe schools	100,935	-
Staff development	142,337	-
Basic skills extended time	143,534	-
Food service	-	867,848
Community education	-	-
Adult basic education	-	-
School readiness	-	-
Early childhood family education	-	-
Refunding	-	-
Debt service	-	-
Restricted for other purposes	110	-
Total restricted fund balances	<u>\$ 4,281,821</u>	<u>\$ 867,848</u>
Committed for-		
Separation	\$ 149,865	\$ -
Debt redemption	-	-
Total committed fund balances	<u>\$ 149,865</u>	<u>\$ -</u>
Assigned for-		
Projects	<u>\$ 15,000,000</u>	<u>\$ -</u>
Total assigned fund balances	<u>\$ 15,000,000</u>	<u>\$ -</u>
Unassigned	<u>\$ 14,597,990</u>	<u>\$ -</u>
Total fund balances	<u>\$ 34,475,971</u>	<u>\$ 978,393</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 42,481,424</u>	<u>\$ 1,001,821</u>

The accompanying notes are an integral part of these financial statements.

Community Service	Capital Projects- Building Construction	Debt Service	Total Governmental Funds	
			2019	2018
\$ 350	\$ -	\$ -	\$ 557,190	\$ 509,431
\$ -	\$ -	\$ -	\$ 1,316,829	\$ 955,315
-	-	-	-	161,617
-	-	-	348,691	252,167
-	-	-	2,085,219	1,055,089
-	-	-	111,569	98,687
-	-	-	32,597	125,872
-	-	-	100,935	55,516
-	-	-	142,337	40,444
-	-	-	143,534	40,827
-	-	-	867,848	850,788
56,869	-	-	56,869	58,466
194,853	-	-	194,853	161,903
104,044	-	-	104,044	28,068
75,709	-	-	75,709	52,836
-	-	-	-	5,491,698
-	-	367,053	367,053	(29,665)
1,144	2,327,357	-	2,328,611	9,856,775
\$ 432,619	\$ 2,327,357	\$ 367,053	\$ 8,276,698	\$ 19,256,403
\$ -	\$ -	\$ -	\$ 149,865	\$ 167,978
-	-	-	-	2,425,000
\$ -	\$ -	\$ -	\$ 149,865	\$ 2,592,978
\$ -	\$ -	\$ -	\$ 15,000,000	\$ 8,500,000
\$ -	\$ -	\$ -	\$ 15,000,000	\$ 8,500,000
\$ -	\$ -	\$ -	\$ 14,597,990	\$ 13,385,123
\$ 432,969	\$ 2,327,357	\$ 367,053	\$ 38,581,743	\$ 44,243,935
\$ 666,714	\$ 3,016,450	\$ 1,677,796	\$ 48,844,205	\$ 53,101,979

INDEPENDENT SCHOOL DISTRICT NO. 518
RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2019
(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2018)

	2019	2018
Total fund balances - governmental funds	\$ 38,581,743	\$ 44,243,935
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported as assets in the funds.		
Land	3,504,003	3,504,003
Construction in progress	8,205,583	1,621,172
Land improvements, net of accumulated depreciation	2,375,678	2,547,026
Buildings, net of accumulated depreciation	26,757,393	26,149,239
Equipment and vehicles, net of accumulated depreciation	4,417,111	4,914,565
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions	30,852,613	43,253,771
Deferred Inflows of Resources Related to Pensions	(39,796,330)	(15,982,107)
Deferred Outflows of Resources Related to OPEB	24,370	(9,067)
Deferred Inflows of Resources Related to OPEB	(78,955)	42,205
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Bonds principal payable	(21,370,107)	(31,231,232)
Pension Benefits Payable	(25,164,006)	(67,755,365)
Unamortized premiums	-	(522,220)
Net OPEB Liability	(986,795)	(956,941)
Accrued compensated absences payable	(92,152)	(65,193)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.		
	39,120	31,842
Governmental funds do not report a liability for accrued interest until due and payable.		
	(274,056)	(411,516)
Total net position - governmental activities	\$ 26,995,213	\$ 9,374,117

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2019

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)

	<u>General</u>	<u>Food Service</u>
REVENUES:		
Local property tax levies	\$ 3,133,403	\$ -
Other local and county revenues	1,586,192	17,936
Revenues from state sources	45,799,344	119,378
Revenues from federal sources	1,433,105	1,787,518
Sales and other conversion of assets	19,532	417,691
Interdistrict revenues	406,213	-
Total revenues	<u>\$ 52,377,789</u>	<u>\$ 2,342,523</u>
EXPENDITURES:		
Current expenditures-		
District and school administration	\$ 1,112,494	\$ -
District support services	960,920	-
Regular instruction	21,567,675	-
Vocational instruction	540,658	-
Exceptional instruction	7,234,744	-
Community education and services	89,085	-
Instructional support services	2,679,466	-
Pupil support services	3,473,146	2,313,287
Site and building services	2,441,527	-
Fiscal and other fixed cost programs	3,137,722	-
Capital outlay	1,911,675	-
Debt service-		
Principal	-	-
Interest and other financing costs	-	-
Total expenditures	<u>\$ 45,149,112</u>	<u>\$ 2,313,287</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 7,228,677</u>	<u>\$ 29,236</u>
OTHER FINANCING SOURCES (USES):		
Sale of capital assets	\$ -	\$ -
Capital lease proceeds	-	-
Transfer from General fund to Debt Service fund	<u>(430,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>\$ (430,000)</u>	<u>\$ -</u>
Net change in fund balances	\$ 6,798,677	\$ 29,236
FUND BALANCE, Beginning of year	<u>27,677,294</u>	<u>949,156</u>
FUND BALANCE, End of year	<u>\$ 34,475,971</u>	<u>\$ 978,392</u>

The accompanying notes are an integral part of these financial statements.

Community Service	Capital Projects- Building Construction	Debt Service	Total Governmental Funds	
			2019	2018
\$ 181,896	\$ -	\$ 1,530,648	\$ 4,845,947	\$ 4,714,772
374,244	113,816	73,421	2,165,609	1,603,762
1,299,905	-	692,514	47,911,141	41,698,325
62,218	-	-	3,282,841	3,049,829
21	-	-	437,244	464,677
-	-	-	406,213	287,617
<u>\$ 1,918,284</u>	<u>\$ 113,816</u>	<u>\$ 2,296,583</u>	<u>\$ 59,048,995</u>	<u>\$ 51,818,982</u>
\$ -	\$ -	\$ -	\$ 1,112,494	\$ 1,069,179
-	-	-	960,920	891,503
-	-	-	21,567,675	19,071,799
-	-	-	540,658	487,961
-	-	-	7,234,744	6,397,453
1,773,727	-	-	1,862,812	1,802,419
-	-	-	2,679,466	2,548,539
13,901	-	-	5,800,334	5,906,355
-	-	-	2,441,527	2,419,877
-	-	-	3,137,722	654,397
-	7,639,598	-	9,551,273	2,857,756
-	-	7,270,000	7,270,000	1,580,000
-	-	551,562	551,562	587,125
<u>\$ 1,787,628</u>	<u>\$ 7,639,598</u>	<u>\$ 7,821,562</u>	<u>\$ 64,711,187</u>	<u>\$ 46,274,363</u>
<u>\$ 130,656</u>	<u>\$ (7,525,782)</u>	<u>\$ (5,524,979)</u>	<u>\$ (5,662,192)</u>	<u>\$ 5,544,619</u>
\$ -	\$ -	\$ -	\$ -	\$ 170,293
-	-	-	-	10,862,220
-	-	430,000	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 430,000</u>	<u>\$ -</u>	<u>\$ 11,032,513</u>
\$ 130,656	\$ (7,525,782)	\$ (5,094,979)	\$ (5,662,192)	\$ 16,577,132
302,313	9,853,139	5,462,032	44,243,934	27,666,802
<u>\$ 432,969</u>	<u>\$ 2,327,357</u>	<u>\$ 367,053</u>	<u>\$ 38,581,742</u>	<u>\$ 44,243,934</u>

INDEPENDENT SCHOOL DISTRICT NO. 518
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)

	<u>2019</u>	<u>2018</u>
Total net changes in fund balances - governmental funds	\$ (5,662,192)	\$ 16,577,132
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over the estimated useful lives as depreciation expense.		
Capital outlays	8,998,894	3,025,975
Depreciation expense	(2,449,441)	(2,552,177)
The amount of bond proceeds used to finance school building projects is reported in the governmental funds as an other financing source. Bond proceeds are not revenues in the statements of activities, but rather constitute long-term liabilities. Issuing debt increases long-term liabilities and does not affect the statement of activities.		
	-	(10,862,220)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces the long term liabilities in the statement of net assets.		
	9,790,000	1,860,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.		
	137,460	(143,223)

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518
RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019
(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)

	<u>2019</u>	<u>2018</u>
In the Statement of Activities, certain operating expenses - pension, other post-employment benefits and 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 (essentially, the amounts actually paid).		
Pensions	\$ 6,802,068	\$ (9,921,024)
Compensated absences	(26,959)	(5,234)
Other post employment benefits	(21,447)	33,138
 In the statement of activities, only the loss on disposal of capital assets is reported. However, in the governmental funds, proceeds from the disposal increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the disposed assets.	 (25,690)	 (66,067)
 Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	 7,278	 5,830
 Governmental funds report debt premiums and discounts as an other financing source or use at the time of issuance. Premiums and discounts are reported net of debt in the Government-wide financial statements.	 71,125	 81,144
Change in net position - governmental activities	<u>\$ 17,621,096</u>	<u>\$ (1,966,726)</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

GENERAL AND SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2019

	General Fund			
	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUE:				
Local property tax levies	\$ 3,149,399	\$ 3,124,922	\$ 3,133,403	\$ 8,481
Other local and county revenues	882,300	1,398,250	1,586,192	187,942
Revenues from state sources	39,358,832	42,278,902	45,799,344	3,520,442
Revenues from federal sources	1,283,800	1,467,418	1,433,105	(34,313)
Sales and other conversion of assets	27,500	1,200	19,532	18,332
Interdistrict revenues	280,000	350,000	406,213	56,213
Total revenues	<u>\$ 44,981,831</u>	<u>\$ 48,620,692</u>	<u>\$ 52,377,789</u>	<u>\$ 3,757,097</u>
EXPENDITURES:				
Current expenditures-				
District and school administration	\$ 1,185,496	\$ 1,303,342	\$ 1,112,494	\$ 190,848
District support services	1,077,357	1,159,451	960,920	198,531
Regular instruction	21,539,924	23,030,268	21,567,675	1,462,593
Vocational instruction	511,822	504,085	540,658	(36,573)
Exceptional instruction	6,847,047	7,356,768	7,234,744	122,024
Community education and services	94,686	94,686	89,085	5,601
Instructional support services	2,838,370	2,837,198	2,679,466	157,732
Pupil support services	3,923,266	3,937,017	3,473,146	463,871
Site and building services	2,822,661	2,892,165	2,441,527	450,638
Fiscal and other fixed cost programs	3,978,349	3,143,225	3,137,722	5,503
Capital outlay	1,681,993	1,910,884	1,911,675	(791)
Total expenditures	<u>\$ 46,500,971</u>	<u>\$ 48,169,089</u>	<u>\$ 45,149,112</u>	<u>\$ 3,019,977</u>
Excess (deficit) of revenues over (under) expenditures	<u>\$ (1,519,140)</u>	<u>\$ 451,603</u>	<u>\$ 7,228,677</u>	<u>\$ 6,777,074</u>
OTHER FINANCING SOURCES (USES):				
Transfer to debt service fund	\$ (430,000)	\$ (430,000)	\$ (430,000)	\$ -
Sale of capital assets	2,000	-	-	-
Total other financing sources (uses)	<u>\$ (428,000)</u>	<u>\$ (430,000)</u>	<u>\$ (430,000)</u>	<u>\$ -</u>
Net change in fund balances	\$ (1,947,140)	\$ 21,603	\$ 6,798,677	\$ 6,777,074
FUND BALANCE, Beginning of year	<u>27,677,294</u>	<u>27,677,294</u>	<u>27,677,294</u>	<u>-</u>
FUND BALANCE, End of year	<u>\$ 25,730,154</u>	<u>\$ 27,698,897</u>	<u>\$ 34,475,971</u>	<u>\$ 6,777,074</u>

The accompanying notes are an integral part of these financial statements.

Food Service Fund				Community Service Fund			
Budgeted Amounts		Actual	Variance with Final Budget	Budgeted Amounts		Actual	Variance with Final Budget
Original	Final			Original	Final		
\$ -	\$ -	\$ -	\$ -	\$ 181,007	\$ 181,007	\$ 181,896	\$ 889
6,000	12,000	17,936	5,936	295,712	334,306	374,244	39,938
133,700	133,700	119,378	(14,322)	1,200,273	1,240,389	1,299,905	59,516
1,876,400	1,876,400	1,787,518	(88,882)	55,093	54,361	62,218	7,857
458,000	458,000	417,691	(40,309)	-	-	21	21
-	-	-	-	-	-	-	-
<u>\$ 2,474,100</u>	<u>\$ 2,480,100</u>	<u>\$ 2,342,523</u>	<u>\$ (137,577)</u>	<u>\$ 1,732,085</u>	<u>\$ 1,810,063</u>	<u>\$ 1,918,284</u>	<u>\$ 108,221</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	1,701,408	1,793,571	1,773,727	19,844
-	-	-	-	-	-	-	-
2,474,100	2,673,388	2,313,287	360,101	27,634	15,689	13,901	1,788
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 2,474,100</u>	<u>\$ 2,673,388</u>	<u>\$ 2,313,287</u>	<u>\$ 360,101</u>	<u>\$ 1,729,042</u>	<u>\$ 1,809,260</u>	<u>\$ 1,787,628</u>	<u>\$ 21,632</u>
<u>\$ -</u>	<u>\$ (193,288)</u>	<u>\$ 29,236</u>	<u>\$ 222,524</u>	<u>\$ 3,043</u>	<u>\$ 803</u>	<u>\$ 130,656</u>	<u>\$ 129,853</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ -	\$ (193,288)	\$ 29,236	\$ 222,524	\$ 3,043	\$ 803	\$ 130,656	\$ 129,853
949,156	949,156	949,156	-	302,313	302,313	302,313	-
<u>\$ 949,156</u>	<u>\$ 755,868</u>	<u>\$ 978,392</u>	<u>\$ 222,524</u>	<u>\$ 305,356</u>	<u>\$ 303,116</u>	<u>\$ 432,969</u>	<u>\$ 129,853</u>

INDEPENDENT SCHOOL DISTRICT NO. 518
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2019

ASSETS

	Private Purpose Trust Funds	Agency Funds
ASSETS:		
Cash and investments	\$ 358,702	\$ 158,042
Accounts receivable	-	714
Due from school districts and governmental units	-	-
Prepaid expenses	1,750	-
Total assets	<u>\$ 360,452</u>	<u>\$ 158,756</u>

LIABILITIES AND NET POSITION

LIABILITIES:		
Salaries payable	\$ -	\$ 58,658
Accounts payable	361	5,914
Due to other school districts and governmental units	-	93,584
Unearned revenue	-	600
Total liabilities	<u>\$ 361</u>	<u>\$ 158,756</u>
NET POSITION:		
Held in trust	<u>\$ 360,091</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Private Purpose Trust Funds</u>
ADDITIONS:	
Other local and county revenues-	
Interest income	\$ 4,710
Other local revenues	<u>86,225</u>
Total additions	<u>\$ 90,935</u>
DEDUCTIONS:	
Pupil support services	\$ <u>38,444</u>
Total deductions	<u>\$ 38,444</u>
Change in net position	\$ 52,491
NET POSITION, Beginning of year	<u>307,600</u>
NET POSITION, End of year	<u><u>\$ 360,091</u></u>

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of Presentation-

Independent School District No. 518 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a seven-member school board elected by voters of the District to serve four year terms. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

b. Financial Reporting Entity-

Independent School District No. 518 is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the district.

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

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

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's School Board has elected not to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

c. Basic Financial Statement Presentation-

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

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Basic Financial Statement Presentation (continued)-

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

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

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. Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust, investment 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.

d. Measurement Focus and Basis of Accounting-

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

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

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. Measurement Focus and Basis of Accounting (continued)-

1. **Revenue Recognition** – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month period of availability is generally used for other fund revenue.
2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

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

Private Purpose Trust Funds are reported using the economic resources measurement focus. All fiduciary funds use 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 State of Minnesota, Department of Education. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. A description of the funds included in this report 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, health and safety projects, and disabled accessibility projects.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. Measurement Focus and Basis of Accounting (continued)-

Description of Funds (continued)-

Major Governmental Funds (continued)-

Food Service Special Revenue Fund – The Food Service Fund is used to account for food service revenues and expenditures. Revenues recorded in this fund include meal sales to pupils along with state and federal reimbursements for meals.

Community Service Special Revenue Fund – The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, or other similar services. Revenues recorded in this fund include property taxes restricted for Community Service purposes and tuition and fees charged for Community Education.

Capital Projects – Building Construction Fund – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities. The Fund was established for building construction activity authorized by specific bond issues.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general long-term obligation bond principal, interest, and related costs. The regular debt service account is used for all general obligation bond debt service, except for refunding bond issues, for which a separate refunding bond trust account has been established.

Fiduciary Fund Types-

Private Purpose Trust Fund – The Foundation Private Purpose Trust Fund is used to account for resources held in trust to be used by various other third parties.

Agency Fund – Agency Funds are established to account for cash and other assets held by the District as the agent for others. These funds are used to account for the Nobles County Integration Collaborative.

e. Deferred Outflows/Inflows of Resources-

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred outflows of resources from pensions on the government wide statement of net position result from the differences between expected and actual economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings, changes in proportion, and contributions paid to the pension subsequent to the measurement date.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

e. Deferred Outflows/Inflows of Resources (continued)-

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources consists of property taxes and pensions. Property taxes represent amounts for which there was an enforceable legal claim as of June 30, 2019, but which were levied to finance fiscal year 2020 operations. These amounts have been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund balance sheet and represents receivables which will not be collected within the available period. Pensions deferred inflows on the government wide statement of net position result from the differences between expected and actual economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings, and changes in proportion. For the District, unavailable revenue includes delinquent property taxes. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available.

f. Budgeting-

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

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to the budgeted amounts must be approved by the School Board. Individual amendments were not material in relation to the original appropriations.

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

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

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

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

g. Cash and Investments-

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Earnings from the investments of the Private Purpose Trust Funds are allocated directly to those funds/accounts.

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Investments in external investment pools operated in a manner consistent with the SEC's Rule 2a7 of the Investment Act of 1940 are valued at the pool's share price.

h. Accounts Receivable-

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are delinquent property taxes receivable.

i. Inventories-

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

j. 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 expenditure at the time of consumption.

k. Property Taxes-

Property tax levies are established by the School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to the Districts at periodic intervals as they are collected. A portion of property taxes levied is paid through the state credits which are included in revenue from state sources in the financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

k. Property Taxes (continued)-

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The majority of the District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift".

During the 2015 fiscal year, the State of Minnesota enacted legislation reducing the tax shift to 31% of the Pay 2001 operating referendum (frozen at \$75,873) plus 100% of the levies for vocational programs and unemployment costs.

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 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. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2019 are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

l. Capital Assets-

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$1,000 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 Government-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 generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 20 years for equipment.

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

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

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

m. Long-Term Obligations-

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. 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. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

n. Vacation Pay-

Under the terms of contracts, certain employees accrue vacation at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation upon termination. Vacation pay is accrued when incurred in the district-wide and all fiduciary fund financial statements. Vacation pay is accrued in governmental fund financial statements only when it has matured due to employee termination or similar circumstances.

o. Sick Pay-

Substantially all District employees are entitled to sick leave at various rates. Unused sick leave enters into the calculation of retirement incentive payments for some employees upon termination.

p. Other Postemployment Health Care Benefits-

In addition to retirement benefits, the District provides post-retirement medical insurance benefits to teachers, administrators, principals, food service workers, custodians and clerical employees, in accordance with their respective master employment agreements. The eligibility for, amount of, duration of, and District's contribution to the cost of the benefits provided varies by contract and date of retirement.

q. Restricted Assets-

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the government-wide financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

r. Fund Balance-

In the fund financial statements, governmental funds report fund balances in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have purpose constraints placed upon them by laws, regulations, creditors, grantors, or other external parties and are considered available only for the purpose for which they were received.

Committed – resources that are constrained for specific purposes that are internally imposed by the District at its highest level of decision making authority, the Board of Education. With an affirmative vote of its members, the Board of Education may create, modify, or rescind funds for which resources are committed to the established purpose of that fund.

Assigned – resources that are intended to be used for specific purposes as approved through the District’s formal purchasing procedure by the Treasurer. Through the District’s purchasing policy, the Board of Education has given the Treasurer the authority to constrain monies for the intended purpose.

Unassigned – residual fund balance within the general fund that is in spendable form and is not restricted, committed, or assigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District’s policy to use restricted first, then unrestricted fund balance.

When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District’s policy to use committed first, then assigned, and finally unassigned amounts.

The school district will strive to maintain a minimum unassigned general fund balance of 10% percent of the annual budget at the end of the fiscal year.

s. 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 it 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.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

t. Net Position-

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

u. Comparative Financial Information-

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2018, from which the summarized information was derived.

v. Use of Estimates-

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

w. Functional Allocation of Expenses-

The costs of various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

a. Excess of Expenditures Over Budget-

No Funds had expenditures that exceeded budgets at June 30, 2019.

b. Revenues Under Budget-

The Food Service Fund had revenues that were below budgeted amounts at June 30, 2019.

	<u>Budget</u>	<u>Expenditures</u>	<u>Amount</u>
Food Service Fund	\$ 2,480,100	\$ 2,342,523	\$ (137,577)

No remedial action is deemed necessary for the Food Service Fund as the revenues below budget were in relation to expenditures under budget as well.

3. DEPOSITS AND INVESTMENTS:

a. Deposits-

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

Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

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.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2019, none of the District's bank balance of \$10,983,763 was exposed to custodial credit risk. No amounts were uninsured or under collateralized.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. DEPOSITS AND INVESTMENTS (Continued):

b. Investments-

The District may also invest idle funds as authorized by Minnesota Statutes, as follows: direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States' banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

The District's investments are potentially subject to various risks including the following:

- **Custodial credit risk** – The risk that in the event of a failure of the counterparty to an investment transaction (typically a broker) the government would not be able to recover the value of the investment or collateral securities.
- **Credit risk** – The risk that an issuer or other counterparty to an investment will not fulfill its obligations.

The District has no internal policies that limit deposits on investment choices or address these potential risks beyond the statutory limitations described above.

- **Concentration risk** – Investing 5 percent or more of the District's portfolio in the securities of a single issuer.
- **Interest rate risk** – The risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk).

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. DEPOSITS AND INVESTMENTS (Continued):

b. Investments (continued)-

The following table presents the District's investment balances at June 30, 2019 and information relating to potential investment risks:

	Credit Risk		Concentration	Interest	Carrying Value
	Credit Rating	Rating Agency	Risk Over 5% of Portfolio	Rate Risk Maturity Date	
Governmental Agencies	N/A	N/A	21.1%	N/A	\$ 2,819,021
Investment pools/mutual funds					
Minnesota School District					
Liquid Asset Fund Plus	AAAm	S & P	0.4%	N/A	53,502
Minnesota School District					
Liquid Asset Fund Plus					
MAX Series	AAAm	S & P	78.5%	N/A	<u>10,503,574</u>
Total investments					\$ <u>13,376,097</u>
Nonparticipating certificates of deposits and MSDLAF term investments					25,940,000
Deposits					<u>309,249</u>
Total cash and investments					\$ <u><u>39,625,346</u></u>

N/A - Not applicable

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

Cash and temporary investments-statements of net position	\$ 35,095,928
Cash and investments for debt service-restricted-statements of net	996,224
Cash and investments held by trustee-statements of net position	-
Cash and investments for construction-restricted-statements of net	3,016,450
Cash and temporary investments-statement of fiduciary net position	<u>516,744</u>
	\$ <u><u>39,625,346</u></u>

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

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. DEPOSITS AND INVESTMENTS (Continued):

c. Fair Value Measurements-

The district uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The district follow an accounting standard which defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with the standard, the district has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quotes prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded of the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in the active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets or inputs that are observable, either directly or indirectly, for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity’s own assumptions about the assumptions market participants would use in pricing the asset.

Assets of the District measured at fair value on a recurring basis:

<u>Investment</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Municipal Bonds	\$ -	\$ 2,819,021	\$ -	\$ 2,819,021
Mutual Funds	10,557,076	-	-	10,557,076
Equities	26,249,249	-	-	26,249,249
Total	<u>\$ 36,806,325</u>	<u>\$ 2,819,021</u>	<u>\$ -</u>	<u>\$ 39,625,346</u>

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. CAPITAL ASSETS:

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

Governmental Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 3,504,003	\$ -	\$ -	\$ 3,504,003
Construction in progress	<u>1,621,172</u>	<u>8,205,583</u>	<u>-</u>	<u>9,826,755</u>
Total capital assets, not depreciated	<u>\$ 5,125,175</u>	<u>\$ 8,205,583</u>	<u>\$ -</u>	<u>\$ 13,330,758</u>
Capital Assets, depreciated:				
Land improvements	\$ 3,713,763	\$ -	\$ -	\$ 3,713,763
Buildings	43,207,517	94,392	-	43,301,909
Equipment and vehicles	<u>12,780,377</u>	<u>698,919</u>	<u>(1,530,290)</u>	<u>11,949,006</u>
Total capital assets, depreciated	<u>\$ 59,701,657</u>	<u>\$ 793,311</u>	<u>\$ (1,530,290)</u>	<u>\$ 58,964,678</u>
Less accumulated depreciation for:				
Land improvements	\$ (1,166,737)	\$ (171,348)	\$ -	\$ (1,338,085)
Buildings	(17,058,278)	(1,107,410)	-	(18,165,688)
Equipment and vehicles	<u>(7,865,812)</u>	<u>(1,170,683)</u>	<u>1,504,600</u>	<u>(7,531,895)</u>
Total accumulated depreciation	<u>\$ (26,090,827)</u>	<u>\$ (2,449,441)</u>	<u>\$ 1,504,600</u>	<u>\$ (27,035,668)</u>
Net capital assets, depreciated	<u>33,610,830</u>	<u>(1,656,130)</u>	<u>(25,690)</u>	<u>31,929,010</u>
Total capital assets, net	<u>\$ 38,736,005</u>	<u>\$ 6,549,453</u>	<u>\$ (25,690)</u>	<u>\$ 45,259,768</u>

Depreciation expense of \$2,449,441 for the year ended June 30, 2019, was charged to the following governmental functions:

Governmental Activities:

Administration	\$ 4,014
District support services	25,115
Regular instruction	820,123
Vocational instruction	10,869
Exceptional instruction	17,351
Community Service	13,701
Instructional support services	129,402
Pupil support services	48,195
Food service	23,343
Site, buildings and equipment	454,908
Unallocated	<u>902,420</u>
	<u>\$ 2,449,441</u>

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM LIABILITIES:

a. General Obligation School Building Bonds and Certificates of Participation-

The District currently has the following general obligation school building bonds and Certificates of Participation outstanding:

<u>Issue</u>	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>
General Obligation Refunding School Building Bonds	11/14/2013	2.50%-3.00%	2/1/2024	\$ 6,305,000
General Obligation Refunding Alternative Facilities Bonds	6/2/2016	2.00%-2.25%	2/1/2030	4,665,000
Certificates of Participation	8/30/2017	3.00%-4.00%	2/1/2045	<u>10,105,000</u>
Total general obligation bonds				<u>\$ 21,075,000</u>

Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105% of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

Certificates of Participation are repaid through funds from the Leased Facility Levy.

The General Obligation School Building Bonds require semiannual payments of principal and/or interest from the date the bonds were issued.

The Certificates of Participation require semiannual payments of principal and or interest from the date the bonds were issued.

In June 2016, the District issued \$4,805,000 of General Obligation Refunding Bonds, Series 2016A. The proceeds of this issue and interest earned thereon were used to refund, in advance of their stated maturities, a portion of the interest for the 2017 through 2019 maturities and the full amount of the 2020 through 2030 maturities of the 2010B General Obligation Alternative facilities Building Bonds totaling \$5,220,000. The proceeds of the 2016A issue were placed in an escrow account until the 2010B bonds call date of February 1, 2019. This refunding reduces the District's total future debt service payments by approximately \$1,400,000.

In August 2017, the District issued \$10,340,000 of Certificates of Participation, Series 2017A. The proceeds of this issue and interest earned thereon will be used to construct a new building housing the Area Learning Center and provide a permanent facility for Gymnastics participation.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM LIABILITIES (Continued):

b. Bond Premiums-

Bond premiums are amortized using the straight line method over the life of the bonds.

<u>Issue</u>	<u>Issue Date</u>	<u>Bond Premium</u>	<u>Final Maturity</u>	<u>2019 Amortization</u>
General Obligation Alternative Facilities Building Bonds	1/7/2010	\$ 147,343	2/1/2019	\$ 17,639
General Obligation Capital Facilities Building Bonds	1/7/2010	6,582	2/1/2024	2,616
General Obligation Refunding School Building Bonds	11/1/2013	424,863	2/1/2024	41,116
General Obligation Refunding Alternative Facilities Bonds	6/2/2016	133,309	2/1/2030	<u>9,754</u>
Total current year amortization				<u>\$ 71,125</u>

c. Minimum Debt Payments-

Minimum annual principal and interest payments to maturity for general obligation school building bonds, capital leases and special assessments payable are as follows:

Year Ending June 30 ,	<u>General Obligation School Building Bonds</u>		<u>Certificates of Participation</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 1,575,000	\$ 281,037	\$ 240,000	\$ 380,350
2021	1,615,000	243,588	250,000	373,150
2022	1,655,000	199,037	255,000	365,650
2023	1,700,000	153,338	265,000	358,000
2024	1,755,000	106,387	275,000	350,050
2025-2029	2,205,000	199,963	1,530,000	1,592,200
2030-2034	465,000	10,462	1,835,000	1,282,550
2035-2039	-	-	2,195,000	922,400
2040-2044	-	-	2,660,000	447,800
2045	-	-	<u>600,000</u>	<u>24,000</u>
	<u>\$ 10,970,000</u>	<u>\$ 1,193,812</u>	<u>\$ 10,105,000</u>	<u>\$ 6,096,150</u>

d. Special Assessments Payable-

Special Assessments payable represents the outstanding liability relating to various improvements made to district property financed through municipalities. The annual assessment levies consisting of principal and interest at various rates will be paid for by the General Fund. As of June 30, 2019 there were no assessments payable.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM LIABILITIES (Continued):

e. Changes in Long-Term Liabilities-

	June 30, 2018	Additions	Retirements	June 30, 2019	Due Within One Year
General obligation school building bonds	\$ 18,240,000	\$ -	\$ 7,270,000	\$ 10,970,000	\$ 1,575,000
Bond premium	366,232	-	71,125	295,107	50,870
Certificates of Participation	12,625,000	-	2,520,000	10,105,000	240,000
Compensated Absences	65,193	92,152	65,193	92,152	92,152
	<u>\$ 31,296,425</u>	<u>\$ 92,152</u>	<u>\$ 9,926,318</u>	<u>\$ 21,462,259</u>	<u>\$ 1,958,022</u>

6. OPERATING LEASES:

The District leases the facilities of the Armory Business Center, Worthington Hockey Arena, and Memorial Auditorium. The lease for the Armory Business Center was renewed through June 30, 2019. The renewal option allows the lessor to incorporate into the monthly rental cost increases related to utility rates, cost of snow removal, real estate taxes, or assessments for governmental projects. The lease for the Worthington Hockey Arena was renewed with a remaining term of six year through June 30, 2024. The lease for the Memorial Auditorium was renewed for a term of three years, expiring on June 30, 2020. Rental expense for the year ended June 30, 2019, was \$44,937.

Future minimum lease payments at June 30, 2019, are as follows:

2020	\$ 56,836
2021	25,000
2022	25,000
2023	25,000
Thereafter	25,000
	<u>\$ 156,836</u>

7. INTERFUND BALANCES AND OPERATING TRANSFERS:

The District had no interfund balances at June 30, 2019

The District had the following interfund transfer for the year ended June 30, 2019.

	<u>Transfer in</u>	<u>Transfer Out</u>
Debt Service Fund	\$ 430,000	\$ -
General Fund	-	430,000
Total	<u>\$ 430,000</u>	<u>\$ 430,000</u>

The transfer was related to the call of the remaining 2010C Capital Facilities Bond.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. RESTRICTED FUND BALANCES:

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

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

Restricted for Area Learning Center-

Represents available resources to be used for students attending the area learning center. The fund balance as of June 30, 2019 is \$32,597.

Restricted for Health and Safety-

Represents available resources from the levy to be used for health and safety. The fund balance as of June 30, 2019 is \$0. The 2016 Minnesota Legislature reassigned eligible health & safety expenditures to the long term facilities fund balance account effective July 1, 2016 with an adjustment balancing prior health & safety revenues to eligible expenditures to be made on the 2018 levy. After those adjustments the remaining balance was transferred to the general fund unassigned fund balance.

Restricted for Operating Capital-

The district levies taxes and receives state aid to be used for the purchase of equipment, books and vehicles and to purchase, rent, improve and repair school facilities as allowed by state statute. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a restriction of fund balance in the General Fund. The fund balance as of June 30, 2019 is \$1,316,829.

Restricted for Gifted and Talented-

Represents available resources from state aid to be used for gifted and talented programming in accordance with funding made available for that purpose. The fund balance as of June 30, 2019 is \$111,569.

Restricted for Safe Schools-

Represents available resources from the levy to be used for safe schools. The fund balance as of June 30, 2019 is \$100,936.

Restricted for Long-Term Facility Maintenance (formerly Deferred Maintenance)-

Represents available resources from the levy or aid to be used for future long-term facility maintenance projects. The fund balance as of June 30, 2019 is \$2,085,219.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. RESTRICTED FUND BALANCES (Continued):

Restricted for Medical Assistance-

Represents available resources from medical assistance funding to be used for programming in accordance with that funding. The fund balance as of June 30, 2019 is \$348,691.

Restricted for Staff Development-

Represents available resources from the levy or aid to be used for future staff development activities. The fund balance as of June 30, 2019 is \$142,337.

Restricted for Basic Skills Extended Time-

Represents available resources designated to be used for extended time student instruction. The fund balance as of June 30, 2019 is \$143,534.

Restricted for Food Service-

Represents available resources to be used in providing food services to students. The fund balance as of June 30, 2019 is \$867,848.

Restricted for Community Education-

Represents accumulated resources available to provide general community education programming. The fund balance as of June 30, 2019 is \$56,869.

Restricted for Adult Basic Education-

Represents accumulated resources available to provide adult basic education services. The fund balance as of June 30, 2019 is \$194,853.

Restricted for School Readiness-

Represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose. The fund balance as of June 30, 2019 is \$104,044.

Restricted for Early Childhood Family Education-

Represents accumulated resources available to provide early childhood family education programming in accordance with funding made available for that purpose. The fund balance as of June 30, 2019 is \$75,709.

Restricted for Other Programs-

Represents that amount that can be spent only for specific purposes stipulated by constitutional, external resource providers, or through enabling legislation. The fund balance as of June 30, 2019 is \$2,328,611.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. RESTRICTED FUND BALANCES (Continued):

Restricted for Debt Service-

Represents available resources from the debt service levy available only for payment of outstanding debt and related expenses. The fund balance as of June 30, 2019 is \$367,053.

Restricted for Bond Refunding-

Represents available resources to be used for bond refunding. The fund balance as of June 30, 2019 is \$0.

Committed for Separation-

Represents amounts committed for severance, but not restricted. The fund balance as of June 30, 2019 is \$149,865.

Committed for Debt Redemption-

Represents amounts committed for debt redemption, but not restricted. The fund balance as of June 30, 2019 is \$0.

Assigned for Projects-

Represents amounts assigned for projects, but are not restricted or committed. The fund balance as of June 30, 2019, is \$15,000,000.

9. EARLY RETIREMENT INCENTIVE:

a. Teachers-

Full-time teachers who have not less than 30 years of full time teaching service or who are at least fifty-five years of age and have 15 total years of full time teaching service are eligible for severance pay pursuant to the provisions of the master contract upon submission of a written resignation accepted by the Board.

Each full-time teacher will be paid up to a maximum of 100 days of any unused and accrued sick leave earned by that teacher while an employee of the District. The daily rate of pay is the basic daily rate at the time of retirement, as provided in the basic salary schedule (including career increment) for the basic school year, and does not include any additional compensation for extracurricular activities, extended employment or other extra compensation.

Payment will be contributed to a post-retirement health care savings plan sponsored by the District with half of the amount paid prior to September 1 of the year of separation and the remaining half will be paid prior to September 1 of the year following separation.

As of June 30, 2019, five teachers met the requirements representing a potential commitment of approximately \$79,865 in severance pay if all would resign pursuant to the provisions of the master contract.

Severance pay is recorded as an expenditure when eligible employees retire. There were no retirements or expenditures in the year ended June 30, 2019.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

9. EARLY RETIREMENT INCENTIVE (Continued):

b. Superintendent-

The Superintendent is eligible for severance pay after the Board receives a resignation. The amount of severance will be equal to the dollar amount per day of the existing contract times the number of accumulated sick leave days. The severance pay will be paid to the Superintendent according to timelines set by the Board.

As of June 30, 2019, there is a potential commitment of \$70,000 in severance pay if the Superintendent would resign pursuant to the provisions in the contract.

10. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN:

a. Plan Description-

The District provides a single-employer defined benefit healthcare plan which allows retirees and their spouses to participate in that plan through contractual arrangement. The plan offers medical coverage that is administered through the Minnesota Public Employees insurance Plan. (PEIP) It is the District's policy to periodically review those medical coverages and obtain requests for proposals in order to provide the most favorable benefits and premiums for the District employees and retirees. No assets are accumulated in a trust.

Post-Employment Medical Plan – All eligible retirees of the District have the option to continue their medical coverage into retirement. Retirees pay the full district premium rate for the coverage and dependent coverage if elected. When the retiree is eligible for coverage under Medicare, the District plan allows continued participation as a healthcare plan secondary to that Medicare coverage.

There are 509 active participants and 15 retired participants. The plan does not issue a publicly available financial report.

b. Contributions-

Retirees and their spouses contribute to the health care plan at the same rate as active District employees. This results in the retirees receiving an implicit rate subsidy. The required contributions are based on projected pay-as-you-go financing requirements. For the year ended June 30, 2019 the District contributed \$53,249 to the plan.

c. Actuarial Methods and Assumptions-

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

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN (Continued):

c. Actuarial Methods and Assumptions (continued)-

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Salary increases	3.25%
Inflation	2.75%
Healthcare cost trend increases	8.00% As of July 1, 2017, decreasing to an ultimate rate of 4.50% over 7 years.
Mortality Assumptions	Healthy Retirees: RPH-2017 Total Dataset Mortality Table fully generational using Scale MP-2017 Disabled retirees: RPH-2017 Disabled Mortality Table fully generational using scale MP-2017

d. Total OPEB Liability-

As of June 30, 2019, the actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$956,941.

	<u>Total OPEB Liability</u>
Balance at July 1, 2018	\$ <u>956,941</u>
Changes for the year	
Service cost	\$ 72,217
Interest cost	38,808
Changes of assumptions	18,123
Employer contributions	(53,249)
Differences between expected and actual experience	<u>(46,045)</u>
Net changes	\$ <u>29,854</u>
Balance at July 1, 2019	\$ <u><u>986,795</u></u>

e. OPEB Liability Sensitivity--

The following presents the District's total OPEB liability calculated using the discount rate of 3.51% as well as the liability measured using 1% higher and 1% lower than the current discount rate.

<u>Net OPEB Liability (Asset)</u>		
<u>1% decrease</u>	<u>Current</u>	<u>1% increase</u>
<u>(2.51%)</u>	<u>(3.51%)</u>	<u>(4.51%)</u>
\$ 1,037,108	\$ 986,795	\$ 936,581

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN (Continued):

e. OPEB Liability Sensitivity (continued)–

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

	Net OPEB Liability (Asset)		
	1% decrease (6.50%) decreasing to (3.50%)	Current (7.50%) decreasing to (4.50%)	1% increase (8.50%) decreasing to (5.50%)
Total OPEB Liability (Asset)	\$ 882,334	\$ 986,795	\$ 1,109,191

f. OPEB expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB-

For the year ended June 30, 2019, the District recognized OPEB expense of \$104,550. At June 30, 2019, the district reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ (78,955)
Changes in actuarial assumptions	24,370	-
	\$ 24,370	\$ (78,955)

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30:	
2020	\$ (6,475)
2021	(6,475)
2022	(6,475)
2023	(6,475)
2024	(6,475)
Thereafter	(22,210)

11. DEFINED BENEFIT PENSION PLANS:

Substantially all employees of the District are required by state law to belong to cost sharing, multiple employer, defined benefit pension plans administered by Teachers Retirement Association (TRA) and Public Employees Retirement Association (PERA), all of which are established and administered in accordance with Minnesota Statutes. TRA’s and PERA’s defined benefit pension plans are tax qualified plans under section 401(a) of the Internal Revenue Code.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS (Continued):

a. Summary of Significant Accounting Policies-

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

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

b. Plan Descriptions-

1. Teachers Retirement Association (TRA)-

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 administered by a Board of Trustees. The Board consist of four active members, one retired member, and three statutory officials.

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

2. General Employees Retirement Fund (GERF)-

GERF's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapter 353 and 356.

All full time and certain part-time employees of the District other than teachers are covered by the General Employees Retirement Fund (GERF) Coordinated Plan. Coordinated Plan members are covered by Social Security.

c. Benefits Provided-

TRA and GERF provide retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS Continued):

c. Benefits Provided (continued)-

TRA and GERF provide retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

TRA: Post-retirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 1.0%.

GERF: Benefit increases are provided to benefit recipients each January. Recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, 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 (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

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

1. TRA benefits-

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statutes 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 n 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. 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.

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

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS (Continued):

c. Benefits Provided (continued)-

1. TRA benefits (continued)-

With these provisions-

- a. Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- b. 3.0 percent per year early retirement reduction factors for all years under normal retirement age.
- c. Unreduced benefits for early retirement under a Rule of 90 provision (age plus allowable service equals 90 or more).

or

Tier II	Step Rate Formula	Percentage
Basic	Service years prior to July 1, 2006	2.7 percent per year
	All years after July 1, 2006	2.7 percent per year
Coordinated	Service years prior to July 1, 2006	1.7 percent per year
	All years after July 1, 2006	1.9 percent per year

Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. 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 the individuals who reach age 62 and have 30 or more years of service credit.

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

2. GERS benefits-

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. Only method 2 is available for members hired after June 30, 1989. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2).

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

c. Benefits Provided (continued)-

2. GERF benefits (continued)-

Method 1	Step Rate Formula	Percentage
Coordinated	First ten years of service	1.2 percent per year
	All service years over ten	1.7 percent per year
Method 2	Step Rate Formula	Percentage
Coordinated	All years of service	1.7 percent per year

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. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

d. Contributions-

1. TRA contributions-

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. Rates for each fiscal year were:

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

The District contributions for the plan's year ended June 30, 2019 was \$1,308,540, equal to the required contributions as set by State Statute.

2. GERF contributions-

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

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in calendar year 2017 and 2018. In calendar year 2017 and 2018, the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the GERF for the plan's fiscal year ended June 30, 2019, were \$512,016. The District's contributions were equal to the required contributions for each year as set by state statute.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

e. Pension Costs-

1. TRA pension costs-

At June 30, 2019 the District reported a liability of \$19,671,892 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to the total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.3132% at the end of the measurement period and 0.3077% 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 the total portion of the net pension liability that was associated with the district were as follows:

District's proportionate share of the net pension liability	\$ 19,671,892
State's proportionate share of the net pension liability associated with the district	1,848,094

There was a change in actuarial assumptions that affected the measurement of the total pension liability since the prior measurement date. Postretirement benefit adjustments are now assumed to be 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% on January 1, 2028. 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. The discount rate used to measure pension liability increased to 7.50% from the prior measurement discount rate of 5.12%

For the year ended June 30, 2019, the District recognized pension expense of (\$13,272,283). It also recognized \$1,289,850 as pension expense for the support provided by direct aid.

At June 30, 2019, the District reported its proportionate share of TRA's deferred outflows of resources and deferred inflows of resources from the following sources:

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

e. Pension Costs (continued)-

1. TRA pension costs (continued)-

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ 45,574
Changes in actuarial assumptions	-	26,536,518
Difference between projected and actual investment earnings	-	1,514,992
Changes in proportion and differences between contributions made and the District's proportionate share of contributions	914,917	-
Prior year Contributions	(1,310,538)	-
Current Year Amortization of prior year amount	(11,762,821)	(3,764,378)
Contributions paid to TRA subsequent to the measurement date	1,308,540	-
Change in Deferred Outflows and Inflows for the year ended June 30, 2019	\$ (10,849,902)	\$ 24,332,706
Balance at June 30, 2018	40,214,566	13,506,374
Balance at June 30, 2019	\$ 29,364,664	\$ 37,839,080

The \$1,308,540 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:

Year ended June 30:	Pension Expense Amount
2020	\$2,196,027
2021	\$1,187,449
2022	\$ 220,835
2023	(\$6,945,296)
2024	(\$5,133,431)

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

e. Pension Costs (continued)-

2. GERS pension costs-

At June 30, 2019, the District reported a liability of \$5,492,114 for its proportionate share of the GERS'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 \$180,244. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018 relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018 the District's proportion share was 0.0990 percent which was a decrease of 0.0002 percent from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$315,316 for its proportionate share of GERS's pension expense. In addition, the District recognized an additional \$42,033 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.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

e. Pension Costs (continued)-

2. GERP pension costs (continued)-

At June 30, 2019, the District reported its proportionate share of GERP's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 6,506	\$ 458,519
Changes in actuarial assumptions	-	194,704
Changes in proportion and differences between contributions made and the District's proportionate share of contributions	-	9,576
Prior year Contributions	(503,541)	-
Current Year Amortization of prior year amount	(1,566,237)	(1,181,282)
Contributions paid to GERP subsequent to the measurement date	512,016	-
Change in Deferred Outflows and Inflows for the year ended June 30, 2019	\$ (1,551,256)	\$ (518,483)
Balance at June 30, 2018	3,039,205	2,475,733
Balance at June 30, 2019	\$ 1,487,949	\$ 1,957,250

The \$512,016 reported as deferred outflows of resources related to pensions resulting from District contributions to GERP 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 GERP pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2020	\$149,983
2021	(\$324,096)
2022	(\$180,560)
2023	(\$114,630)

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

f. Actuarial Assumptions-

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

<u>Assumptions</u>	<u>GERF</u>	<u>TRA</u>
Inflation	2.50% per year	2.50%
Active Member Payroll Growth	3.25% per year	2.85%
Investment Rate of Return	7.50%	7.50%

Actuarial Salary increases were based on a service –related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for males and females, as appropriate, with slight adjustment.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2011, through June 30, 2015, with an update of economic assumptions in 2017 for inflation and long-term rate of return.

The following changes in actuarial assumptions for TRA that affects the measurement of total liability for TRA since the prior measurement date. Postretirement benefit adjustments are now assumed to be 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to a maximum of 1.5% annually.

The following changes in actuarial assumptions for GERF occurred in 2018: As of July 1, 2017, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January1, 2045. As of July 1, 2018, the postretirement benefit increase rate is 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 and not more than 1.5% beginning January 1, 2019.

The long-term expected rate of return on pension plan investments is 7.5% for GERF and 7.5% for TRA. The State Board of Investment, which manages the investments of PERA and TRA, 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:

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

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

g. Discount Rate-

The discount rate used to measure the total pension liability was 7.50% for both TRA and GERF. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. 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.

h. 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:

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
TRA Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the TRA net pension liability	\$ 31,219,212	\$ 19,671,892	\$ 10,145,428
GERF Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	\$ 8,925,389	\$ 5,492,114	\$ 2,658,044

i. 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. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive, Suite 400
St. Paul, MN 55103-4000
(651) 296-2409 or (800) 657-3669

Detailed information about GERF's defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org. Alternatively, a copy of the report may be obtained by writing or calling PERA:

Public Employees Retirement Association
60 Empire Drive #200
St. Paul, Minnesota, 55103-2088
(651) 296-7460 or 1-800-652-9026

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

12. DEFINED CONTRIBUTION PENSION PLAN STATEWIDE:

School board members of the District are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the District during fiscal year 2019 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
\$1,220	\$1,220	5.0%	5.0%	5.0%

13. JOINT VENTURES:

a. Cable Channel 3 Television-

The District and the City of Worthington, Minnesota, entered into a joint powers agreement for the purposes of operating Worthington Cable 3 Television Public Access Channel on January 1, 1998, updated in October 2016. The agreement provides that the District shall provide the Board with studio space for the operation of Cable Channel 3, shall contribute equipment that was located in the studio at the time of the agreement and an annual sum of no less than \$8,800. The City of Worthington, Minnesota, shall remit to the Board all franchise fees and subscriber payments which are collected by two local cable companies pursuant to the Franchise Agreement between the City, and the respective cable companies, except that the City will retain an amount equal to the amount expended by the City during the prior calendar year for cable franchise expenses, including attorney fees. In addition, the City will contribute to the Board all of the equipment owned by the City and currently located at the Senior High School television studio. The fiscal year of Cable Channel 3 is January 1st to December 31st. Audited financial statements were not available for the year ended December 31, 2018. However, internal statements were issued and reflected a positive financial position at year end. There were no related party transactions during the year.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. JOINT VENTURES (Continued):

b. Nobles County Integration Collaborative (NCIC)-

Independent School District No. 518-Worthington, Independent School District No. 511-Adrian, Independent School District No. 514-Ellsworth, Independent School District No. 505-Fulda, Independent School District No. 330 Heron Lake-Okabena and Independent School District No. 2907-Round Lake-Brewster, entered into a joint powers agreement for the purpose of implementing the Nobles County Multi-District Integration Plan which was drafted by the Nobles County Multi-District Integration Council and submitted to the State of Minnesota in January, 2001. The member Districts' shall transfer to the Board the initial and subsequent integration and achievement funds as established at the conception of the agreement. Grants received from private foundations, corporate donations, regional, state and federal grants relating to the implementation of the plan will be used in addition to the member districts' transfers to finance the program. Any surplus is returned to member districts' at the end of the fiscal year; therefore, no material surplus or deficit exists or is anticipated. Independent School District No. 518-Worthington was named the fiscal agent for the Collaborative and the audited financial information appears as an agency fund in these financial statements.

The Collaborative is required to issue a separate audited financial statement detailing their revenues, expenditures and financial position.

14. RELATED PARTY TRANSACTIONS:

During the normal course of business, the District purchases goods and services from employees of the District and sells goods and services to employees of the District. The amounts of such transactions are not material to the financial statements.

15. COMMITMENTS AND CONTINGENCIES:

a. Grants and Aids-

The District receives significant financial assistance from numerous federal, state and local government agencies in the form of grants and aid. 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.

b. Legal Claims-

The District has the usual and customary types of miscellaneous legal claims pending at year end, mostly of a minor nature and usually covered by insurance carried for that purpose.

INDEPENDENT SCHOOL DISTRICT NO. 518
NOTES TO FINANCIAL STATEMENTS (CONTINUED)

15. COMMITMENTS AND CONTINGENCIES (Continued):

c. Construction-

Construction of the Learning Center Gymnastics Center continues with occupancy beginning in September 2019.

16. TAX ABATEMENTS:

The District has entered into tax abatement agreements which meet the criteria for disclosure under Governmental Accounting Standards Board Statement No. 77 Tax Abatement Disclosures. The District's authority to enter into these agreements comes from Minnesota Statute 469.1813 Subd.2.b.2 that limits the abatement amount to the amount of tax increase resulting from valuation increases. The District entered into these agreements for the purpose of economic development.

Under each agreement, the District and developer agree on an amount of the development cost to be reimbursed to the developer by the District through tax revenues levied as a result of the additional taxable value of the property generated by the development (tax abatement). A "pay-as-you-go" note is established for this amount, on which the District makes payments for a fixed period of time from the tax revenues generated.

One agreement coordinated by the City of Worthington was awarded by the City of Worthington on May 24, 2010 for a property located at 511 10th Street in compliance with the guidelines. The abatement of all combined governmental units is \$80,000 or 15 years, whichever occurs first. As of June 30, 2019, the District had rebated \$2,213 of which \$471 was paid during the fiscal year then ended.

The District has entered into a tax abatement agreement titled the Nobles Home Initiative (NHI), with the City of Worthington and Nobles County under Minnesota State Statute 469.1813 Subdivision 8. This program is intended to encourage the construction of new owner occupied and rental residential housing units. Eligible projects may receive up to 100% tax abatement of the District's share of increased real estate taxes resulting from the newly constructed housing unit, for a period of five years. During the fiscal year ended June 30, 2019, taxes were abated for twenty eligible properties within the District's corporate limits in the amount of \$8,432.

17. CHANGE IN ACCOUNTING PRINCIPLE:

For the year ended June 30, 2019, the District implemented GASB Statement No. 72, *Fair Value Measurement and Application*. Adoption had no effect on the financial statements.

For the year ended June 30, 2019, the District implemented GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. Adoption had no effect on the financial statements.

18. SUBSEQUENT EVENTS:

The District was named in an Equal Employment Opportunity Council (EEOC) lawsuit that was settled after June 30, 2019 for an amount of \$50,000.

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2019

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018)

	2019		2018	
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies-				
Current levy	\$ 3,124,922	\$ 3,133,403	\$ 8,481	\$ 3,128,824
Total local property tax levies	\$ 3,124,922	\$ 3,133,403	\$ 8,481	\$ 3,128,824
Other local and county revenues-				
County apportionment	\$ 21,000	\$ 25,300	\$ 4,300	\$ 20,738
Tuition and fees from patrons	161,500	169,410	7,910	178,120
Interest income	550,650	739,397	188,747	348,381
Litigation & insurance settlements	75,000	78,197	3,197	10,563
Other local revenue	590,100	573,888	(16,212)	584,621
Total other local and county revenues	\$ 1,398,250	\$ 1,586,192	\$ 187,942	\$ 1,142,423
Revenues from state sources-				
Endowment fund apportionment	\$ 137,623	\$ 145,180	\$ 7,557	\$ 124,761
Department of Education aids-				
General education aid	36,963,952	38,573,762	1,609,810	34,822,561
Special education	3,860,000	4,423,793	563,793	3,789,148
Vocational and other education	1,272,450	1,331,957	59,507	1,371,356
Other appropriations by the state for replacement of local taxes-				
Market value aid	18,577	18,578	1	21,992
Disparity reduction aid and other	26,300	26,299	(1)	32,777
State special funding for pensions	-	1,279,775	1,279,775	111,744
Total revenues from state sources	\$ 42,278,902	\$ 45,799,344	\$ 3,520,442	\$ 40,274,339
Revenues from federal sources-				
Federal aids through Minnesota				
Department of Education	\$ 927,418	\$ 930,965	\$ 3,547	\$ 652,724
Federal aids through SWWC cooperative	540,000	502,140	(37,860)	466,147
Total revenues from federal sources	\$ 1,467,418	\$ 1,433,105	\$ (34,313)	\$ 1,118,871
Sales and other conversion of assets-				
Sales of materials and supplies	\$ 1,200	\$ 19,532	\$ 18,332	\$ 26,025
Tuition revenue from other school districts	\$ 350,000	\$ 406,213	\$ 56,213	\$ 287,617
Total revenues	\$ 48,620,692	\$ 52,377,789	\$ 3,757,097	\$ 45,978,099

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2019

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018)

	2019			2018
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES:				
District and school administration-				
School board expenses-				
Per diem	\$ 32,400	\$ 34,695	\$ (2,295)	\$ 29,261
Employee benefits	8,379	7,077	1,302	7,614
Travel	6,400	7,317	(917)	4,172
Other	55,900	35,378	20,522	42,020
General administration-				
Superintendent salary	173,860	165,858	8,002	159,500
Administrative support salaries	43,500	42,779	721	41,784
Employee benefits	71,100	68,813	2,287	58,206
Travel and other	7,600	4,655	2,945	3,669
Building administration-				
Salaries	487,104	484,832	2,272	470,215
Employee benefits	173,249	170,934	2,315	167,001
Travel	1,950	573	1,377	146
Purchased services	82,700	27,609	55,091	57,639
Supplies and materials	32,400	6,109	26,291	16,051
Other	126,800	55,865	70,935	11,901
Capital outlay	3,068	2,338	730	2,456
Total district and school administration	\$ 1,306,410	\$ 1,114,832	\$ 191,578	\$ 1,071,635
District support services-				
District business services-				
Director of finance and personnel salary	\$ 87,800	\$ 89,925	\$ (2,125)	\$ 86,800
Administrative support salaries	172,700	164,356	8,344	199,905
Employee benefits	202,786	91,793	110,993	106,655
Travel	4,500	2,667	1,833	2,116
Purchased services	55,600	44,306	11,294	38,631
Supplies and materials	6,500	4,704	1,796	2,476
Other	12,500	22,104	(9,604)	2,485
Capital outlay	4,785	4,833	(48)	-

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2019

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018)

	2019		2018	
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
District support services (continued)-				
Other support services-				
Salaries	\$ 266,900	\$ 251,190	\$ 15,710	\$ 172,621
Employee benefits	85,565	82,057	3,508	55,040
Travel	1,600	1,408	192	352
Contracted services-				
Printing and publishing	38,550	41,244	(2,694)	80,105
Legal	30,000	13,849	16,151	17,909
Data processing	176,600	135,521	41,079	119,745
Other	6,850	6,899	(49)	4,131
Supplies and materials	11,000	8,897	2,103	2,532
Capital outlay	-	524	(524)	-
Total district support services	\$ 1,164,236	\$ 966,277	\$ 197,959	\$ 891,503
Regular instruction-				
Salaries-				
Secondary teachers	\$ 6,052,037	\$ 5,996,053	\$ 55,984	\$ 5,947,820
Elementary teachers	4,424,809	4,402,019	22,790	4,401,612
Kindergarten teachers	792,508	783,930	8,578	768,309
Education aides	1,161,914	1,016,329	145,585	1,068,446
Other	245,803	223,193	22,610	185,610
Employee benefits	3,931,235	3,715,484	215,751	3,585,482
Contracted Substitutes	465,500	330,345	135,155	-
Contracted Education	3,205,000	2,228,223	976,777	1,171,763
Travel	75,826	36,739	39,087	38,450
Tuition to other schools	8,000	30,571	(22,571)	42,266
Pupil transportation	82,250	94,971	(12,721)	66,385
Purchased services	460,560	409,752	50,808	151,737
General supplies and materials	149,425	113,801	35,624	116,719
Instructional software	111,225	97,417	13,808	77,829
Instructional supplies and materials	253,810	149,276	104,534	191,985
Textbooks	20,500	30,456	(9,956)	7,613
Other	587,201	954,224	(367,023)	329,623
Capital outlay	421,417	390,648	30,769	305,500

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2019

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018)

	2019		2018	
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Regular instruction (continued)-				
Student activities				
Salaries	\$ 539,202	\$ 528,491	\$ 10,711	\$ 497,356
Employee benefits	102,478	100,097	2,381	93,132
Purchased services	124,310	115,094	9,216	110,196
Travel	9,480	9,073	407	7,712
Utilities	8,000	5,797	2,203	6,989
Pupil transportation	139,800	121,738	18,062	133,393
General supplies and materials	65,075	63,670	1,405	59,167
Equipment purchased	10,400	8,747	1,653	9,722
Other	3,920	2,185	1,735	2,483
Capital outlay	59,870	92,414	(32,544)	65,317
Total regular instruction	<u>\$ 23,511,555</u>	<u>\$ 22,050,737</u>	<u>\$ 1,460,818</u>	<u>\$ 19,442,616</u>
Vocational instruction-				
Salaries	\$ 362,581	\$ 367,416	\$ (4,835)	\$ 347,235
Employee benefits	109,454	109,530	(76)	101,937
Travel	1,700	792	908	910
Purchased services	800	250	550	1,325
Pupil transportation	7,800	12,316	(4,516)	10,755
General supplies and materials	1,400	826	574	966
Instructional supplies and materials	20,350	23,083	(2,733)	20,782
Other	-	26,445	(26,445)	4,051
Capital outlay	5,443	3,773	1,670	13,100
Total vocational instruction	<u>\$ 509,528</u>	<u>\$ 544,431</u>	<u>\$ (34,903)</u>	<u>\$ 501,061</u>
Exceptional instruction-				
Salaries-				
Teachers	\$ 2,972,307	\$ 2,956,540	\$ 15,767	\$ 2,813,816
Psychologists	149,358	149,472	(114)	154,808
Aides	1,743,089	1,557,535	185,554	1,576,830
Office	170,747	152,708	18,039	146,631
Employee benefits	1,553,557	1,496,153	57,404	1,391,511
Travel	30,650	22,929	7,721	22,559
Professional services	171,600	170,036	1,564	62,387

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2019

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018)

	2019		Variance with Final Budget	2018
	Final Budget	Actual		Actual
EXPENDITURES (Continued):				
Exceptional instruction (continued)-				
Tuition to other schools	\$ 301,420	\$ 279,449	\$ 21,971	\$ 84,524
Other purchased services	37,050	15,402	21,648	32,025
General supplies and materials	34,060	34,963	(903)	32,658
Instructional supplies and materials	66,650	44,418	22,232	6,907
Other	126,280	355,139	(228,859)	72,797
Total exceptional instruction	<u>\$ 7,356,768</u>	<u>\$ 7,234,744</u>	<u>\$ 122,024</u>	<u>\$ 6,397,453</u>
Community education and services-				
Salaries	\$ 54,900	\$ 49,039	\$ 5,861	\$ -
Employee benefits	17,645	12,922	4,723	-
Pupil transportation	16,800	24,698	(7,898)	-
General supplies and materials	1,336	1,885	(549)	-
Instructional supplies and materials	2,670	162	2,508	-
Other	1,335	379	956	-
Total community education and service	<u>\$ 94,686</u>	<u>\$ 89,085</u>	<u>\$ 5,601</u>	<u>\$ -</u>
Instructional support services-				
Salaries-				
Assistant principal	\$ 333,199	\$ 334,449	\$ (1,250)	\$ 322,579
Media	264,173	243,946	20,227	262,710
Technology	253,000	233,807	19,193	225,780
Curriculum development	289,453	254,480	34,973	154,382
Staff development	138,496	131,294	7,202	174,581
Secretarial and other	497,900	491,880	6,020	471,427
Employee benefits	560,414	542,521	17,893	518,636
Travel	55,543	50,270	5,273	40,108
Professional services	46,615	23,777	22,838	30,167
Other purchased services	140,540	112,525	28,015	93,761
General supplies and materials	109,440	92,727	16,713	102,824
Instructional supplies and materials	15,700	13,235	2,465	6,830
Other	132,725	154,555	(21,830)	144,754
Capital outlay	29,300	30,398	(1,098)	200,516
Total instructional support services	<u>\$ 2,866,498</u>	<u>\$ 2,709,864</u>	<u>\$ 156,634</u>	<u>\$ 2,749,055</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2019

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018)

	2019			2018
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Pupil support services				
Guidance and counseling-				
Salaries	\$ 408,610	\$ 402,107	\$ 6,503	\$ 390,518
Employee benefits	122,762	122,410	352	115,967
Supplies and materials	5,273	1,538	3,735	1,964
Health services-				
Salaries	33,200	28,887	4,313	31,873
Employee benefits	5,265	4,585	680	11,083
Travel	200	570	(370)	71
Purchased services	147,050	122,828	24,222	129,944
General supplies and materials	3,900	3,311	589	2,960
Capital outlay	-	-	-	399
Social & Psychological services-				
Salaries	104,022	103,983	39	92,454
Employee benefits	33,860	2,790	31,070	29,482
Violence prevention-				
Salaries	40,000	36,046	3,954	37,569
Employee benefits	9,960	10,016	(56)	9,875
Purchased services	53,000	47,543	5,457	46,573
Supplies and materials	5,855	4,336	1,519	7,728
Transportation-				
Salaries	235,552	224,785	10,767	188,442
Employee benefits	83,391	76,101	7,290	60,413
Supplies and materials	1,000	490	510	179
Contracted services and public carriers	1,629,065	1,343,892	285,173	1,471,529
Other	34,660	75,569	(40,909)	28,066
Nobles County integration collaborative	974,892	855,990	118,902	887,588
Other support services-				
Supplies and materials	5,500	4,392	1,108	4,219
Other	-	977	(977)	-
Total pupil support services	<u>\$ 3,937,017</u>	<u>\$ 3,473,146</u>	<u>\$ 463,871</u>	<u>\$ 3,548,896</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2019

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018)

	2019		2018	
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Site, buildings and equipment-				
Plant operations and maintenance-				
Salaries	\$ 1,010,133	\$ 933,742	\$ 76,391	\$ 901,778
Employee benefits	267,912	254,095	13,817	237,139
Travel	700	-	700	229
Repairs and maintenance service	318,370	188,438	129,932	316,909
Fuel for buildings	213,500	195,160	18,340	151,692
Utilities, except for fuel for buildings	715,500	584,846	130,654	619,570
Custodial supplies and materials	206,500	208,965	(2,465)	187,461
Other	159,550	76,281	83,269	5,099
Capital outlay-				
Operating capital	100,422	129,057	(28,635)	255,062
Long-term facility maintenance	488,579	515,390	(26,811)	356,773
Projects using committed or unrestricted funds	798,000	742,300	55,700	753,844
Total site, buildings and equipment	\$ 4,279,166	\$ 3,828,274	\$ 450,892	\$ 3,785,556
Fiscal and other fixed cost programs-				
Fixed charges-				
Insurance and judgments	\$ 135,000	\$ 131,299	\$ 3,701	\$ 106,594
Debt redemption-				
Certificate of participation principal	2,520,000	2,520,000	-	280,000
Certificate of participation interest	480,710	480,710	-	265,603
Certificate of participation other expense	5,700	3,900	1,800	2,200
Tax Court refund	1,815	1,813	2	-
Total fiscal and other fixed cost programs	\$ 3,143,225	\$ 3,137,722	\$ 5,503	\$ 654,397
Total expenditures	\$ 48,169,089	\$ 45,149,112	\$ 3,019,977	\$ 39,042,172
Excess (deficit) of revenues over expenditures	\$ 451,603	\$ 7,228,677	\$ 6,777,074	\$ 6,935,927

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2019

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018)

	<u>2019</u>			<u>2018</u>
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
OTHER FINANCING SOURCES (USES):				
Other financing sources				
Sale of capital assets	\$ -	\$ -	\$ -	\$ 170,293
Capital lease proceeds	-	-	-	164,681
Total other financing sources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 334,974</u>
Other financing uses				
Transfer to debt service fund	<u>\$ (430,000)</u>	<u>\$ (430,000)</u>	<u>\$ -</u>	<u>\$ -</u>
Total other financing sources (uses)	<u>\$ (430,000)</u>	<u>\$ (430,000)</u>	<u>\$ -</u>	<u>\$ 334,974</u>
Net change in fund balances	<u>\$ 21,603</u>	<u>\$ 6,798,677</u>	<u>\$ 6,777,074</u>	<u>\$ 7,270,901</u>
FUND BALANCE, Beginning of year		<u>27,677,294</u>		<u>20,406,393</u>
FUND BALANCE, End of year		<u>\$ 34,475,971</u>		<u>\$ 27,677,294</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEBUDGET AND ACTUALFOOD SERVICE SPECIAL REVENUE FUNDFOR THE YEAR ENDED JUNE 30, 2019(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018)

	2019			2018
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local sales and other revenues-				
Meals sold	\$ 458,000	\$ 417,691	\$ (40,309)	\$ 438,507
Other local revenues	12,000	17,936	5,936	9,511
Total local sales and other revenues	<u>\$ 470,000</u>	<u>\$ 435,627</u>	<u>\$ (34,373)</u>	<u>\$ 448,018</u>
State sources-				
State lunch and breakfast program aid	\$ 133,700	\$ 119,378	\$ (14,322)	\$ 133,741
Total state sources	<u>\$ 133,700</u>	<u>\$ 119,378</u>	<u>\$ (14,322)</u>	<u>\$ 133,741</u>
Federal sources-				
Regular lunch and breakfast	\$ 670,000	\$ 645,751	\$ (24,249)	\$ 687,885
Free and reduced	935,000	957,879	22,879	928,610
Summer food program	90,000	80,085	(9,915)	93,966
Commodity rebates	1,400	1,763	363	2,565
Commodities used	180,000	102,040	(77,960)	155,718
Total federal sources	<u>\$ 1,876,400</u>	<u>\$ 1,787,518</u>	<u>\$ (88,882)</u>	<u>\$ 1,868,744</u>
Total revenues	<u>\$ 2,480,100</u>	<u>\$ 2,342,523</u>	<u>\$ (137,577)</u>	<u>\$ 2,450,503</u>
EXPENDITURES:				
Pupil support services-				
Salaries	\$ 847,640	\$ 799,699	\$ 47,941	\$ 776,532
Employee benefits	316,526	296,092	20,434	246,780
Repairs and maintenance	46,425	51,334	(4,909)	20,230
Utilities	5,500	-	5,500	1,600
Other purchased services	71,500	64,990	6,510	64,566
General supplies and materials	60,050	60,991	(941)	53,193
Food	1,204,575	1,030,358	174,217	1,119,669
Equipment purchased	111,462	-	111,462	46,191
Other	9,710	9,823	(113)	1,531
Total pupil support services	<u>\$ 2,673,388</u>	<u>\$ 2,313,287</u>	<u>\$ 360,101</u>	<u>\$ 2,330,292</u>
Total expenditures	<u>\$ 2,673,388</u>	<u>\$ 2,313,287</u>	<u>\$ 360,101</u>	<u>\$ 2,330,292</u>
Net change in fund balances	<u>\$ (193,288)</u>	<u>\$ 29,236</u>	<u>\$ 222,524</u>	<u>\$ 120,211</u>
FUND BALANCE, Beginning of year		949,156		828,945
FUND BALANCE, End of year		<u>\$ 978,392</u>		<u>\$ 949,156</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

COMMUNITY SERVICES SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2019

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018)

	2019		Variance with Final Budget	2018
	Final Budget	Actual		Actual
REVENUES:				
Local property tax levies-				
Current levy	\$ 181,007	\$ 181,896	\$ 889	\$ 174,888
Total local property tax levies	\$ 181,007	\$ 181,896	\$ 889	\$ 174,888
Other local and county revenues-				
Tuition and fees from patrons	\$ 245,511	\$ 234,648	\$ (10,863)	\$ 225,206
Other local revenues	88,795	139,596	50,801	102,802
Total other local and county revenues	\$ 334,306	\$ 374,244	\$ 39,938	\$ 328,008
Revenues from state sources-				
State aids from Department of Education-				
Vocational and other education	\$ 1,233,314	\$ 1,240,751	\$ 7,437	\$ 1,177,830
Other appropriations by the state for replacement of local taxes-				
Disparity and other	7,075	7,046	(29)	7,536
State special funding for pensions	-	52,108	52,108	4,418
Total revenues from state sources	\$ 1,240,389	\$ 1,299,905	\$ 59,516	\$ 1,189,784
Revenues from federal sources-				
Federal aids through Minnesota Department of Education	\$ 54,361	\$ 62,218	\$ 7,857	\$ 62,214
Total revenues from federal sources	\$ 54,361	\$ 62,218	\$ 7,857	\$ 62,214
Sales and other conversion of assets-				
Sales of materials and supplies	\$ -	\$ 21	\$ 21	\$ 145
Total revenues	\$ 1,810,063	\$ 1,918,284	\$ 108,221	\$ 1,755,039

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

COMMUNITY SERVICES SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2019

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018)

	<u>2019</u>		<u>2018</u>	
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
EXPENDITURES:				
Community education and services-				
Civic activities and general	\$ 186,722	\$ 252,766	\$ (66,044)	\$ 174,073
Early Childhood Family Education	244,835	217,007	27,828	225,383
Pathways Early Learning	160,117	161,617	(1,500)	139,118
School readiness	197,894	133,623	64,271	198,429
Preschool screening	19,200	16,006	3,194	16,745
Parent involvement	37,670	33,392	4,278	34,961
Youth programs	36,711	39,381	(2,670)	53,388
Adult education programs	898,163	907,763	(9,600)	959,972
Non-public school assistance-				
Textbooks and standardized tests	<u>12,259</u>	<u>12,172</u>	<u>87</u>	<u>350</u>
Total community education and services	<u>\$ 1,793,571</u>	<u>\$ 1,773,727</u>	<u>\$ 19,844</u>	<u>\$ 1,802,419</u>
Pupil support services-				
Non-public school health services-				
Salaries	\$ 10,512	\$ -	\$ 10,512	\$ 1,329
Employee benefits	-	-	-	26,168
Other	<u>5,177</u>	<u>13,901</u>	<u>(8,724)</u>	<u>69</u>
Total pupil support services	<u>\$ 15,689</u>	<u>\$ 13,901</u>	<u>\$ 1,788</u>	<u>\$ 27,566</u>
Total expenditures	<u>\$ 1,809,260</u>	<u>\$ 1,787,628</u>	<u>\$ 21,632</u>	<u>\$ 1,829,985</u>
Net change in fund balances	<u>\$ 803</u>	<u>\$ 130,656</u>	<u>\$ 129,853</u>	<u>\$ (74,946)</u>
FUND BALANCE, Beginning of year				
		<u>302,313</u>		<u>377,259</u>
FUND BALANCE, End of year				
		<u>\$ 432,969</u>		<u>\$ 302,313</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

CAPITAL PROJECTS FUND

FOR THE YEAR ENDED JUNE 30, 2019

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018)

	<u>2019</u>		<u>2018</u>
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
			<u>Actual</u>
REVENUES:			
Other local and county revenues-			
Interest income	\$ <u>90,000</u>	\$ <u>113,816</u>	\$ <u>23,816</u>
Total revenues	\$ <u>90,000</u>	\$ <u>113,816</u>	\$ <u>23,816</u>
EXPENDITURES:			
Site, buildings and equipment-			
Buildings	\$ <u>8,155,000</u>	\$ <u>7,639,598</u>	\$ <u>515,402</u>
Total site, buildings and equipment	\$ <u>8,155,000</u>	\$ <u>7,639,598</u>	\$ <u>515,402</u>
Total expenditures	\$ <u>8,155,000</u>	\$ <u>7,639,598</u>	\$ <u>515,402</u>
Excess (deficit) of revenues over expenditures	\$ <u>(8,065,000)</u>	\$ <u>(7,525,782)</u>	\$ <u>539,218</u>
OTHER FINANCING SOURCES (USES):			
Sale of certificates of participation	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Net change in fund balances	\$ <u>(8,065,000)</u>	\$ <u>(7,525,782)</u>	\$ <u>539,218</u>
FUND BALANCE, Beginning of year		<u>9,853,139</u>	<u>-</u>
FUND BALANCE, End of year		<u>\$ 2,327,357</u>	<u>\$ 9,853,139</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

DEBT SERVICE FUND

FOR THE YEAR ENDED JUNE 30, 2019

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018)

	2019		Variance with Final Budget	2018
	Final Budget	Actual		Actual
REVENUES:				
Local property tax levies	\$ 1,531,609	\$ 1,530,648	\$ (961)	\$ 1,411,060
Other local and county revenues-				
Interest income	\$ 60,000	\$ 73,421	\$ 13,421	\$ 63,431
Revenues from state sources-				
Department of Education aids-				
Long term facility maintenance aid	\$ 242,576	\$ 243,067	\$ 491	\$ 40,439
Other appropriations by the state for replacement of local taxes-				
School Building Bond Ag Credit	376,451	376,451	-	-
Homestead and agricultural credit aid	30,218	30,218	-	24,101
Disparity and other	42,778	42,778	-	35,921
Total revenues from state sources	\$ 692,023	\$ 692,514	\$ 491	\$ 100,461
Total revenues	\$ 2,283,632	\$ 2,296,583	\$ 12,951	\$ 1,574,952
EXPENDITURES:				
Debt redemption-				
Principal payment on bonds	\$ 7,270,000	\$ 7,270,000	\$ -	\$ 1,580,000
Interest expense	549,113	549,112	1	584,925
Other expense	2,450	2,450	-	2,200
Total debt redemption	\$ 7,821,563	\$ 7,821,562	\$ 1	\$ 2,167,125
Total expenditures	\$ 7,821,563	\$ 7,821,562	\$ 1	\$ 2,167,125
Excess (deficit) of revenues over expenditures	\$ (5,537,931)	\$ (5,524,979)	\$ 12,952	\$ (592,173)
OTHER FINANCING SOURCES (USES):				
Transfer from general fund	\$ 430,000	\$ 430,000	\$ -	\$ -
Total other financing sources (uses)	\$ 430,000	\$ 430,000	\$ -	\$ -
Net change in fund balances	\$ (5,107,931)	\$ (5,094,979)	\$ 12,952	\$ (592,173)
FUND BALANCE, Beginning of year		5,462,032		6,054,205
FUND BALANCE, End of year		\$ 367,053		\$ 5,462,032

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF FIDUCIARY NET POSITION

TRUST AND AGENCY FUNDS

JUNE 30, 2019

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2018)

	<u>Trust Fund</u>	<u>Agency Funds</u>	<u>Totals</u>	
	<u>Private Purpose</u>	<u>Interdistrict</u>		
	<u>Trust Fund</u>	<u>Integration</u>	<u>2019</u>	<u>2018</u>
ASSETS:				
Cash and investments	\$ 358,702	\$ 158,042	\$ 516,744	\$ 345,580
Accounts receivable	-	714	714	651
Due from school districts and governmental units	-	-	-	31,939
Prepaid items	<u>1,750</u>	<u>-</u>	<u>1,750</u>	<u>-</u>
Total assets	<u>\$ 360,452</u>	<u>\$ 158,756</u>	<u>\$ 519,208</u>	<u>\$ 378,170</u>
LIABILITIES:				
Salaries payable	\$ -	\$ 58,658	\$ 58,658	\$ 61,832
Accounts payable	361	5,914	6,275	2,472
Due to other school districts and governmental units	-	93,584	93,584	6,266
Unearned revenue	<u>-</u>	<u>600</u>	<u>600</u>	<u>-</u>
Total liabilities	<u>\$ 361</u>	<u>\$ 158,756</u>	<u>\$ 159,117</u>	<u>\$ 70,570</u>
NET POSITION:				
Held in trust	<u>360,091</u>	<u>-</u>	<u>360,091</u>	<u>307,600</u>
Total liabilities and net position	<u>\$ 360,452</u>	<u>\$ 158,756</u>	<u>\$ 519,208</u>	<u>\$ 378,170</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF CHANGES IN FIDUCIARY NET POSITION

BUDGET AND ACTUAL

TRUST FUND

FOR THE YEAR ENDED JUNE 30, 2019

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018)

	2019		2018	
	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>	<u>Actual</u>
ADDITIONS:				
Other local and county revenues-				
Interest income	\$ 4,300	\$ 4,710	\$ 410	\$ 2,367
Other local revenues	<u>88,500</u>	<u>86,225</u>	<u>(2,275)</u>	<u>28,215</u>
Total other local and county revenues	<u>\$ 92,800</u>	<u>\$ 90,935</u>	<u>\$ (1,865)</u>	<u>\$ 30,582</u>
Total revenues	<u>\$ 92,800</u>	<u>\$ 90,935</u>	<u>\$ (1,865)</u>	<u>\$ 30,582</u>
DEDUCTIONS:				
Other pupil support	<u>\$ 50,000</u>	<u>\$ 38,444</u>	<u>\$ 11,556</u>	<u>\$ 46,022</u>
Total expenditures	<u>\$ 50,000</u>	<u>\$ 38,444</u>	<u>\$ 11,556</u>	<u>\$ 46,022</u>
Change in net position	<u>\$ 42,800</u>	<u>\$ 52,491</u>	<u>\$ 9,691</u>	<u>\$ (15,440)</u>
NET POSITION, Beginning of year		<u>307,600</u>		<u>323,040</u>
NET POSITION, End of year		<u>\$ 360,091</u>		<u>\$ 307,600</u>

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2019

	<u>Balance</u> <u>June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2019</u>
INTERDISTRICT INTEGRATION:				
Assets-				
Cash	\$ 36,507	\$ 1,291,769	\$ 1,170,234	\$ 158,042
Accounts receivable	651	714	651	714
Due from governmental units	<u>31,939</u>	<u>-</u>	<u>31,939</u>	<u>-</u>
Total assets	<u>\$ 69,097</u>	<u>\$ 1,292,483</u>	<u>\$ 1,202,824</u>	<u>\$ 158,756</u>
Liabilities-				
Salaries and employee benefits payable	\$ 61,832	\$ 58,658	\$ 61,832	\$ 58,658
Accounts payable	999	295,682	290,767	5,914
Due to other school districts and governmental units	6,266	93,584	6,266	93,584
Unearned revenue	<u>-</u>	<u>600</u>	<u>-</u>	<u>600</u>
Total liabilities	<u>\$ 69,097</u>	<u>\$ 448,524</u>	<u>\$ 358,865</u>	<u>\$ 158,756</u>

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULES OF CHANGES IN CAPITAL ASSETS
FOR THE YEAR ENDED JUNE 30, 2019

	Balance June 30, 2018	Additions	Transfers	Retirements	Balance June 30, 2019
CAPITAL ASSETS:					
Land	\$ 3,504,003	\$ -	\$ -	\$ -	\$ 3,504,003
Land improvements	3,713,763	-	-	-	3,713,763
Buildings	43,207,517	94,392	-	-	43,301,909
Equipment	12,365,117	698,919	-	(1,530,290)	11,533,746
Vehicles	415,260	-	-	-	415,260
Construction in progress	1,621,172	8,205,583	-	-	9,826,755
Total capital assets	<u>\$ 64,826,832</u>	<u>\$ 8,998,894</u>	<u>\$ -</u>	<u>\$ (1,530,290)</u>	<u>\$ 72,295,436</u>
CAPITAL ASSETS BY SOURCE:					
General and special revenue funds	\$ 26,371,251	\$ 1,359,296	\$ -	\$ (1,530,290)	\$ 26,200,257
General obligation bonds	36,330,306	-	-	-	36,330,306
Capital leases	1,413,159	7,639,598	-	-	9,052,757
Federal grants	712,116	-	-	-	712,116
Total capital assets by source	<u>\$ 64,826,832</u>	<u>\$ 8,998,894</u>	<u>\$ -</u>	<u>\$ (1,530,290)</u>	<u>\$ 72,295,436</u>
CAPITAL ASSETS BY FUNCTION AND ACTIVITY:					
Administration	\$ 264,393	\$ 36,616	\$ -	\$ (1,691)	\$ 299,318
Instruction	8,834,113	456,032	(11,667)	(1,464,145)	7,814,333
Instructional support services	1,138,397	67,259	11,165	(51,506)	1,165,315
Pupil support services	492,684	-	-	(938)	491,746
Food service	621,873	29,513	-	-	651,386
Community education and services	184,508	3,970	-	(10,489)	177,989
Site, buildings and equipment	53,290,864	8,405,504	502	(1,521)	61,695,349
Total capital assets by function and activity	<u>\$ 64,826,832</u>	<u>\$ 8,998,894</u>	<u>\$ -</u>	<u>\$ (1,530,290)</u>	<u>\$ 72,295,436</u>

INDEPENDENT SCHOOL DISTRICT NO. 518
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS FOR
OTHER POSTEMPLOYMENT BENEFITS PLAN

JUNE 30, 2019, 2018, 2017, 2016, 2015, 2014, 2013, 2012, 2011, AND 2010

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
06/30/2010	\$ -	\$ 644,836	\$ (644,836)	0.0%	\$ 12,074,815	5.3%
06/30/2011	\$ -	\$ 529,053	\$ (529,053)	0.0%	\$ 12,955,001	4.1%
06/30/2012	\$ -	\$ 529,053	\$ (529,053)	0.0%	\$ 13,762,583	3.8%
06/30/2013	\$ -	\$ 750,522	\$ (750,522)	0.0%	\$ 14,144,577	5.3%
06/30/2014	\$ -	\$ 750,522	\$ (750,522)	0.0%	\$ 14,882,409	5.0%
06/30/2015	\$ -	\$ 818,958	\$ (818,958)	0.0%	\$ 16,785,140	4.9%
06/30/2016	\$ -	\$ 818,958	\$ (818,958)	0.0%	\$ 17,815,124	4.6%
06/30/2017	\$ -	\$ 1,039,901	\$(1,039,901)	0.0%	\$ 20,189,269	5.2%
06/30/2018	\$ -	\$ 956,941	\$ (956,941)	0.0%	\$ 21,196,900	4.5%
06/30/2019	\$ -	\$ 986,795	\$ (986,795)	0.0%	\$ 23,627,036	4.2%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2010	\$ -	0.00%
2011	-	0.00%
2012	-	0.00%
2013	-	0.00%
2014	-	0.00%
2015	-	0.00%
2016	-	0.00%
2017	-	0.00%
2018	-	0.00%
2019	-	0.00%

INDEPENDENT SCHOOL DISTRICT NO. 518
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
AND EMPLOYER CONTRIBUTIONS

Schedule of Proportionate Share of Net Pension Liability

Actuarial Valuation Date June 30,	Plan	Employer's	Employer's	Employer's Covered- Employee Payroll (b)	Employer's	Plan
		Proportion (Percentage) of the Net Pension Liability (Asset)	Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)		Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll (a/b)	Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	TRA	0.3033%	\$ 13,975,846	\$ 14,002,116	99.81%	81.50%
	PERA	0.0998%	4,688,104	5,266,617	89.02%	78.70%
2015	TRA	0.2885%	\$ 17,846,578	\$ 15,031,466	118.73%	76.80%
	PERA	0.0949%	4,918,211	5,716,654	86.03%	78.20%
2016	TRA	0.2983%	\$ 71,151,667	\$ 15,874,765	448.21%	44.88%
	PERA	0.0954%	7,746,007	6,082,483	127.35%	68.90%
2017	TRA	0.3077%	\$ 61,422,502	\$ 16,563,453	370.83%	51.57%
	PERA	0.0992%	6,332,863	6,920,561	91.51%	75.90%
2018	TRA	0.3132%	\$ 19,671,892	\$ 17,306,040	113.67%	78.07%
	PERA	0.0990%	5,492,114	6,639,046	82.72%	79.53%

Schedule of Employer Contributions

Fiscal Year Ending June 30,	Plan	Statutorily	Contributions in	Contribution Deficiency (Excess) (a-b)	Covered- Employee Payroll (d)	Contributions as a
		Required Contribution (a)	Relation to the Statutorily Required Contribution (b)			Percentage of Covered- Employee Payroll (b/d)
2015	TRA	\$ 1,112,088	\$ 1,112,088	\$ -	\$ 15,031,466	7.40%
	PERA	415,104	415,104	-	5,716,654	7.26%
2016	TRA	\$ 1,176,217	\$ 1,176,217	\$ -	\$ 15,874,765	7.41%
	PERA	447,914	447,914	-	6,082,483	7.36%
2017	TRA	\$ 1,251,475	\$ 1,251,475	\$ -	\$ 16,686,333	7.50%
	PERA	479,931	479,931	-	6,540,992	7.34%
2018	TRA	\$ 1,310,538	\$ 1,310,538	\$ -	\$ 17,473,840	7.50%
	PERA	503,541	503,541	-	6,920,561	7.28%
2019	TRA	\$ 1,308,540	\$ 1,308,540	\$ -	\$ 17,306,040	7.56%
	PERA	512,016	512,016	-	6,920,561	7.40%

INDEPENDENT SCHOOL DISTRICT NO. 518
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF CHANGES IN THE TOTAL OPEB LIABILITY
FOR PENSION PLANS NOT ADMINISTERED THROUGH A TRUST

	<u>2019</u>
TOTAL OPEB LIABILITY	
Service Cost	\$ 72,217
Interest	38,808
Differences between expected and actual experience	(46,045)
Changes in assumption or other inputs	18,123
Benefit payments	<u>(53,249)</u>
Net change in total OPEB liability	\$ 29,854
Total OPEB Liability-beginning	<u>956,941</u>
Total OPEB Liability-ending	<u>\$ 986,795</u>
Covered-employee payroll	\$ 23,627,036
Total OPEB liability as a percentage of covered-employee payroll	4.2%

DREALAN KVILHAUG HOEFKER & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS



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AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
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VICKIE L. KUIPERS, EA
CINDY M. PENNING, CPA

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

To the Members of the School Board
Independent School District No. 518
Worthington, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 518 (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 4, 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. The finding is indicated as item 2019-001.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2019-001.

District's Response to Findings

Independent School District No. 518's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

This report is intended solely for the information and use of the School Board, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

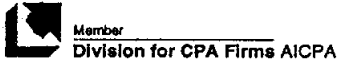
Dreelan Kvilhaug Hoffke & Co., P.A.

Worthington, Minnesota
November 4, 2019

DREALAN KVILHAUG HOEFKER & Co., P.A.

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

To the Members of the School Board
Independent School District No. 518
Worthington, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 518's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items, 2019-001. Our opinion on each major federal program is not modified with respect to these matters.

The District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

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

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Dreelan Kvilhaug Hoffka & Co., P.A.

Worthington, Minnesota
November 4, 2019

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture:		
Pass-through program from Minnesota Department of Education-		
Nutrition Cluster:		
School Breakfast	10.553	\$ 381,222
School Lunch	10.555	1,127,497
After School Snack	10.555	17,603
Commodities Distribution (Note B)	10.555	102,040
Special Milk Program	10.556	587
Summer Food Service program	10.559	<u>80,085</u>
Total Nutrition Cluster		<u>\$ 1,709,034</u>
Fresh Fruits and Vegetables	10.582	\$ 76,632
Commodity Cash Rebate Program	10.S6209	<u>1,763</u>
Total U.S. Department of Agriculture		<u>\$ 1,787,429</u>
U.S. Department of Education:		
Pass-through programs from Minnesota Department of Education-		
Adult Basic Education	84.002	\$ <u>41,362</u>
English Language Acquisition Includes FIN 417,442,433)	84.365	\$ <u>195,118</u>
Teacher and Principal Training and Recruiting	84.367*	\$ <u>176,435</u>
Minnesota Emergency Impact Aid	84.938	\$ <u>4,950</u>
Special Education Cluster:		
Special Education	84.027*	\$ 412,156
Special Education Coordinated Early Intervening Services	84.027*	83,613
Special Education Preschool Grants	84.173*	<u>6,371</u>
Total Special Education Cluster		<u>\$ 502,140</u>
Title I:		
Title I Grants to LEA's	84.010	\$ <u>554,463</u>
Total Title I		<u>\$ 554,463</u>
Total U.S. Department of Education		<u>\$ 1,474,468</u>
U.S. Department of Health & Human Services:		
Pass-through programs from Minnesota Department of Health & Human Services-		
Refugee Social Services ABE	93.566	\$ <u>4,062</u>
Total U.S. Department of Health & Human Services		<u>\$ 4,062</u>
Total expenditures of Federal Awards		<u>\$ 3,265,959</u>

*Denotes major program

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

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A-BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the Independent School District No. 518 under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Independent School District No. 518, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Independent School District No. 518.

NOTE B-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Independent School District No. 518 has elected to not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C-OTHER UNIFORM GUIDANCE INFORMATION:

For the year ended June 30, 2019, Independent School District No. 518 had no expenditures in the form of no sub-recipients, no federally provided insurance in effect, and no loans or loan guarantees outstanding.

NOTE D-COMMODITY DISTRIBUTION:

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

NOTE E-PROGRAM NUMBERS

The individual grant identification numbers assigned by the pass-through agencies are unknown.

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

A. SUMMARY OF AUDIT RESULTS:

1. The auditor's report expresses an unmodified opinion on the financial statements of Independent School District No. 518.
2. Significant deficiencies relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.
3. There were no instances of noncompliance material to the financial statements of Independent School District No. 518, which would be required to be reported in accordance with *Government Auditing Standards*, that were disclosed during the audit.
4. Significant deficiencies relating to the audit of the major federal awards programs are reported in the Schedule of Findings and Questioned Costs.
5. The auditor's report on compliance for the major federal award programs for Independent School District No. 518 expresses an unmodified opinion on all major federal programs.
6. Audit findings relative to the major federal award programs for Independent School District No. 518 are reported in Part C of this Schedule.
7. The programs tested as major programs include:

Title II	CFDA No. 84.367
Special Education Cluster-	
Special Education	CFDA No. 84.027
Coordinated Early Intervening Services	CFDA No. 84.027
Preschool Grants	CFDA No. 84.173
8. The threshold for distinguishing Type A and B programs was \$750,000.
9. Independent School District No. 518 was determined to be a low-risk auditee.

INDEPENDENT SCHOOL DISTRICT NO. 518
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2019

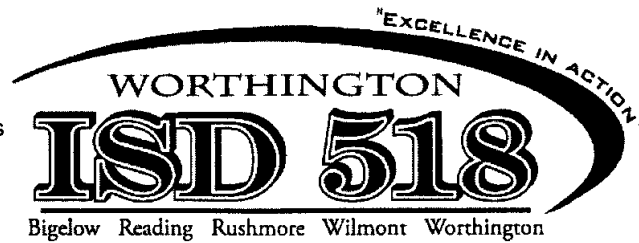
B. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS:

None

C. FINDINGS AND QUESTIONED COSTS – Relating to Federal Awards:

2019-001. Special Education Cluster, CFDA No.'s 84.027

Condition:	One invoice was found that lacked proper administrator approval.
Criteria:	Internal controls should be in place that provide reasonable assurance that authorization is obtained from management prior to payment processing.
Effect:	As a result of the lack of authorization expenditures were paid prior to management review and authorization.
Cause:	It is suspected that this invoice was attached to the one in front of it.
Recommendation:	To ensure all invoices are authorized, during processing of multiple invoices from the same vendor, care needs to be taken to ensure each invoice are authorized.



Corrective Action Plan for the findings and questioned costs for the audit of the period ended June 30, 2019.

A Deficiency for the Financial Statement Audit and questioned costs for major federal program awards audit was noted on page 96. Single Audit 2019-001

The programs identified for this finding were:

Department of Education:

Special Education Cluster, CFDA No. 84.027

- Condition:** One invoice was found that lacked proper administrator approval.
- Criteria:** Internal controls should be in place that provide reasonable assurance that authorization is obtained from management prior to payment processing.
- Effect:** As a result of the lack of authorization expenditures were paid prior to management review and authorization.
- Cause:** It is suspected that this invoice was attached to the one in front of it in a group of invoices from the same vendor.
- Recommendation:** To ensure all invoices are authorized, during processing of multiple invoices from the same vendor, care needs to be taken to ensure each invoice is authorized.

District corrective action plan (CAP):

The District has no disagreement with this finding.

The District's board of directors will periodically monitor the duties of the financial department.

John Landgaard, Superintendent is the official ensuring this corrective action plan is implemented with a completion date of June 30, 2020.

The completion of this plan will be monitored by the Superintendent and Board of Directors.

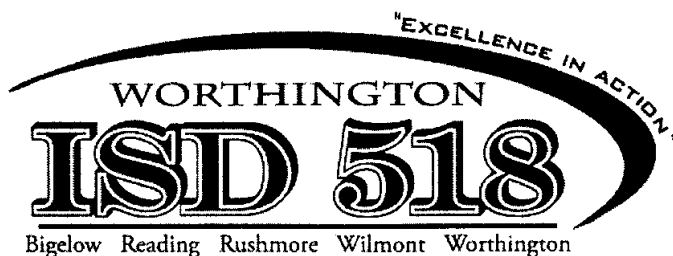
INDEPENDENT SCHOOL DISTRICT NO. 518
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

A. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS:

- 2018-1. Condition: The District has a lack of segregation of duties in the financial department.
- Criteria: Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.
- Effect: As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.
- Cause: The District has limited personnel available to perform accounting duties.
- Recommendation: This is not unusual in a District of this size. The Board should be aware of this condition and periodically monitor duties.

B. FINDINGS AND QUESTIONED COSTS -- Relating to Federal Awards

- 2018-001. Title I, CFDA No. 84.010, 84.398
Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559
Special Education Cluster, CFDA No.'s 84.027 and 84.173
- Condition: The District has limited personnel available to perform accounting duties.
- Criteria: Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.
- Effect: As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.
- Cause: The District has limited personnel available to perform accounting duties.
- Recommendation: This is not unusual in a Districts of this size. The Board should be aware of this condition and periodically monitor duties.



Corrective Action Plan for the findings and questioned costs for the audit of the period ended June 30, 2018.

A Finding related to the Financial Statements reported in accordance with Government Accounting Standards was noted on page 98 2018-1

- Condition: The District has a lack of segregation of duties in the financial department.
- Criteria: Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.
- Effect: As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.
- Cause: The District has limited personnel available to perform accounting duties.
- Recommendation: This is not unusual in a District of this size. The Board should be aware of this condition and periodically monitor duties.

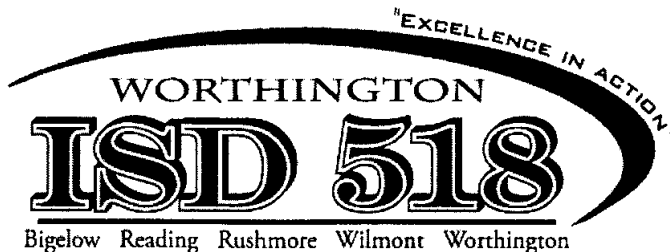
District corrective action plan (CAP):

The District has no disagreement with this finding.

The District's board of directors will periodically monitor the duties of the financial department.

John Landgaard, Superintendent is the official ensuring this corrective action plan is implemented with a completion date of June 30, 2019.

The completion of this plan will be monitored by the Superintendent and Board of Directors.



Corrective Action Plan for the findings and questioned costs for the audit of the period ended June 30, 2018.

A Deficiency for the Financial Statement Audit and questioned costs for major federal program awards audit was noted on page 98-99. Single Audit 2018-001

The programs identified for this finding were:

Department of Education:

Title I, CFDA No. 84.010, 84.398
Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559
Special Education Cluster, CFDA No.'s 84.027 and 84.173

- Condition:** The District has a lack of segregation of duties in the financial department.
- Criteria:** Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.
- Effect:** As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.
- Cause:** The District has limited personnel available to perform accounting duties.
- Recommendation:** This is not unusual in a District of this size. The Board should be aware of this condition and periodically monitor duties.

District corrective action plan (CAP):

The District has no disagreement with this finding.

The District's board of directors will periodically monitor the duties of the financial department.

John Landgaard, Superintendent is the official ensuring this corrective action plan is implemented with a completion date of June 30, 2019.

The completion of this plan will be monitored by the Superintendent and Board of Directors.

-100-

"YOUR PUBLIC SCHOOLS... THERE'S NO BETTER PLACE TO LEARN"
A K-12 NORTH CENTRAL ACCREDITED SCHOOL DISTRICT

AN EQUAL OPPORTUNITY EMPLOYER

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INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Members of the School Board
Independent School District No. 518
Worthington, 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 Independent School District No. 518, as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated November 4, 2019.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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, except that we did not test for compliance with the provisions for miscellaneous provisions because the district did not have any miscellaneous provisions activity during the current reporting period.

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 518 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 Independent School District No. 518'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.

Drealan Kvilhaug Hoefker & Co., P.A.

Worthington, Minnesota
November 4, 2019

INDEPENDENT SCHOOL DISTRICT NO. 518

LEGAL COMPLIANCE

SCHEDULE OF FINDINGS AND RESPONSES ON COMPLIANCE WITH MINNESOTA

STATUTES

FOR THE YEAR ENDED JUNE 30, 2019

CURRENT AUDIT

FINDINGS:

MN2019-1 Independent School District No. 518 did not remit payment within the required 35 day time frame, as required in Minnesota Statute Section 471.425, subdivision 2.

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Action Planned in Response to Finding

The District will strive to remit payment within the required time frame, as required by Minnesota Statute Section 471.425, subdivision 2.

3. Official Responsible for Ensuring CAP

David Skog, District manager, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP

The planned completion date for the CAP is December 31, 2019.

5. Plan to Monitor Completion of CAP

The School Board will be monitoring this corrective action plan.

INDEPENDENT SCHOOL DISTRICT NO. 518

SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2019

INDEPENDENT SCHOOL DISTRICT NO. 518

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE

	June 30, 2019						
	AUDIT	UFARS	Difference	AUDIT	UFARS	Difference	
01 GENERAL FUND							
Total Revenue	\$ 52,377,789	\$ 52,377,789	\$ -	Total Revenue	\$ 113,816	\$ 113,816	\$ -
Total Expenditures	45,149,112	45,149,112	-	Total Expenditures	7,639,598	7,639,598	-
Nonspendable:				Nonspendable:			
460 Nonspendable Fund Balance	446,295	446,295	-	460 Nonspendable Fund	-	-	-
Restricted/Reserve:				Restricted/Reserve:			
403 Staff Development	142,337	142,337	-	407 Capital Projects Levy	-	-	-
406 Health & Safety	-	-	-	413 Projects Funded by Cop	-	-	-
407 Capital Projects Levy	-	-	-	467 LTFM	-	-	-
413 Project Funded by Cop	-	-	-	Restricted:			
414 Operating Debt	-	-	-	464 Restricted Fund Balance	2,327,357	2,327,357	-
416 Levy Reduction	-	-	-	Unassigned:			
417 Taconite Building Maint	-	-	-	463 Unassigned Fund Balance	-	-	-
423 Certain Teacher Programs	-	-	-				
424 Operating Capital	1,316,829	1,316,829	-	07 DEBT SERVICE			
426 \$25 Taconite	-	-	-	Total Revenue	2,296,583	2,296,583	-
428 Learning & Development	-	-	-	Total Expenditures	7,821,562	7,821,563	(1)
434 Area Learning Center	32,597	32,597	-	Nonspendable:			
435 Contracted Alt. Programs	-	-	-	460 Nonspendable Fund	-	-	-
436 State Approved Alt. Program	-	-	-	Restricted/Reserve:			
438 Gifted & Talented	111,569	111,569	-	425 Bond Refundings	-	-	-
440 Teacher Development & Eval	-	-	-	451 QZAB Payments	-	-	-
441 Basic Skills Programs	-	-	-	Restricted:			
445 Career and Tech Programs	-	-	-	464 Restricted Fund Balance	367,053	367,053	-
448 Achievement & Integration	-	-	-	Unassigned:			
449 Safe Schools Levy	100,935	100,936	(1)	463 Unassigned Fund Balance	-	-	-
450 Prekindergarten	-	-	-				
451 QZAB Payments	-	-	-	08 TRUST			
452 OPEB Liab not in Trust	-	-	-	Total Revenue	90,935	90,935	-
453 Unfned Sev & Retiremt	-	-	-	Total Expenditures	38,444	38,444	-
459 Basic Skills Ext Time	143,534	143,534	-	422 Net Assets	360,091	360,091	-
467 LTFM	2,085,219	2,085,219	-				
472 Medical Assistance	348,691	348,691	-	20 INTERNAL SERVICE			
Restricted:				Total Revenue	-	-	-
464 Restricted Fund Balance	110	110	-	Total Expenditures	-	-	-
Committed:				422 Net Assets	-	-	-
418 Committed For Separation	149,865	149,865	-				
461 Committed Fund Balance	-	-	-	25 OPEB Revocable Turst			
Assigned:				Total Revenue	-	-	-
462 Assigned Fund Balance	15,000,000	15,000,000	-	Total Expenditures	-	-	-
Unassigned:				422 Net Assets	-	-	-
422 Unassigned Fund Balance	14,597,990	14,597,990	-				
				45 OPEB Irrevocable Turst			
02 FOOD SERVICE				Total Revenue	-	-	-
Total Revenue	2,342,523	2,342,523	-	Total Expenditures	-	-	-
Total Expenditures	2,313,287	2,313,286	1	422 Net Assets	-	-	-
Nonspendable:							
460 Nonspendable Fund Balance	110,545	110,545	-	47 OPEB Debt Service Fund			
Restricted/Reserved:				Total Revenue	-	-	-
452 OPEB Liab not in Trust	-	-	-	Total Expenditures	-	-	-
Reserve:				Nonspendable:			
464 Restricted Fund Balance	867,848	867,848	-	460 Nonspendable Fund	-	-	-
Unassigned:				Restricted:			
463 Unassigned Fund Balance	-	-	-	464 Restricted Fund Balance	-	-	-
				Unassigned:			
04 COMMUNITY SERVICE				463 Unassigned Fund Balance	-	-	-
Total Revenue	1,918,284	1,918,284	-				
Total Expenditures	1,787,628	1,787,628	-				
Nonspendable:							
460 Nonspendable Fund Balance	350	350	-				
Restricted/Reserve:							
426 \$25 Taconite	-	-	-				
431 Community Education	56,869	56,869	-				
432 E.C.F.E.	75,709	75,709	-				
444 School Readiness	104,044	104,044	-				
447 Adult Basic Education	194,853	194,853	-				
452 OPEB Liab not in Trust	-	-	-				
Restricted:							
464 Restricted Fund Balance	1,144	1,145	(1)				
Unassigned:							
463 Unassigned Fund Balance	-	-	-				