



Financial Statements  
June 30, 2019

**Pelican Rapids Area Public Schools  
Independent School District No. 548**

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Pelican Rapids Area Public Schools  
Independent School District No. 548  
School Board and Administration (Unaudited)  
June 30, 2019

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<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Jon Karger	School Board Chair	12/31/2020
Michael Forsgren	Vice Chair	12/31/2020
Anne Peterson	Clerk	12/31/2020
Brittany Dokken	Treasurer	12/31/2022
Greg Larson	Director	12/31/2022
Brenda Olson	Director	12/31/2022
	<u>Administration</u>	
Dr. Edwin Richardson	Superintendent	
Rudy Martinez	Business Manager	



## Independent Auditor's Report

The School Board of  
Independent School District No. 548  
Pelican Rapids Area Public Schools  
Pelican Rapids, 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. 548, Pelican Rapids Area Public Schools, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinions**

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

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the District's net OPEB liability and related ratios, schedule of employer's share of net pension liability, and schedule of employer's contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, 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 as a whole. The school board and administration, combining and individual fund schedules, and other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund schedules, and uniform accounting and reporting standards compliance table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole. In addition, in our opinion, the schedule of changes in student activity cash balances presents fairly the changes in the cash balances of the student activity funds for the year ended June 30, 2019.

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2019, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

**Report on Other Legal and Regulatory Requirements**

In accordance with the Legal Compliance Audit Guide prepared by the Office of the State Auditor pursuant to Minn. Stat. §6.65, we have also issued a report dated November 19, 2019, on our consideration of the District's compliance with aspects of the provisions of the Minnesota Legal Compliance Audit Guide for School Districts. The purpose of that report is to describe the scope of our testing of compliance and the results of that testing, and not directed primarily toward obtaining knowledge of noncompliance. That report is an integral part of procedures performed in accordance with the Office of the State Auditor's Minnesota Legal Compliance Audit Guide for School Districts in considering the District's compliance with certain regulatory requirements pursuant to Minn. Stat. §6.65.



Fargo, North Dakota  
November 19, 2019

This section of Pelican Rapids Independent School District No. 548's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019.

### **Financial Highlights**

Key financial highlights for the 2019 fiscal year

- General fund revenues were \$10,621,460 while expenditures totaled \$11,370,426.
- The General fund unassigned fund balance changed from \$767,091 to \$343,273, a decrease of \$423,818.
- The Debt Service fund balance decreased by \$1,558,438 which resulted in a total fund balance at the end of the year of \$80,830.
- The Food Service fund balance decreased by \$13,511 which resulted in a total fund balance at the end of the year of \$118,504.
- The Community Service fund balance increased by \$38,528 which resulted in a total fund balance at the end of the year of \$170,773.
- The Capital Projects fund balance decreased by \$30,612 to close the fund. This fund was created for a large construction project on the District's building, which was completed during the 2018 school year.
- The OPEB Debt Service fund balance increased by \$291 which resulted in a total fund balance at the end of the year of \$8,962.

### **Overview of the Financial Statements**

The financial section of the annual report consists of three parts – Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short term as well as what remains for future spending.
- 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. The following outline shows how the various parts of this annual report are arranged and related to one another.

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

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

### **District-Wide Statements**

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

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

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

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

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

## **Fund Financial Statements**

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

- Some funds are required by State law and by bond covenants.

The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has two kinds of funds:

- **Governmental Funds** – All of the District's basic services are included in governmental funds, which generally focus on:
  1. how cash and other financial assets that can readily be converted to cash flow in and out and
  2. the balances left at year-end that are available for spending.

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

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

**Financial Analysis of The District as a Whole**

Net position: The District's combined net deficit was (\$4,445,998) on June 30, 2019.

	Statement of Net Deficit June 30, 2019 and 2018	
	2019	2018
Assets		
Current assets	\$ 5,210,164	\$ 7,634,596
Capital assets	32,483,466	33,248,060
Total assets	37,693,630	40,882,656
Deferred Outflows of Resources	7,972,320	10,559,694
Liabilities		
Other liabilities	1,429,801	1,653,741
Long-term liabilities	34,707,706	48,177,114
Total liabilities	36,137,507	49,830,855
Deferred Inflows of Resources	13,974,441	6,597,425
Net Position (Deficit)		
Net investment in capital assets	4,986,126	4,898,362
Restricted for specific purposes	8,403	1,691,816
Unrestricted	(9,440,527)	(11,576,108)
Total net deficit	\$ (4,445,998)	\$ (4,985,930)

Statement of Activities  
Years Ended June 30, 2019 and 2018

	2019	2018
<b>Revenues</b>		
Program revenues		
Charges for service	\$ 240,368	\$ 248,638
Operating grants and contributions	981,230	1,077,757
General		
Property taxes	3,375,523	3,521,953
Aids and payments from state and other	8,698,318	8,008,343
Unrestricted investment earnings	28,250	41,250
Miscellaneous revenues	412,363	288,723
Total revenues	13,736,052	13,186,664
<b>Expenses</b>		
Administration	802,474	834,563
District support services	163,576	118,814
Regular instruction	4,106,964	8,632,659
Vocational educational instruction	333,387	287,454
Special education instruction	1,279,164	1,199,795
Community education and services	281,420	328,531
Instructional support services	13,029	130,573
Pupil support services	1,493,384	1,225,982
Sites and buildings	2,188,356	2,400,121
Fiscal and other fixed-cost programs	2,534,366	963,787
Total expenses	13,196,120	16,122,279
Change in Net Deficit	539,932	(2,935,615)
Net Deficit - Beginning	(4,985,930)	(2,050,315)
Net Deficit - Ending	\$ (4,445,998)	\$ (4,985,930)

Changes in Net Position – The District's total revenues were \$13,736,052 for the year ended June 30, 2019. Property taxes and state formula aid accounted for 88% of total revenue for the year. The other 12% came from other general revenues combined with investment earnings and the remainder from program revenues.

The total cost of all programs and services was \$13,196,120. The District's expenses are predominantly related to educating and caring for students. The purely administrative activities of the District accounted for just 6% of total costs.

Total revenues surpassed expenses, decreasing net deficit by \$539,932.

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$722,342. Revenues for the District's governmental funds were \$13,708,080, while total expenditures were \$15,959,564. The deficit was forecasted based upon district bond refunding.

**General Fund**

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

The following schedule presents a summary of General Fund Revenues.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2019	2018		
Local property taxes	\$ 1,254,127	\$ 1,309,933	\$ (55,806)	-4.3%
Other local sources	361,637	446,038	(84,401)	-18.9%
State sources	8,687,186	7,994,477	692,709	8.7%
Federal sources	318,510	385,147	(66,637)	-17.3%
Other	-	3,708	(3,708)	-100.0%
	\$ 10,621,460	\$ 10,139,303	\$ 482,157	4.8%
Total General Fund revenues	\$ 10,621,460	\$ 10,139,303	\$ 482,157	4.8%

Total General Fund revenues increased by \$482,157 or 4.8% from the previous year; the majority of this increase is a result of increases in state aid.

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2019	2018		
Salaries and benefits	\$ 7,927,027	\$ 7,838,419	\$ 88,608	1.1%
Purchased services	2,388,764	2,080,756	308,008	14.8%
Capital expenditures	399,921	343,114	56,807	16.6%
Supplies and materials	584,127	587,672	(3,545)	-0.6%
Other expenditures	70,587	148,878	(78,291)	-52.6%
 Total General Fund expenditures	 <u>\$ 11,370,426</u>	 <u>\$ 10,998,839</u>	 <u>\$ 371,587</u>	 3.4%

Total General Fund expenditures increased by \$371,587 or 3.4% from the previous year. This increase was a result of an increase in salaries and benefits due to step increases and purchased services.

**General Fund Budgetary Highlights**

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

- Implementing budgets for specially funded projects, which include both federal and state grants, and budgeting for clearing, resale, and gifts.
- Revising budgets to reflect enrollment and staffing changes.

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

- Actual revenues were \$690,830 more than expected.
- The actual expenditures were \$1,055,033 more than budget.

**Other Non-Major Funds**

Revenues exceeded expenditures in the other Non-major funds by \$55,920. The Food Service Fund saw a decrease of \$13,511, the Community Service Fund saw an increase of \$38,528 in the fund balance, the capital projects fund saw an increase of \$30,612, and the OPEB Debt Service Fund saw an increase of \$291.

**Capital Asset and Debt Administration**

By the end of 2019, the District had invested \$42,057,892 in a broad range of capital assets including the building renovation, science area renovation, HVAC project continuation, property purchase and computer and audio-visual equipment. Total depreciation expense for the year was \$1,044,344. More detailed information about the District’s capital assets is presented in Note 5 in the financial statements.

	2019	2018
Land	\$ 232,279	\$ 232,279
Buildings	39,284,245	39,270,387
Improvements	592,246	547,074
Equipment	1,949,122	1,776,033
Accumulated depreciation	(9,574,426)	(8,577,713)
Total capital assets	\$ 32,483,466	\$ 33,248,060

**Long-Term Liabilities**

At year-end, the District had \$26,445,000 in General Obligation school building bonds, facilities maintenance, refunding, alternative and capital facilities bonds, HVAC bonds, and OPEB bonds due to the issuance for various facility improvement projects and OPEB obligations, \$485,071 in energy loan liabilities due to the issuance for energy/facility improvement projects, and \$134,423 in lease liabilities for security and technology equipment. More detailed information about the District’s long-term liabilities is presented in Note 6 in the financial statements.

The District had a net OPEB obligation of \$380,354. See Note 7 for further information.

The District had a net pension liability of approximately \$6,830,012 at June 30, 2019. See Note 9 for further information.

**Factors Bearing on the District’s Future**

The District is dependent on the State of Minnesota for its revenue authority. The District is experiencing stable-to-declining enrollment, which will require the District to review allocation of resources or secure additional revenue to maintain its excellent educational product.

**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 our Business Office at: 310 South Broadway, Pelican Rapids, Minnesota, 56572 (or mailing address: PO Box 642, Pelican Rapids, MN 56572).

Pelican Rapids Area Public Schools  
Independent School District No. 548  
Statement of Net Position  
June 30, 2019

<b>Assets</b>	
Cash, cash equivalents, and investments	\$ 2,721,384
Receivables	
Current property taxes	1,633,187
Delinquent property taxes	53,549
Due from other governmental units	797,274
Accounts	1,390
Inventories	3,380
	5,210,164
Capital assets	
Land	232,279
Buildings	39,284,245
Improvements	592,246
Equipment	1,949,122
Less accumulated depreciation	(9,574,426)
Total capital assets, net of depreciation	32,483,466
Total assets	37,693,630
<b>Deferred Outflows of Resources</b>	
Pension plans	7,957,590
Other postemployment benefits	14,730
Total deferred outflows of resources	7,972,320
<b>Liabilities</b>	
Accounts payable	7,924
Salaries payable	1,038,272
Accrued interest payable	383,605
Long-term liabilities	
Due within one year - bonds, premiums, energy loan and capital lease	1,639,240
Due in more than one year - bonds, premiums, energy loan, and capital lease	25,858,100
Due in more than one year - net OPEB obligation	380,354
Due in more than one year - net pension liability	6,830,012
Total liabilities	36,137,507
<b>Deferred Inflows of Resources</b>	
Unavailable revenue-property taxes	3,388,077
Pension plans	10,493,226
Other postemployment benefits	93,138
Total deferred inflows of resources	13,974,441
<b>Net Position (Deficit)</b>	
Net investment in capital assets	4,986,126
Restricted for specific purposes	8,403
Unrestricted	(9,440,527)
Total net deficit	\$ (4,445,998)

The Notes to Financial Statements are an integral part of this statement.



Pelican Rapids Area Public Schools  
Independent School District No. 548  
Statement of Activities  
Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Deficit
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Administration	\$ 802,474	\$ -	\$ -	\$ (802,474)
District support services	163,576	-	-	(163,576)
Regular instruction	4,106,964	2,920	318,510	(3,785,534)
Vocational educational instruction	333,387	-	-	(333,387)
Special education instruction	1,279,164	-	-	(1,279,164)
Community education and services	281,420	26,121	172,792	(82,507)
Instructional support services	13,029	-	-	(13,029)
Pupil support services	1,493,384	197,740	489,928	(805,716)
Sites and buildings	2,188,356	13,587	-	(2,174,769)
Fiscal and other fixed-cost programs	2,534,366	-	-	(2,534,366)
<b>Total governmental activities</b>	<b>\$ 13,196,120</b>	<b>\$ 240,368</b>	<b>\$ 981,230</b>	<b>(11,974,522)</b>
General revenues:				
Property taxes, levied for general purposes				1,283,692
Property taxes, levied for community service				112,473
Property taxes, levied for debt service				1,979,358
Aids and payments from the state				8,670,660
County apportionment				27,658
Unrestricted investment earnings				28,250
Miscellaneous revenues				412,363
<b>Total general revenues</b>				<b>12,514,454</b>
Changes in net deficit				539,932
Net deficit - beginning				(4,985,930)
Net deficit - ending				<b>\$ (4,445,998)</b>

Pelican Rapids Area Public Schools  
Independent School District No. 548  
Governmental Funds  
Balance Sheet  
June 30, 2019

	General	Debt Service	Other Governmental Funds	Totals
<b>Assets</b>				
Cash, cash equivalents and investments	\$ 1,130,365	\$ 1,102,767	\$ 488,252	\$ 2,721,384
Receivables				
Current property taxes	557,674	952,504	123,009	1,633,187
Delinquent property taxes	18,268	31,559	3,722	53,549
Due from other governmental units	777,578	14,570	5,126	797,274
Accounts	1,000	-	390	1,390
Inventories	-	-	3,380	3,380
<b>Total assets</b>	<b>\$ 2,484,885</b>	<b>\$ 2,101,400</b>	<b>\$ 623,879</b>	<b>\$ 5,210,164</b>
<b>Liabilities</b>				
Accounts payable	\$ 7,924	\$ -	\$ -	\$ 7,924
Salaries payable	991,395	-	46,877	1,038,272
<b>Total liabilities</b>	<b>999,319</b>	<b>-</b>	<b>46,877</b>	<b>1,046,196</b>
<b>Deferred Inflows of Resources</b>				
Unavailable revenue-property taxes	1,142,293	2,020,570	278,763	3,441,626
<b>Fund Balance (Deficit)</b>				
Nonspendable	-	-	3,380	3,380
Restricted	-	80,830	346,459	427,289
Unassigned	343,273	-	(51,600)	291,673
<b>Total fund balance</b>	<b>343,273</b>	<b>80,830</b>	<b>298,239</b>	<b>722,342</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 2,484,885</b>	<b>\$ 2,101,400</b>	<b>\$ 623,879</b>	<b>\$ 5,210,164</b>

Pelican Rapids Area Public Schools  
Independent School District No. 548  
Reconciliation of the Governmental Funds  
Balance Sheet to the Statement of Net Position  
June 30, 2019

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Total Fund Balances - Governmental Funds	\$ 722,342
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	32,483,466
Accrued interest payable for long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(383,605)
Delinquent property taxes are not considered available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	53,549
Deferred outflows and inflows of resources related to OPEB and pensions are applicable to future periods and, therefore, are not reported in the funds.	(2,614,044)
Long-term liabilities, including bonds payable, energy loans payable, net OPEB obligation, net pension liability, capital leases, and vacation payable, are not due and payable in the current period and therefore, are not reported as liabilities in the funds.	<u>(34,707,706)</u>
Total Net Deficit - Governmental Activities	<u>\$ (4,445,998)</u>

Pelican Rapids Area Public Schools  
Independent School District No. 548  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Year Ended June 30, 2019

	General	Debt Service	Other Governmental Funds	Totals
<b>Revenues</b>				
Local property tax levies	\$ 1,254,127	\$ 1,979,358	\$ 244,928	\$ 3,478,413
Other local and county sources	361,637	2,896	136,423	500,956
State sources	8,687,186	145,703	141,044	8,973,933
Federal sources	318,510	-	315,409	633,919
Sales and other conversion of assets	-	-	120,859	120,859
<b>Total revenues</b>	<b>10,621,460</b>	<b>2,127,957</b>	<b>958,663</b>	<b>13,708,080</b>
<b>Expenditures</b>				
Administration	789,781	-	-	789,781
District support services	163,576	-	-	163,576
Regular instruction	6,122,376	-	-	6,122,376
Vocational educational instruction	306,732	-	-	306,732
Special education instruction	1,279,121	-	-	1,279,121
Community education and service	-	-	281,420	281,420
Instructional support services	149,110	-	-	149,110
Pupil support services	1,023,173	-	487,442	1,510,615
Sites and buildings	1,467,002	-	-	1,467,002
Fiscal and other fixed cost programs	69,555	3,686,395	133,881	3,889,831
<b>Total expenditures</b>	<b>11,370,426</b>	<b>3,686,395</b>	<b>902,743</b>	<b>15,959,564</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(748,966)	(1,558,438)	55,920	(2,251,484)
<b>Other Financing Uses</b>				
Capital lease proceeds	193,009	-	-	193,009
<b>Net Change in Fund Balance</b>	<b>(555,957)</b>	<b>(1,558,438)</b>	<b>55,920</b>	<b>(2,058,475)</b>
Fund Balance, Beginning of Year	899,230	1,639,268	242,319	2,780,817
<b>Fund Balance, End of Year</b>	<b>\$ 343,273</b>	<b>\$ 80,830</b>	<b>\$ 298,239</b>	<b>\$ 722,342</b>

Pelican Rapids Area Public Schools  
Independent School District No. 548  
Reconciliation of the Statement of Revenues, Expenditures,  
and Changes in Fund Balances to the Statement of Activities  
Year Ended June 30, 2019

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Net Change in Fund Balances - Total Governmental Funds	\$ (2,058,475)
<p>Amounts reported for governmental activities  in the statement of activities are different because:</p>	
<p>Capital outlays are reported as expenditures in governmental funds. However, in the  statement of activities the cost of capital assets is allocated over their estimated  useful lives as depreciation expense.</p>	
Capital outlay	291,487
Disposal of capital assets	(11,737)
Depreciation expense	(1,044,344)
<p>Revenues in the statement of activities that do not provide current financial resources  are not reported as revenues in the funds.</p>	
	(15,091)
<p>In the statement of activities OPEB liabilities 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.</p>	
	(27,002)
<p>In the statement of activities the cost of pension benefits earned  net of employee contributions is reported as pension expense.  In the governmental funds, however, the contributions are  reported as expense.</p>	
	2,079,336
<p>The issuance of long-term debt provides current financial resources to governmental  funds, while the repayment of principle of long-term debt consumes the current  financial resources of governmental funds. Neither transactions, however, has any  effect on net position. Also, governmental funds report the effect of premiums when  debt is first issued, whereas these amounts are deferred and amortized in the  statement of activities. This amount is the net effect of these differences in the  treatment of long-term debt and related items.</p>	
	1,325,758
Change in Net Deficit of Governmental Activities	\$ 539,932

Pelican Rapids Area Public Schools  
Independent School District No. 548

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget to Actual – General Fund  
Year Ended June 30, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget</u>
<b>Revenues</b>				
Local property tax levies	\$ 1,225,600	\$ 1,225,600	\$ 1,254,127	\$ 28,527
Other local and county sources	258,775	252,500	361,637	109,137
State sources	8,143,325	8,143,325	8,687,186	543,861
Federal sources	302,750	307,205	318,510	11,305
Sales and other conversion of assets	2,000	2,000	-	(2,000)
<b>Total revenues</b>	<u>9,932,450</u>	<u>9,930,630</u>	<u>10,621,460</u>	<u>690,830</u>
<b>Expenditures</b>				
District and school administration	756,100	756,100	789,781	(33,681)
District support services	152,000	152,000	163,576	(11,576)
Regular instruction	5,459,428	5,471,968	6,122,376	(650,408)
Vocational instruction	286,000	286,000	306,732	(20,732)
Special education instruction	1,317,600	1,317,600	1,279,121	38,479
Instructional support services	77,925	98,650	149,110	(50,460)
Pupil support services	816,600	816,600	1,023,173	(206,573)
Sites and buildings	1,301,475	1,301,475	1,467,002	(165,527)
Fiscal and other fixed cost programs	115,000	115,000	69,555	45,445
<b>Total expenditures</b>	<u>10,282,128</u>	<u>10,315,393</u>	<u>11,370,426</u>	<u>(1,055,033)</u>
<b>Deficiency of Revenues Under Expenditures</b>	<b>(349,678)</b>	<b>(384,763)</b>	<b>(748,966)</b>	<b>(364,203)</b>
<b>Other Financing Sources</b>				
Sale of property and equipment	2,000	2,000	-	(2,000)
Capital lease proceeds	-	-	193,009	193,009
<b>Total other financing sources</b>	<u>2,000</u>	<u>2,000</u>	<u>193,009</u>	<u>191,009</u>
<b>Net Change in Fund Balance</b>	<u>\$ (347,678)</u>	<u>\$ (382,763)</u>	<u>(555,957)</u>	<u>\$ (173,194)</u>
Fund Balance, Beginning of Year			<u>899,230</u>	
Fund Balance, End of Year			<u>\$ 343,273</u>	

Pelican Rapids Area Public Schools  
 Independent School District No. 548  
 Statement of Fiduciary Net Position  
 June 30, 2019

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	Agency	OPEB Trust	Private- Purpose Trust	Total Trust Funds
Assets				
Cash	\$ 117,419	\$ 113,549	\$ 33,192	\$ 264,160
Investments	-	-	16,500	16,500
Total assets	\$ 117,419	\$ 113,549	\$ 49,692	\$ 280,660
Liabilities				
Due to student activities	\$ 117,419	\$ -	\$ -	\$ 117,419
Net Position				
Unrestricted	\$ -	\$ 113,549	\$ 49,692	\$ 163,241

Pelican Rapids Area Public Schools  
Independent School District No. 548  
Statement of Changes in Fiduciary Position  
Year Ended June 30, 2019

	<u>OPEB Trust</u>	<u>Private- Purpose Trust</u>	<u>Total Trust Funds</u>
Additions			
Gifts, bequests and interest	\$ 1,573	\$ 16,518	\$ 18,091
Deductions			
Scholarships	-	18,192	18,192
OPEB health insurance	54,079	-	54,079
Total deductions	54,079	18,192	72,271
Net Change in Net Position	(52,506)	(1,674)	(54,180)
Net Position, Beginning of Year	166,055	51,366	217,421
Net Position, End of Year	<u>\$ 113,549</u>	<u>\$ 49,692</u>	<u>\$ 163,241</u>



## **Note 1 - Summary of Significant Accounting Policies**

### **Organization**

Independent School District No. 548, Pelican Rapids Area Public Schools, Pelican Rapids, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

### **Reporting Entity**

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

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

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

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are not included in these financial statements.

### **District-Wide Financial Statement Presentation**

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported as general revenues.

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

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

#### **Fund Financial Statement Presentation**

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

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

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

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

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

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

### **Description of Funds**

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

#### **Major Governmental Funds**

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

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

#### **Nonmajor Governmental Funds**

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

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

Capital Projects Fund – The capital projects fund is used to account for financial resources used for the construction of major capital facilities authorized by bond issue or alternative facility levies.

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

#### **Fiduciary Funds**

OPEB Trust Fund – The Other Post-Employment Benefit (OPEB) trust fund is used to account for the accumulation of resources to be used for the District's portion of the premium cost for providing health insurance to the District's retired employees.

Private-Purpose Trust Fund – The private-purpose trust fund is used to administer resources received and held by the District as the trustee for others. The private-purpose trust fund is used for scholarships.

Agency Fund – The agency fund is used to account for the extracurricular student activities, not under board control. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations

### **Other Significant Accounting Policies**

#### **Budgeting**

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

#### **Cash, Cash Equivalents, and Investments**

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

The District considers certificates of deposit with a maturity of three months or more to be investments.

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

#### **Receivables**

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

#### **Inventories**

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

### **Property Taxes**

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

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

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

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

### **Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historic cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Capital assets not being depreciated include land.

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

### **Long-Term Obligations**

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, if material, are deferred and amortized over the life of the bonds using the straight-line method.

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

### **Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District's OPEB Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

### **Pensions**

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 9.

For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **Deferred Outflows and Inflows of Resources**

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

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

### **Risk Management**

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

### **Net Position**

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

## Fund Balance

In governmental fund financial statements, fund balances are classified as nonspendable, restricted, committed, assigned or unassigned.

- Nonspendable fund balance amounts are comprised of funds that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. They include items that are inherently unspendable, such as, but not limited to, inventories, prepaid items, long-term receivables, non-financial assets held for resale, or the permanent principal of endowment funds.
- Restricted fund balance amounts are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance amounts are comprised of unrestricted funds used for specific purposes pursuant to constraints imposed by formal action of the school board and that remain binding unless removed by the school board by subsequent formal action. The formal action to commit a fund balance must occur prior to fiscal year end; however, the specific amounts actually committed can be determined in the subsequent fiscal year. A committed fund balance cannot be a negative number. A majority vote of the school board is required to commit a fund balance to a specific purpose and subsequently to remove or change any constraint so adopted by the board.
- Assigned fund balance amounts are comprised of unrestricted funds constrained by the school district's intent that they be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. In funds other than the general fund, the assigned fund balance represents the remaining amount that is not restricted or committed. The assigned fund balance category will cover the portion of a fund balance that reflects the school district's intended use of those resources. The action to assign a fund balance may be taken after the end of the fiscal year. An assigned fund balance cannot be a negative number. The school board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The board also delegates the power to assign fund balances to the following: Superintendent. Assignments so made shall be reported to the school board on a monthly basis, either separately or as part of ongoing reporting by the assigning party if other than the school board. An appropriation of an existing fund balance to eliminate a projected budgetary deficit in the subsequent year's budget in an amount no greater than the projected excess of expected expenditures over expected revenues satisfies the criteria to be classified as an assignment of fund balance.
- Unassigned fund balance amounts are the residual amounts in the general fund not reported in any other classification. Unassigned amounts in the general fund are technically available for expenditure for any purpose. The general fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.



The District's policy is to strive to maintain a minimum unassigned general fund balance of ten to thirteen percent of the annual budget with the long range plan to strive to maintain three months of operating expenses. The first priority is to utilize the balance as restricted fund balance. Committed funds will be considered with assigned fund balance third when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used like assigned or unassigned.

### **Estimates**

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

## **Note 2 - Stewardship, Compliance, and Accountability**

### **Excess of Expenditures over Appropriations**

The General Fund had expenditures exceeding appropriations of \$1,055,033 for the year ended June 30, 2019. These over expenditures were funded by revenues exceeding budget and existing fund balance.

## **Note 3 - Deposits and Investments**

### **Deposits**

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

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

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

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

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

**Investments**

**Credit Risk – Investments**

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

**Interest Rate Risk – Investments**

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

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

Type	Fair Value	Investment Maturities (in Years)	
		N/A	1 - 5
Cash and cash equivalents			
Minnesota School District Liquid Asset Fund	\$ 1,225,742	\$ 1,225,742	\$ -
MNTrust	167,377	167,377	-
Deposits	1,592,425	1,592,425	-
Investments			
Certificates of deposit	16,500	-	16,500
	\$ 3,002,044	\$ 2,985,544	\$ 16,500

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

Cash and cash equivalents and investments - Statement of Net Position	\$ 2,721,384
Cash and investments - Statement of Fiduciary Net Position	280,660
	\$ 3,002,044

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

**Note 4 - Due from other Governmental Units**

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

<u>Fund</u>	<u>Federal</u>	<u>State</u>	<u>Total</u>
Major funds			
General	\$ 127,589	\$ 649,989	\$ 777,578
Debt Service	-	14,570	14,570
Non-major funds	-	5,126	5,126
	<u>\$ 127,589</u>	<u>\$ 669,685</u>	<u>\$ 797,274</u>

**Note 5 - Capital Assets**

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

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2019</u>
Capital assets not being depreciated				
Land	\$ 232,279	\$ -	\$ -	\$ 232,279
Capital assets being depreciated				
Improvements	547,074	45,172	-	592,246
Buildings	39,270,387	13,858	-	39,284,245
Equipment	1,776,033	232,457	59,368	1,949,122
Total capital assets being depreciated	<u>41,593,494</u>	<u>291,487</u>	<u>59,368</u>	<u>41,825,613</u>
Less accumulated depreciation for:				
Improvements	377,219	15,002	-	392,221
Buildings	7,305,214	865,175	-	8,170,389
Equipment	895,280	164,167	47,631	1,011,816
Total accumulated depreciation	<u>8,577,713</u>	<u>1,044,344</u>	<u>47,631</u>	<u>9,574,426</u>
Net capital assets, depreciated	<u>33,015,781</u>	<u>(752,857)</u>	<u>11,737</u>	<u>32,251,187</u>
Total capital assets, net	<u>\$ 33,248,060</u>	<u>\$ (752,857)</u>	<u>\$ 11,737</u>	<u>\$ 32,483,466</u>

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

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

District and school administration	\$ 12,693
Regular instruction	63,160
Vocation Instruction	460
Instructional support services	15,120
Pupil support services	12,505
Sites and buildings	<u>940,406</u>
 Total depreciation expense	 <u><u>\$ 1,044,344</u></u>

**Note 6 - Long-Term Liabilities**

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

	Balance July 1, 2018	Additions	Deletions	Balance June 30, 2019	Due Within One Year
Bonds payable	\$ 27,725,000	\$ -	\$ 1,280,000	\$ 26,445,000	\$ 1,470,000
Deferred bond premiums	475,910	-	43,064	432,846	29,748
Energy loan	563,046	-	77,975	485,071	81,497
Capital leases payable - direct borrowing	<u>61,652</u>	<u>193,009</u>	<u>120,238</u>	<u>134,423</u>	<u>57,995</u>
	<u><u>\$ 28,825,608</u></u>	<u><u>\$ 193,009</u></u>	<u><u>\$ 1,521,277</u></u>	<u><u>\$ 27,497,340</u></u>	<u><u>\$ 1,639,240</u></u>

**Bonds Payable**— These are for the acquisition and betterment of school sites and facilities, additional capital facility improvements, to fund OPEB benefits, and the District’s Middle School/High School ventilation project, renovation of science area and roof repairs. The General Obligation Taxable OPEB Bonds Series 2009B principal and interest payments are paid out of the OPEB Debt Service Fund. All other bond principal and interest payments are paid out of the Debt Service Fund.

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

Bond Description	Final Maturities	Interest Rate	Original Principal	Outstanding Balance
General Obligation Facilities Maintenance Bonds, Series 2016A	2/31	2.00%-2.15%	\$ 1,965,000	\$ 1,685,000
General Obligation Refunding Bonds, Series 2016B	2/29	2.00%	1,655,000	1,655,000
General Obligation Facilities Bond Series 2009A	2/29	2.50% - 4.90%	3,115,000	1,670,000
General Obligation Taxable OPEB Bonds Series 2009B	2/20	2.00% - 5.25%	1,050,000	125,000
General Obligation Alternative Facilities Bonds Series 2012A	2/28	2.00% - 2.375%	4,210,000	2,710,000
General Obligation Capital Facilities Series 2010C	2/34	2.00% - 2.95%	21,425,000	<u>18,600,000</u>
				<u><u>\$ 26,445,000</u></u>

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Energy Loan – This is for the purchase of installation of energy efficient equipment for the buildings in the District. The energy loan principal and interest payments were paid out of the General Fund.

Leases Payable – These were for multiple leases for the purchase of technology equipment for the District. Capital lease principal and interest payments are made by the general fund. The outstanding capital leases contain a provision that in the event of default the technology equipment will be repossessed.

The District entered into computer and iPad leases with Apple Inc. for a total liability of \$193,009. The leases have interest rates of 5.304% and 3.709%, respectively, and will end July 2021 and 2020, respectively. Both leases state a purchase option at the end of the lease term.

The following is a summary of leases payable as of June 30, 2019:

<u>Lease Description</u>	<u>Final Maturities</u>	<u>Interest Rate</u>	<u>Original Principal</u>	<u>Outstanding Balance</u>
Arvig Security Technology Equipment	2/21	13.16%	\$ 79,000	\$ 31,889
Arvig Video Monitoring System	2/21	8.00%	23,540	8,909
Apple Technology Equipment	7/20	3.76%	145,990	69,633
Apple Technology Equipment	7/21	5.32%	47,019	23,992
				<u>\$ 134,423</u>

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

<u>Years Ending June 30,</u>	<u>Bonds Payable</u>		<u>Energy Loan</u>		<u>Lease Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 1,470,000	\$ 896,343	\$ 81,497	\$ 19,650	\$ 57,995	\$ 3,644
2021	1,525,000	846,490	85,177	15,970	64,122	3,389
2022	1,570,000	796,385	89,024	12,124	12,306	655
2023	1,630,000	744,425	93,044	8,103	-	-
2024	1,680,000	689,475	88,174	4,101	-	-
2025 - 2029	9,215,000	2,641,925	48,155	583	-	-
2030 - 2034	9,355,000	1,100,793	-	-	-	-
	<u>\$ 26,445,000</u>	<u>\$ 7,715,836</u>	<u>\$ 485,071</u>	<u>\$ 60,531</u>	<u>\$ 134,423</u>	<u>\$ 7,688</u>

**Note 7 - Other Post-Employment Benefits**

**A. Plan Description**

All employees are allowed upon meeting the eligibility requirements (55 years of age and at least three years of service) under Minn. Stat. 471.61 subd, 2b, to participate in the District’s health insurance plan after retirement. This plan covers active and retired employees. Benefit provisions are established through negotiations between the District and the union representing District employees and are renegotiated at the end of each contract period. Contract groups receive other post-retirement benefits as follows:

- Teachers – For retirees hired prior to January 30, 1987, 55 years of age, and at least three years of service, the District will pay 70% of base salary minus District contributions to the Matching Program paid to the Health Care Savings Plan in two equal installments. The annual matching contribution amount is \$0 from years 1-5, \$1,500 from years 6-10, and \$2,000 for years 11 and over, up to a maximum of \$45,000.

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

**B. Benefits Provided**

The plan provides medical benefits to terminated or retired employees. Benefits are provided through a third-party insurer, and the cost of the benefits covered by the plan are described above.

**C. Employees Covered by Benefit Terms**

At the valuation date of July 1, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	9
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	116
	125

**D. Net OPEB Liability**

The District’s net OPEB liability of \$380,354 was measured as of June 30, 2019, and the net OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2018.

**E. Actuarial Assumptions**

The net OPEB liability in the July 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent										
Salary increases	3.00 percent										
Investment rate of return	2.40 percent, net of OPEB plan investment expenses										
Healthcare cost trend rates	6.50 percent in 2018 grading to 5.00 percent over 6 years										
Retiree plan participation	<table border="0" style="width: 100%;"> <tr> <td colspan="2">Future retirees electing coverage</td> </tr> <tr> <td>-Pre-65 subsidy available:</td> <td style="text-align: right;">100%</td> </tr> <tr> <td>-Pre-65 subsidy if not available:</td> <td></td> </tr> <tr> <td style="padding-left: 20px;">-Non-Certified Employees</td> <td style="text-align: right;">25%</td> </tr> <tr> <td style="padding-left: 20px;">-All Other Employees</td> <td style="text-align: right;">50%</td> </tr> </table>	Future retirees electing coverage		-Pre-65 subsidy available:	100%	-Pre-65 subsidy if not available:		-Non-Certified Employees	25%	-All Other Employees	50%
Future retirees electing coverage											
-Pre-65 subsidy available:	100%										
-Pre-65 subsidy if not available:											
-Non-Certified Employees	25%										
-All Other Employees	50%										
Percent of married retirees electing spouse coverage	<table border="0" style="width: 100%;"> <tr> <td colspan="2">Percent Future Retirees Electing Pre-65 Spouse Coverage</td> </tr> <tr> <td>-Spouse subsidy available</td> <td style="text-align: right;">10%</td> </tr> <tr> <td>-Spouse subsidy not available:</td> <td style="text-align: right;">10%</td> </tr> </table>	Percent Future Retirees Electing Pre-65 Spouse Coverage		-Spouse subsidy available	10%	-Spouse subsidy not available:	10%				
Percent Future Retirees Electing Pre-65 Spouse Coverage											
-Spouse subsidy available	10%										
-Spouse subsidy not available:	10%										

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.

The actuarial assumptions used in the July 1, 2018, valuation were based on the results of an actuarial experience study as of July 1, 2018.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	95%	2.50%
Cash	5%	1.00%
Total	100%	

The following changes in actuarial assumptions occurred since the previous valuation:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- The discount rate was changed from 3.50% to 3.10%.

**F. Discount Rate**

The discount rate used to measure the net OPEB liability was 3.10%. The projection of cash flows used to determine the discount rate assumed that the District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the net OPEB liability.

**G. Changes in the Net OPEB Liability**

	Increase (Decrease)		
	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
	<u>          </u>	<u>          </u>	<u>          </u>
Balances at June 30, 2018	\$ 587,433	\$ 166,055	\$ 421,378
Changes from the Prior Year:			
Service cost	23,808	-	23,808
Interest cost	20,455	-	20,455
Assumption changes	13,646	-	13,646
Projected investment return	-	3,985	(3,985)
Differences between Expected and Actual Experience	(97,360)	(2,412)	(94,948)
Benefit payments	<u>(54,079)</u>	<u>(54,079)</u>	<u>-</u>
Total Net Changes	<u>(93,530)</u>	<u>(52,506)</u>	<u>(41,024)</u>
Balances at June 30, 2019	<u>\$ 493,903</u>	<u>\$ 113,549</u>	<u>\$ 380,354</u>



**H. Sensitivity of the Net OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trend Rates**

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

	<u>1% Decrease</u>	<u>Discount Rate</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 405,343	\$ 380,354	\$ 356,034
Discount Rate	2.10%	3.10%	4.10%

The following presents the net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using a healthcare cost trend rate 1 percentage point lower and 1 percentage point higher than the current healthcare cost trend rates:

	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
Net OPEB Liability	\$ 340,719	\$ 380,354	\$ 426,451
Medical Trend Rate	5.50% decreasing to 4.00% over 6 years	6.50% decreasing to 5.00% over 6 years	7.50% decreasing to 6.00% over 6 years

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

For the year ended June 30, 2018, the District recognized OPEB expense of \$41,880. At June 30, 2019, the District reported deferred outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between projected and actual investment earnings	\$ 3,034	\$ -
Assumption changes	11,696	9,687
Liability gains	-	83,451
	<u>\$ 14,730</u>	<u>\$ 93,138</u>

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

Years Ended June 30,	Pension Expense Amount
2020	\$ (13,276)
2021	(13,276)
2022	(14,040)
2023	(13,897)
2024	(11,959)
Thereafter	(11,960)

**Note 8 - Fund Balance**

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

At June 30, 2019, the District has recorded the following fund balances for the following purposes:

	General	Debt Service	Other Government Funds	Totals
Fund balances				
Nonspendable				
Inventory	\$ -	\$ -	\$ 3,380	\$ 3,380
Restricted				
Food service	-	-	115,124	115,124
School readiness	-	-	132,247	132,247
E.C.F.E.	-	-	90,126	90,126
OPEB debt service	-	-	8,962	8,962
Total restricted	-	80,830	346,459	427,289
Unassigned	343,273	-	(51,600)	291,673
Total fund balances	\$ 343,273	\$ 80,830	\$ 298,239	\$ 722,342

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

	<u>GASB Balance</u>	<u>Reconciling Items</u>	<u>UFARS Balance</u>
Fund balances			
Nonspendable			
Inventory	\$ 3,380	\$ -	\$ 3,380
Restricted			
Operating capital	-	(211,775)	(211,775)
Safe schools - crime levy	-	(54,026)	(54,026)
Long term facility maintenance (fund 01)	-	(363)	(363)
Food service	115,124	-	115,124
Community education	-	(51,600)	(51,600)
School readiness	132,247	-	132,247
E.C.F.E.	90,126	-	90,126
Debt service	80,830	-	80,830
OPEB debt service	8,962	-	8,962
Total restricted	<u>427,289</u>	<u>(317,764)</u>	<u>109,525</u>
Unassigned	<u>291,673</u>	<u>317,764</u>	<u>609,437</u>
Total fund balances	<u>\$ 722,342</u>	<u>\$ -</u>	<u>\$ 722,342</u>

**Note 9 - Defined Benefit Pension Plans**

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

**Public Employees Retirement Association (PERA)**

**A. Plan Descriptions**

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

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

**B. Benefits Provided**

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

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

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

**C. Contribution Rate**

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2019, were \$107,453. The District's contributions were equal to the required contribution for the year as set by state statute.

**D. Pension Costs**

At June 30, 2019, the District reported a liability of \$1,242,660 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$40,700. The net pension liability was measured as of June 30, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. The District's proportionate share was 0.0224% at the end of the measurement period and 0.0223% for the beginning of the period.

District's proportionate share of net pension liability	\$ 1,242,660
State of Minnesota's proportionate share of the net pension liability associated with the District	<u>40,700</u>
Total	<u><u>\$ 1,283,360</u></u>

For the year ended June 30, 2019, the District recognized pension expense of \$73,662 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$9,491 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 32,791	\$ 35,596
Change in actuarial assumptions	116,586	139,199
Difference between projected and actual investment earnings	-	129,372
Change in proportion and differences between contributions made and District's proportionate share of contributions	20,854	-
District's contributions to GERP subsequent to the measurement date	107,453	-
Total	\$ 277,684	\$ 304,167

The \$107,453 reported as deferred outflows of resources related to pensions resulting from [entity] contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2020	\$ 51,221
2021	(60,270)
2022	(98,951)
2023	(25,936)

**E. Actuarial Assumptions**

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

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

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

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

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

Changes in Actuarial Assumptions:

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

Changes in Plan Provisions:

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

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

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

**F. Discount Rate**

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

**G. Pension Liability Sensitivity**

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

<b>Sensitivity Analysis</b>		
<i>Net Pension Liability (Asset) at Different Discount Rates</i>		
	General Employees Fund	
1% Lower	6.50%	\$ 2,019,482
Current Discount Rate	7.50%	\$ 1,242,660
1% Higher	8.50%	\$ 601,416

**H. Pension Plan Fiduciary Net Position**

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

**Teachers Retirement Association (TRA)**

**A. Plan Description**

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

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



**B. Benefits Provided**

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

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

*Tier I Benefits*

Tier1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2% per year
	First ten years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are up to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

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

or

*Tier II Benefits*

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

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

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

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

**C. Contribution Rate**

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

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

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

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

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

**D. Actuarial Assumptions**

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

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

**Actuarial Information**

Valuation date	July 1, 2018
Experience study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal

**Actuarial assumptions**

Investment rate of return	7.50%
Price inflation	2.50%
Wage growth rate	2.85% for 10 years and 3.25% thereafter
Projected salary increase	2.85 to 8.85% for 10 years and 3.25 to 9.25% thereafter
Cost of living adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually

**Mortality assumptions**

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

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

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

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

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

**Changes in actuarial assumptions since the 2017 valuation**

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

**E. Discount Rate**

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

**F. Net Pension Liability**

At June 30, 2019, the District reported a liability of \$5,587,352 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District’s proportionate share was 0.0890% at the end of the measurement period and 0.0877% for the beginning of the year.

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

District’s proportionate share of net pension liability	<u>\$ 5,587,352</u>
State’s proportionate share of the net pension liability associated with the district	<u>\$ 524,866</u>

For the year ended June 30, 2019, the District recognized pension revenue of \$3,778,411. It also recognized \$366,322 as an increase to pension expense for the support provided by direct aid.

Pelican Rapids Area Public Schools  
Independent School District No. 548  
Notes to Financial Statements  
June 30, 2019

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,937	\$ 111,269
Changes in actuarial assumptions	7,148,431	9,499,002
Difference between projected and actual investment earnings	-	426,830
Change in proportion and differences between contributions made and District's proportionate share of contributions	216,253	151,958
District's contributions to TRA subsequent to the measurement date	313,285	-
Total	\$ 7,679,906	\$ 10,189,059

\$313,285 was reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020.

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

Years Ended June 30,	Pension Expense Amount
2020	\$ 470,353
2021	310,897
2022	(31,727)
2023	(2,105,204)
2024	(1,466,757)

**G. Net Pension Liability**

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
TRA discount rate	6.50%	7.50%	8.50%
District’s proportionate share of the TRA net pension liability	\$ 8,867,106	\$ 5,587,352	\$ 2,881,578

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

**H. Pension Plan Fiduciary Net Position**

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

**Note 10 - Flexible Benefit Plan**

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

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

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

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

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

**Note 11 - Employee Benefit Plan 403(b)**

All teachers having completed their fifth year of teaching in the District are eligible to participate in the matching 403(b) program. The District will match the employees’ deferral up to the following maximums:

<u>Years of Service</u>	<u>Maximum Match</u>
6-10	\$ 1,000
11+	1,500

The maximum career matching contribution by the District will not exceed \$20,000 per teacher.

**Note 12 - Affiliated Organization**

The District, in conjunction with eight other school districts, is a member district of Fergus Falls Area Special Education Cooperative No. 935. The Joint Powers Board consists of one representative and one delegate from each member district. The representative is the Superintendent of Schools of each member district, and the delegate is one School Board member from each member district appointed by the School Board of that member district, who serves a three-year term. The purpose of the Joint Powers Board is to provide by cooperative effort a comprehensive special education program for the member districts. Each member district is entitled to one vote, which shall be cast by the delegate of that member district. The representative is a nonvoting member of the Joint Powers Board. Contributions of \$120,800 were made by the District to the joint venture for the year ended June 30, 2019. The contributions are based on the operating budget of the Cooperative and allocated per agreement to the member districts.

Fergus Falls Area Special Education Cooperative is separately audited from the District. Complete financial statements for the Cooperative can be obtained from its administrative office at 1519 Pebble Lake Road, Fergus Falls, MN 56537.



**Note 13 - Commitments and Contingencies**

**Federal Revenue**

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

**Note 14 - Subsequent Event**

Subsequent to year end, the District issued \$2,000,000 of Minnesota Tax Aid Anticipation Borrowing Notes to cover shortfalls in cash. The notes bear an interest rate of 2% and mature September 2020. Payment of principal and interest will be made from the General Fund.

**Note 15 - Issued But Non-effective Accounting Pronouncements**

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

The second statement issued but not yet implemented that will significantly affect the District is Statement No. 90, *Majority Equity Interests*. This statement defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. This statement will be implemented at the District in the year ended June 30, 2020.

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

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

The final statement issued but not yet implemented that will significantly affect the District is Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required noted disclosures. The requirements of this Statement will improve financial reporting by eliminating the existing option for issuers to report conduit debt obligations as their own liabilities, thereby ending significant diversity in practice. The clarified definition will resolve stakeholders' uncertainty as to whether a given financing is, in fact, a conduit debt obligation. Requiring issuers to recognize liabilities associated with additional commitments extended by issuers and to recognized assets and deferred inflows of resources related to certain arrangements associated with conduit debt obligations also will eliminate diversity, thereby improving comparability in reporting by issuers. Revised disclosure requirements will provide financial statement users with better information regarding the commitments issuers extend and the likelihood that they will fulfill those commitments. That information will inform users of the potential impact of such commitments on the financial resources of issuers and help users assess issuers' roles in conduit debt obligations. This statement will be implemented at the District in the year ended June 30, 2022.

As a result of implementing GASB Statement No. 84, management expects assets of \$117,419 currently reported within the Student Activities Agency Fund will be reported within the General Fund beginning July 1, 2019. Management has not yet determined the effect GASB Statements No. 87, 89, 90, and 91 will have on the District's financial statement.



Required Supplementary Information  
June 30, 2019

**Pelican Rapids Area Public Schools  
Independent School District No. 548**

Pelican Rapids Area Public Schools  
Independent School District No. 548  
Schedule of Changes in the District's Net OPEB Liability and Related Ratios  
June 30, 2019

**Schedule of Changes in the District's Net OPEB Liability and Related Ratios, Last 10 Years \***

	2017	2018	2019
Total OPEB liability			
Service cost	\$ 31,911	\$ 29,822	\$ 23,808
Interest cost	17,330	17,517	20,455
Assumption changes	-	(14,533)	13,646
Differences between expected and actual experience	-	-	(97,360)
Benefit payments	(42,454)	(38,911)	(54,079)
Net change in total OPEB liability	6,787	(6,105)	(93,530)
Total OPEB liability - beginning	586,751	593,538	587,433
Total OPEB liability - ending (a)	<u>\$ 593,538</u>	<u>\$ 587,433</u>	<u>\$ 493,903</u>
Plan fiduciary net position			
Projected investment return	\$ 4,907	\$ 3,909	\$ 3,985
Differences between expected and actual experience	(3,820)	705	(2,412)
Benefit payments	(42,454)	(38,911)	(54,079)
Administrative expenses	(229)	(250)	-
Other changes	-	37,728	-
Net change in plan fiduciary net position	(41,596)	3,181	(52,506)
Plan fiduciary net position - beginning	204,470	162,874	166,055
Plan fiduciary net position - ending (b)	<u>\$ 162,874</u>	<u>\$ 166,055</u>	<u>\$ 113,549</u>
District's net OPEB liability - ending (a) - (b)	<u>\$ 430,664</u>	<u>\$ 421,378</u>	<u>\$ 380,354</u>
Plan fiduciary net position as a percentage of the total OPEB liability	27.44%	28.27%	22.99%
Covered-employee payroll	\$ 5,836,928	\$ 6,012,035	\$ 5,539,314
District's net OPEB liability as a percentage of covered-employee payroll	7.38%	7.01%	6.87%

\*GASB Statements No. 74 and 75 require ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Pelican Rapids Area Public Schools  
Independent School District No. 548

Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions  
June 30, 2019

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

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b)	Total (c) (a+b)	Employer's Covered-Employee Payroll (d)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll (c/d)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	6/30/2018	0.0224%	\$ 1,242,660	\$ 40,700	\$ 1,283,360	\$ 1,514,625	84.7%	79.5%
PERA	6/30/2017	0.0223%	1,423,617	17,891	1,441,508	1,441,587	100.0%	75.9%
PERA	6/30/2016	0.0220%	1,786,291	23,238	1,809,529	1,370,493	132.0%	68.9%
PERA	6/30/2015	0.0217%	1,124,607	N/A	1,124,607	1,266,827	88.8%	78.2%
PERA	6/30/2014	0.0252%	1,183,770	N/A	1,183,770	1,326,965	89.2%	78.8%
TRA	6/30/2018	0.0890%	\$ 5,587,352	\$ 524,866	\$ 6,112,218	\$ 4,925,450	124.1%	58.3%
TRA	6/30/2017	0.0877%	5,587,352	524,866	6,112,218	4,752,600	128.6%	51.6%
TRA	6/30/2016	0.0881%	21,013,952	2,108,318	23,122,270	4,564,507	506.6%	44.9%
TRA	6/30/2015	0.0902%	5,579,762	684,655	6,264,417	4,561,480	137.3%	76.8%
TRA	6/30/2014	0.0953%	4,391,355	308,913	4,700,268	4,388,779	107.1%	81.5%

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

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

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)
PERA	6/30/2019	\$ 107,453	\$ 107,453	\$ -	\$ 1,435,516	7.5%
PERA	6/30/2018	113,334	113,334	-	1,514,625	7.5%
PERA	6/30/2017	108,119	108,119	-	1,441,587	7.5%
PERA	6/30/2016	102,787	102,787	-	1,370,493	7.5%
PERA	6/30/2015	95,012	95,012	-	1,266,827	7.5%
TRA	6/30/2019	\$ 313,285	\$ 313,285	\$ -	\$ 4,087,406	7.7%
TRA	6/30/2018	367,757	367,757	-	4,925,450	7.5%
TRA	6/30/2017	356,445	356,445	-	4,752,600	7.5%
TRA	6/30/2016	342,338	342,338	-	4,564,507	7.5%
TRA	6/30/2015	342,111	342,111	-	4,561,480	7.5%

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

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

PERA Changes in Actuarial Assumptions:

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

Pelican Rapids Area Public Schools  
Independent School District No. 548

Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions  
June 30, 2019

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PERA Changes in Plan Provisions:

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

TRA Changes in Actuarial Assumptions

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

PERA's CAFR may be obtained on the PERA's website at [www.mnpera.org](http://www.mnpera.org) for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.

TRA's CAFR may be obtained on the TRA's website at [www.MinnesotaTRA.org](http://www.MinnesotaTRA.org) for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.



Combining and Individual Fund Schedules  
June 30, 2019

**Pelican Rapids Area Public Schools  
Independent School District No. 548**



Pelican Rapids Area Public Schools  
 Independent School District No. 548  
 General Fund  
 Schedule of Changes in UFARS Fund Balances  
 Years Ended June 30, 2019

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	Fund Balance Beginning of Year	Net Change in Fund Balance	Fund Balance (Deficit) End of Year
Restricted for long-term facility maintenance	\$ 25,349	\$ (25,712)	\$ (363)
Restricted for health and safety	3,903	(3,903)	-
Restricted for operating capital	5,625	(217,400)	(211,775)
Restricted for gifted and talented	19,406	(19,406)	-
Restricted for safe school - crime levy	(47,930)	(6,096)	(54,026)
Restricted for area learn center	125,786	(125,786)	-
Unassigned	767,091	(157,654)	609,437
	<u>\$ 899,230</u>	<u>\$ (555,957)</u>	<u>\$ 343,273</u>

Pelican Rapids Area Public Schools  
 Independent School District No. 548  
 Nonmajor Governmental Funds  
 Combining Balance Sheet  
 June 30, 2019

	Food Service	Community Service	OPEB Debt Service Fund	Totals
<b>Assets</b>				
Cash and cash equivalents	\$ 145,347	\$ 257,744	\$ 85,161	\$ 488,252
Receivables				
Current property taxes	-	61,190	61,819	123,009
Delinquent property taxes	-	1,692	2,030	3,722
Due from other governmental units	-	4,954	172	5,126
Accounts	390	-	-	390
Inventories	3,380	-	-	3,380
	<u>\$ 149,117</u>	<u>\$ 325,580</u>	<u>\$ 149,182</u>	<u>\$ 623,879</u>
<b>Liabilities</b>				
Accrued salaries and related liabilities	\$ 30,613	\$ 16,264	\$ -	\$ 46,877
<b>Deferred Inflows of Resources</b>				
Unavailable revenue-property taxes	-	138,543	140,220	278,763
<b>Fund Balance</b>				
Nonspendable	3,380	-	-	3,380
Restricted	115,124	222,373	8,962	346,459
Unassigned	-	(51,600)	-	(51,600)
	<u>118,504</u>	<u>170,773</u>	<u>8,962</u>	<u>298,239</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 149,117</u>	<u>\$ 325,580</u>	<u>\$ 149,182</u>	<u>\$ 623,879</u>

Pelican Rapids Area Public Schools  
Independent School District No. 548  
Nonmajor Governmental Funds  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Year Ended June 30, 2019

	Food Service	Community Service	Capital Projects	OPEB Debt Service Fund	Totals
Revenues					
Local property tax levies	\$ -	\$ 112,473	\$ -	\$ 132,455	\$ 244,928
Other local and county sources	6,182	98,649	30,612	-	135,443
State sources	31,481	107,846	-	1,717	141,044
Federal sources	315,409	-	-	-	315,409
Interest income	-	980	-	-	980
Sales and other conversion of assets	120,859	-	-	-	120,859
Total revenues	<u>473,931</u>	<u>319,948</u>	<u>30,612</u>	<u>134,172</u>	<u>958,663</u>
Expenditures					
Community education and service	-	281,420	-	-	281,420
Pupil support services	487,442	-	-	-	487,442
Fiscal and other fixed cost programs	-	-	-	133,881	133,881
Total expenditures	<u>487,442</u>	<u>281,420</u>	<u>-</u>	<u>133,881</u>	<u>902,743</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(13,511)	38,528	30,612	291	55,920
Fund Balance, Beginning of Year	<u>132,015</u>	<u>132,245</u>	<u>(30,612)</u>	<u>8,671</u>	<u>242,319</u>
Fund Balance, End of Year	<u>\$ 118,504</u>	<u>\$ 170,773</u>	<u>\$ -</u>	<u>\$ 8,962</u>	<u>\$ 298,239</u>



Other Supplementary Information  
June 30, 2019

**Pelican Rapids Area Public Schools  
Independent School District No. 548**

Pelican Rapids Area Public Schools  
Independent School District No. 548  
Schedule of Changes in Student Activity Cash Balances  
Year Ended June 30, 2019

Activity	Balance 7/1/18	Receipts and and Transfers	Disbursements and Transfers	Balance 6/30/19
Special Education	\$ 14	\$ -	\$ -	\$ 14
Spanish	9,302	16,389	12,439	13,252
F.F.A.	2,685	10,617	10,487	2,815
Student Council	1,950	5,004	6,000	954
Sixth Grade Trip	17,904	12,555	13,931	16,528
Shada	5,918	2,952	85	8,785
Elementary Student Council	1,130	6	104	1,032
Elementary Yearbook	251	2,921	-	3,172
National Honor Society	315	877	143	1,049
Interest	-	642	642	-
T.E.C.H.S.	1,946	10	-	1,956
S.A.D.D.	2,565	2,116	936	3,745
Choir	36,225	69,631	86,003	19,853
Band	32,538	27,006	23,768	35,776
Concession Equipment	3,543	18	84	3,477
Class of 2018	867	-	867	-
Class of 2019	3,048	240	380	2,908
Class of 2020	-	4,993	2,890	2,103
	<u>\$ 120,201</u>	<u>\$ 155,977</u>	<u>\$ 158,759</u>	<u>\$ 117,419</u>

Pelican Rapids Area Public Schools  
 Independent School District No. 548  
 Uniform Accounting and Reporting Standards Compliance Table  
 Year Ended June 30, 2019

**Fiscal Compliance Report - 6/30/2019**

Help Logoff

District: PELICAN RAPIDS (548-1) Back Print

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$10,621,460	<u>\$10,621,460</u>	\$1	Total Revenue	\$30,812	<u>\$30,811</u>	\$1
Total Expenditures	\$11,370,426	<u>\$11,370,426</u>	\$0	Total Expenditures	\$0	\$0	\$0
Non Spendable:				Non Spendable:			
4.60 Non Spendable Fund Balance	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
Restricted / Reserved:				Restricted / Reserved:			
4.03 Staff Development	\$0	\$0	\$0	4.07 Capital Projects Levy	\$0	\$0	\$0
4.06 Health and Safety	\$0	\$0	\$0	4.13 Project Funded by COP	\$0	\$0	\$0
4.07 Capital Projects Levy	\$0	\$0	\$0	4.67 LTFM	\$0	\$0	\$0
4.08 Cooperative Revenue	\$0	\$0	\$0	Restricted:			
4.13 Project Funded by COP	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.14 Operating Debt	\$0	\$0	\$0	Unassigned:			
4.16 Levy Reduction	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.17 Taconite Building Maint	\$0	\$0	\$0				
4.24 Operating Capital	(\$211,775)	<u>(\$211,775)</u>	\$0	<b>07 DEBT SERVICE</b>			
4.26 \$25 Taconite	\$0	\$0	\$0	Total Revenue	\$2,127,957	<u>\$2,127,958</u>	(\$1)
4.27 Disabled Accessibility	\$0	\$0	\$0	Total Expenditures	\$2,066,695	<u>\$2,066,695</u>	\$0
4.28 Learning & Development	\$0	\$0	\$0	Non Spendable:			
4.34 Area Learning Center	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.35 Contracted Alt. Programs	\$0	\$0	\$0	Restricted / Reserved:			
4.36 State Approved Alt. Program	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
4.38 Gifted & Talented	\$0	\$0	\$0	4.33 Maximum Effort Loan Aid	\$0	\$0	\$0
4.40 Teacher Development and Evaluation	\$0	\$0	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.41 Basic Skills Programs	\$0	\$0	\$0	4.67 LTFM	\$0	\$0	\$0
4.48 Achievement and Integration	\$0	\$0	\$0	Restricted:			
4.49 Safe School Crime - Crime Levy	(\$54,026)	<u>(\$54,026)</u>	\$0	4.64 Restricted Fund Balance	\$80,830	<u>\$80,830</u>	\$0
4.50 Pre-Kindergarten	\$0	\$0	\$0	Unassigned:			
4.51 QZAB Payments	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0				
4.53 Unfunded Sev & Retirement Levy	\$0	\$0	\$0	<b>08 TRUST</b>			
4.59 Basic Skills Extended Time	\$0	\$0	\$0	Total Revenue	\$16,518	<u>\$16,518</u>	\$0
4.67 LTFM	(\$363)	<u>(\$363)</u>	\$0	Total Expenditures	\$18,192	<u>\$18,192</u>	\$0
4.72 Medical Assistance	\$0	\$0	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$49,692	<u>\$49,692</u>	\$0
Restricted:							
4.64 Restricted Fund Balance	\$0	\$0	\$0	<b>20 INTERNAL SERVICE</b>			
4.75 Title VII Impact Aid	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.76 Payments in Lieu of Taxes	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
Committed:				4.22 Unassigned Fund Balance (Net Assets)	\$0	\$0	\$0
4.18 Committed for Separation	\$0	\$0	\$0				
4.61 Committed Fund Balance	\$0	\$0	\$0	<b>25 OPEB REVOCABLE TRUST</b>			
Assigned:				Total Revenue	\$0	\$0	\$0
4.62 Assigned Fund Balance	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
Unassigned:				4.22 Unassigned Fund Balance (Net Assets)	\$0	\$0	\$0
4.22 Unassigned Fund Balance	\$609,437	<u>\$609,435</u>	\$2				
				<b>45 OPEB IRREVOCABLE TRUST</b>			
<b>02 FOOD SERVICES</b>				Total Revenue	\$1,573	<u>\$1,573</u>	\$0
Total Revenue	\$473,931	<u>\$473,932</u>	(\$1)	Total Expenditures	\$54,079	<u>\$54,079</u>	\$0
Total Expenditures	\$487,442	<u>\$487,440</u>	\$2	4.22 Unassigned Fund Balance (Net Assets)	\$113,549	<u>\$113,549</u>	\$0
Non Spendable:							
4.60 Non Spendable Fund Balance	\$3,380	<u>\$3,380</u>	\$0	<b>47 OPEB DEBT SERVICE</b>			
Restricted / Reserved:				Total Revenue	\$134,172	<u>\$134,172</u>	\$0
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	Total Expenditures	\$133,881	<u>\$133,883</u>	(\$2)
Restricted:				Non Spendable:			
4.64 Restricted Fund Balance	\$115,124	<u>\$115,126</u>	(\$2)	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
Unassigned:				Restricted:			
4.63 Unassigned Fund Balance	\$0	\$0	\$0	4.25 Bond Refundings	\$0	\$0	\$0
				4.64 Restricted Fund Balance	\$8,962	<u>\$8,961</u>	\$1
<b>04 COMMUNITY SERVICE</b>				Unassigned:			
Total Revenue	\$319,948	<u>\$319,949</u>	(\$1)	4.63 Unassigned Fund Balance	\$0	\$0	\$0
Total Expenditures	\$281,420	<u>\$281,417</u>	\$3				
Non Spendable:							
4.60 Non Spendable Fund Balance	\$0	\$0	\$0				
Restricted / Reserved:							
4.26 \$25 Taconite	\$0	\$0	\$0				
4.31 Community Education	(\$51,600)	<u>(\$51,697)</u>	(\$3)				
4.32 E.C.F.E	\$90,126	<u>\$90,126</u>	\$0				
4.40 Teacher Development and Evaluation	\$0	\$0	\$0				
4.44 School Readiness	\$132,247	<u>\$132,247</u>	\$0				
4.47 Adult Basic Education	\$0	\$0	\$0				
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0				
Restricted:							
4.64 Restricted Fund Balance	\$0	\$0	\$0				
Unassigned:							
4.63 Unassigned Fund Balance	\$0	\$0	\$0				



Additional Reports  
June 30, 2019

**Pelican Rapids Area Public Schools  
Independent School District No. 548**



**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

The School Board of  
Independent School District No. 548  
Pelican Rapids Area Public Schools  
Pelican Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 548, Pelican Rapids Area Public Schools, 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 19, 2019.

**Internal Control over Financial Reporting**

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

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

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



**Compliance and Other Matters**

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

**Response to Findings**

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and in the District's Corrective Action Plan, which is in a separate document. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on 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.

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota  
November 19, 2019



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

The School Board of  
Independent School District No. 548  
Pelican Rapids Area Public Schools  
Pelican Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the *Manual for Activity Fund Accounting (MAFA)*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 548, Pelican Rapids Area Public Schools, 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 19, 2019

### Compliance

As part of obtaining reasonable assurance about whether the District's student activity accounts are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of student activity amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. Findings 2019-004 and 2019-005 in Section II of the attached schedule of findings were noted to be in noncompliance through testing of these requirements.

### Response to Findings

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and in the District's Corrective Action Plan, which is in a separate document. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

A handwritten signature in cursive script that reads "Eide Bailly LLP".

Fargo, North Dakota  
November 19, 2019



## Report on *Minnesota Legal Compliance*

The School Board of  
Independent School District No. 548  
Pelican Rapids Area Public Schools  
Pelican Rapids, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 548 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 19, 2019.

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

In connection with our audit no items came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions. The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

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

Fargo, North Dakota  
November 19, 2019

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**Section I – Financial Statement Findings**

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

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

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

*Cause:* There are a limited amount of office employees.

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

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

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

**2019-002      Preparation of Financial Statements**  
**Material Weakness**

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

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

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

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

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

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

**2019-003      Significant Journal Entries  
Material Weakness**

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

*Condition:* During the course of our engagement, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls, and therefore could have resulted in a material misstatement of the District's financial statements.

*Cause:* The District does not have an internal control system designed to identify all necessary adjustments.

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

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

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

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**Section II – Student Activity Findings**

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**2019-004      Inactive Student Activity Funds**

*Criteria:* A good system of internal accounting control contemplates an adequate system for compliance with the MAFA guidelines requires inactive accounts to be closed or a formal plan must be in place for why the activity fund was not used.

*Condition:* During the course of our engagement, we noted an instance of a student activity fund with no activity during the year. Per Chapter 14 of the UFARS Manual, inactive accounts should be closed or a formal plan should be in place for why the activity fund was not used.

*Effect:* The finding could result in public funds being used for the personal gain of individuals.

*Cause:* The District did not follow the procedures in maintaining activity in all student activity funds.

*Recommendation:* District should review the MAFA guidelines to determine proper treatment of inactive accounts.

*View of responsible officials:* There is no disagreement with the finding.

**2019-005      Improper Use of Student Activity Funds**

*Criteria:* A good system of internal accounting control contemplates an adequate system for compliance with the MAFA guidelines of the proper use of student funds. Page 17 of the MAFA guidelines describes payments for labor or services as inappropriate expenditures by student activity funds.

*Condition:* During the course of our engagement, we noted an instance where student activity funds paid for background checks.

*Effect:* The finding could result in public funds being used for the personal gain of individuals.

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

*Recommendation:* District should review the MAFA guidelines to determine which payments are appropriate for student activity accounts.

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

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**Section III – Minnesota Legal Compliance Findings**

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**None**