

**INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2019**

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INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

TABLE OF CONTENTS

	<u>Page</u>
BOARD OF EDUCATION AND ADMINISTRATION	1
INDEPENDENT AUDITORS REPORT	2
MANAGEMENTS DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
District-wide Financial Statements:	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements:	
Balance Sheet - Governmental Funds	17
Reconciliation of the Balance Sheet to the Statement of Net Position - Governmental Funds	18
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	19
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Governmental Funds	20
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual:	
General Fund	21
Statement of Fiduciary Net Position	22
Statement of Changes in Fiduciary Net Position	23
Notes to Basic Financial Statements	25
REQUIRED SUPPLEMENTAL INFORMATION SECTION	
Schedule of District's Proportionate Share of Net Pension Liability – Public Employee Retirement Association	57
Schedule of District's Contributions – Public Employee Retirement Association	57
Schedule of District's Proportionate Share of Net Pension Liability – Teachers Retirement Association	58
Schedule of District's Contributions – Teachers Retirement Association	58
Schedule of Changes in the District's Net OPEB Liability and Related Ratios	59
Schedule of District's Contribution	60
Schedule of Investment Returns	60
Notes to the Required Supplemental Information	61
SUPPLEMENTAL INFORMATION SECTION	
Nonmajor Funds	
Combining Balance Sheet	65
Combining Statement of Revenues, Expenditures and Changes in Fund Balance	66
Debt Service Funds	
Combining Balance Sheet	67
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance	68
General Fund	
Balance Sheet	69
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	70
Food Service Fund	
Balance Sheet	71
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	72
Community Service Fund	
Balance Sheet	73
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual	74
Uniform Financial Accounting and Reporting Standards Compliance Table	75
OTHER REQUIRED REPORTS:	
Report on Minnesota Legal Compliance	77
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	78
Schedule of Findings	80

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

TABLE OF CONTENTS

	<u>Page</u>
STUDENT ACTIVITY ACCOUNTS:	
Independent Auditor's Report	84
Statement of Cash Receipts and Disbursements	86
Notes to Student Activity Fund	87
Report on Compliance with the Manual for Student Activity Accounting	88

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

BOARD OF EDUCATION

<u>Name</u>	<u>Term on Board Expires</u>	<u>Position</u>
Steven Eklund	January, 2023	Chairperson
Mike Thompson	January, 2021	Vice-Chairperson
Allison Londgren	January, 2023	Clerk
Anthony Cuda	January, 2021	Treasurer
Angie Flowers	January, 2021	Director
Darrin Davis	January, 2023	Director
David Shockman	January, 2021	Director

ADMINISTRATION

Ken Gagner	Superintendent
Judy Patzoldt	Business Manager

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Burkhardt & Burkhardt, Ltd.

Certified Public Accountants

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Annandale, MN 55302
P: 320.274.1040
F: 320.274.2260

Experienced... Over 40 years combined experience

Affordable... Exceptional value for a reasonable price

Friendly... Family owned and run since 1990

Mankato Office:
430 S. Broad St., Ste. 100
Mankato, MN 56001
P: 507.387.1338
F: 507.387.5199

INDEPENDENT AUDITOR'S REPORT

Members of the School Board
Independent School District No. 314
Braham, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 314, Braham, Minnesota, (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Independent School District No. 314, Braham, Minnesota, 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 accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information (RSI), 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 an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI 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.


Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Year Comparative Information

We have previously audited the District's 2018 financial statements, and we expressed an unmodified audit opinions on the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information, in our report dated October 15, 2018. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2019 on our consideration of the Independent School District No. 314, Braham, Minnesota's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.



Mankato, Minnesota
October 18, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

This section of Independent School District No. 314 – Braham Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2017-18 fiscal year include the following:

- Liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at June 30, 2019 by \$4,566,743 (net position). The District's total net position increased by \$2,989,712 during the fiscal year ended June 30, 2019.
- At June 30, 2019, the District's governmental funds reported total fund balances of \$1,061,748. Of this amount, \$449,121 (unassigned fund balance) may be used to meet the general District's spending requirements. The unassigned fund balance represents 5.8% of total General Fund expenditures.
- The general fund balances increased \$380,598 while the food service, community service, debt service and construction fund balances decreased \$7,614, \$9,120, \$68,834 and \$23,749 respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

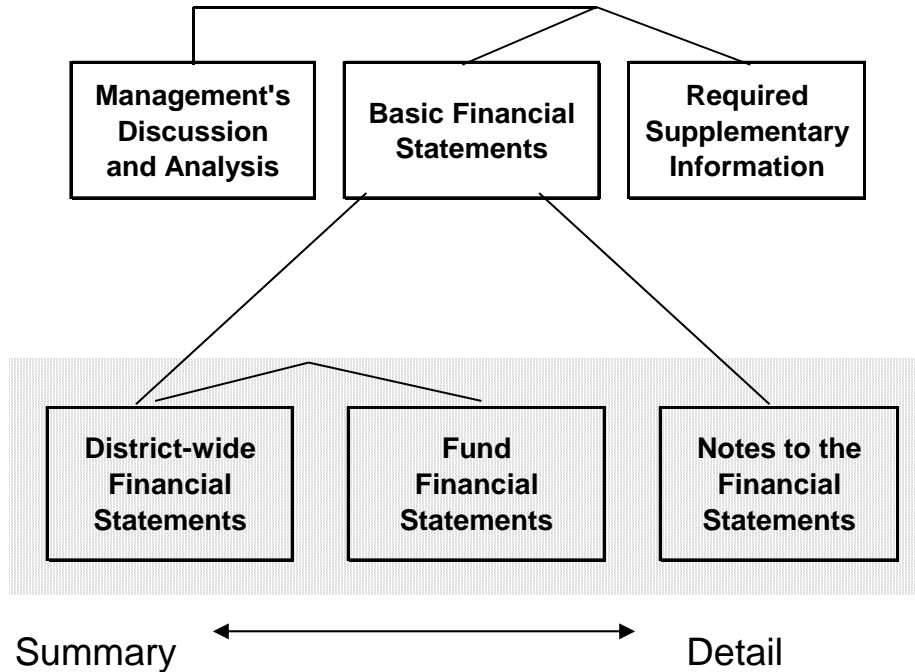
This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components:

- 1) District-wide financial statements, providing information for the District as a whole.
- 2) Fund financial statements, providing detailed information for the District's significant funds.
- 3) Notes to the financial statements, providing additional information that is essential to understanding the District-wide and fund statements.

The financial statements are followed by budget to actual comparisons for the general fund and the major special revenue funds. The diagram on the following page shows how the various parts of this annual report are arranged and related to one another.

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued



The major features of the District's financial statements, including the portion of the District's activities, they cover and the types of information they contain, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.

District-wide Statements

The *District-wide* financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected state aids and earned but not used vacation leave).

In the District-wide financial statements, the District's activities are shown in one category, governmental activities. Most of the District's base 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.

The District-wide financial statements can be found on pages 15-16 of this report.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governmental units, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has two kinds of funds, governmental and fiduciary.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a governmental unit's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, food service, community service, building and construction, and debt service funds.

The District adopts an annual appropriated budget for its general fund and special revenue funds. Budgetary comparison statements have been provided for the general fund and the special revenue funds to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 17-21 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs.

The basic fiduciary fund financial statements can be found on pages 22-23 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found on pages 25-55 of this report.

Required Supplementary Information. This report presents certain required supplementary information regarding the District's annual pension cost and schedules related to the District's post-employment retirement benefits (OPEB).

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

DISTRICT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a governmental unit's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources by \$4,566,743 at the close of the most recent fiscal year. \$3,843,002 of this amount represents net investment in capital assets

The District uses these capital assets to provide District services; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Position

The District's combined net position was \$(4,566,743) on June 30, 2019. (See details in the table below.) This is up from \$(7,556,445) at June 30, 2018, an increase of \$2,989,712.

	<u>2019</u>	<u>2018</u>	<i>Increase (Decrease)</i>
<i>Assets</i>			
Current and other assets	\$ 3,855,105	\$ 3,079,303	\$ 775,802
Capital assets	12,171,297	12,790,980	(619,683)
	<u>16,026,402</u>	<u>15,870,283</u>	<u>156,119</u>
<i>Deferred Outflows of Resources</i>			
Pension plan deferments	5,829,257	8,508,216	(2,678,959)
Other post employment benefits deferments	180,977	12,720	168,257
Deferred refunding debits	8,901	1,547	7,354
	<u>6,019,135</u>	<u>8,522,483</u>	<u>(2,503,348)</u>
<i>Liabilities</i>			
Current liabilities	941,896	914,511	27,385
Long-term liabilities	14,886,850	24,467,189	(9,580,339)
	<u>15,828,746</u>	<u>25,381,700</u>	<u>(9,552,954)</u>
<i>Deferred Inflows of Resources</i>			
Unavailable revenue	1,954,331	1,462,024	492,307
Pension plan deferments	8,811,828	5,084,034	3,727,794
Other post employment benefits deferments	17,375	21,463	(4,088)
	<u>10,783,534</u>	<u>6,567,521</u>	<u>4,216,013</u>
Excess of total assets and deferred outflows of resources over total liabilities and deferred inflows of resources	<u>\$ (4,566,743)</u>	<u>\$ (7,556,455)</u>	<u>\$ 2,989,712</u>
<i>Net Position</i>			
Net Investment in Capital Assets	\$ 3,843,002	\$ 3,798,201	\$ 44,801
Unrestricted	(8,409,745)	(11,354,656)	2,944,911
Total net position	<u>\$ (4,566,743)</u>	<u>\$ (7,556,455)</u>	<u>\$ 2,989,712</u>

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

DISTRICT-WIDE FINANCIAL ANALYSIS - Continued

Change in Net Position

A summary of the revenues and expenses is presented in the table below.

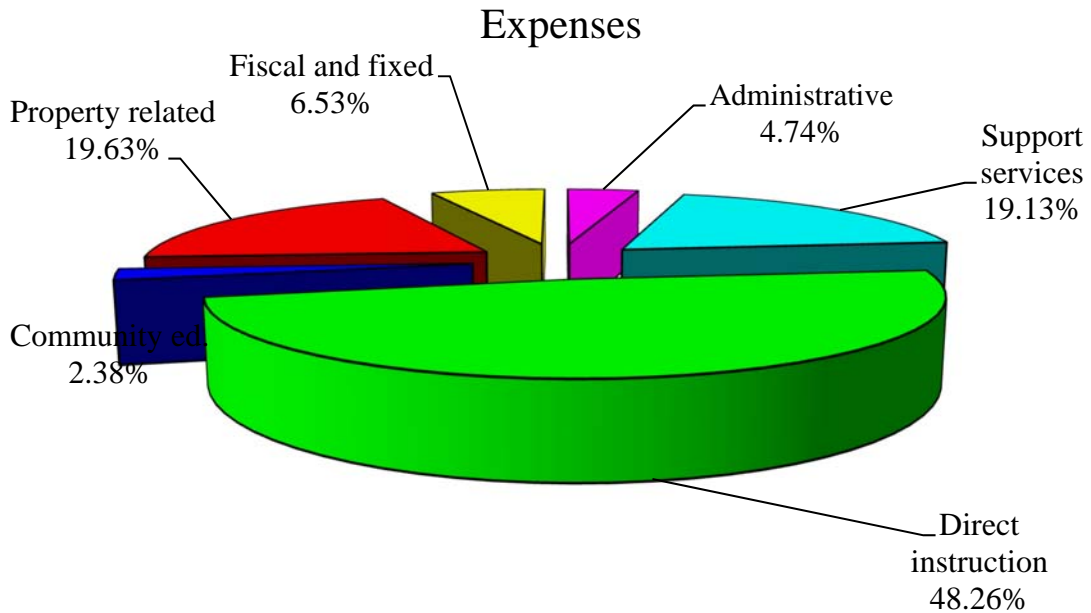
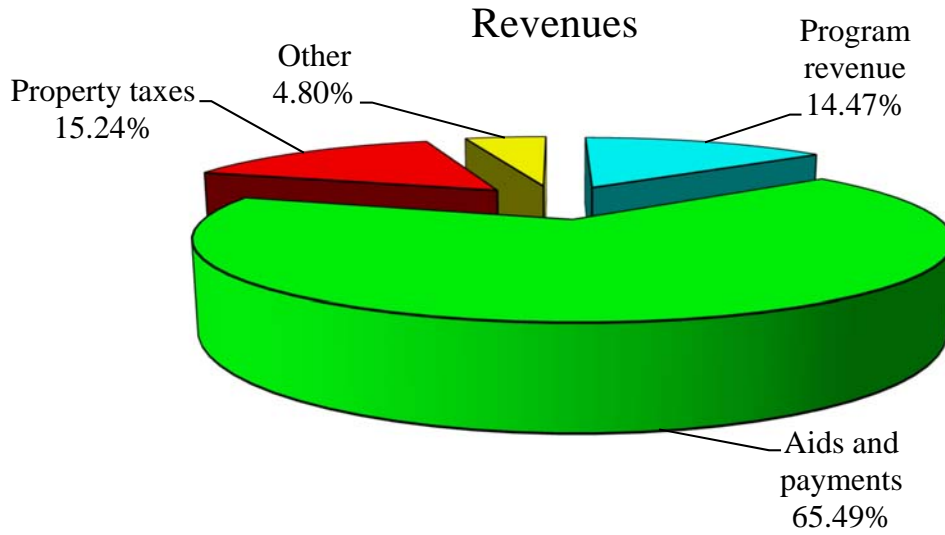
	<u>2019</u>	<u>2018</u>	<i>Increase (Decrease)</i>
<i>Revenues</i>			
Program revenues			
Charges for services	\$ 383,408	\$ 444,470	\$ (61,062)
Operating grants and contributions	885,883	901,719	(15,836)
Capital grants and contributions	171,113	167,772	3,341
General revenues			
Property taxes	1,516,941	1,653,387	(136,446)
Aids and payments from state and other	6,518,721	6,352,568	166,153
Other sources	477,761	122,044	355,717
	<u>9,953,827</u>	<u>9,641,960</u>	<u>311,867</u>
<i>Expenses</i>			
Administration	283,402	755,031	(471,629)
District support services	268,604	532,158	(263,554)
Regular instruction	2,464,978	5,217,062	(2,752,084)
Vocational instruction	114,086	173,432	(59,346)
Special education instruction	781,975	1,571,168	(789,193)
Community education and services	165,662	354,994	(189,332)
Instructional support services	52,368	93,217	(40,849)
Pupil support services	1,011,278	1,331,899	(320,621)
Site, buildings and equipment	1,037,502	1,274,981	(237,479)
Fiscal and other fixed-cost programs	42,113	12,053	30,060
Depreciation - unallocated	329,544	329,544	-
Interest on long-term debt	412,603	347,741	64,862
	<u>6,964,115</u>	<u>11,993,280</u>	<u>(5,029,165)</u>
Change in net position	<u>2,989,712</u>	<u>(2,351,320)</u>	<u>5,341,032</u>
Net Position - beginning	<u>(7,556,455)</u>	<u>(5,205,135)</u>	<u>(2,351,320)</u>
Net position - ending	<u>\$ (4,566,743)</u>	<u>\$ (7,556,455)</u>	<u>\$ 2,989,712</u>

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

DISTRICT-WIDE FINANCIAL ANALYSIS - Continued

Below are specific graphs that provide comparisons of the governmental activities' direct program revenues with their expenditures. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.



INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

DISTRICT-WIDE FINANCIAL ANALYSIS - Continued

The net cost of governmental activities is their total costs less program revenues applicable to each category. The table below shows the net costs of these services.

	<u>2019</u>	<u>2018</u>	<i>Increase (Decrease)</i>
District and school administration	\$ 283,402	\$ 755,031	\$ (471,629)
District support services	268,604	532,158	(263,554)
Regular instruction	2,464,978	5,217,062	(2,752,084)
Vocational instruction	114,086	173,432	(59,346)
Special education instruction	781,975	1,571,168	(789,193)
Community education and services	165,662	354,994	(189,332)
Instructional support services	52,368	93,217	(40,849)
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Fiscal and other fixed cost programs	42,113	12,053	30,060
Depreciation - unallocated	329,544	329,544	-
Interest on long-term debt	412,603	347,741	64,862
Total	<u>\$ 6,964,115</u>	<u>\$ 11,993,280</u>	<u>\$ (5,029,165)</u>

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS)**

Fund Balance

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 \$1,061,748. This was up from \$790,467 at the end of the prior year, an increase of \$271,281. To understand the changes from one year to the next, one needs to look at each individual fund balance. The major changes will be discussed here. The general fund unassigned fund balance increased \$284,572 from the previous year. This increase was due to revenue from state sources and property taxes increasing along with other financing source from a capital lease issuance. Additionally, the revised budget was made in anticipation of state aid increases in the next couple of years and stabilizing enrollment. The building construction fund saw a decrease in fund balance over the previous year, down \$23,749 from the previous year to \$0. This decrease is due to the District using the remaining funds to purchase equipment. The debt service fund also saw a decrease in fund balance over the previous year, down \$68,834 from the previous year to \$151,911. This decrease is due increased debt service costs from the prior year and less than anticipated revenue collection. The other funds did not have significant changes.

Revenues and Expenditures

Revenues and other financing sources of the District's governmental funds totaled \$13,222,287 while total expenditures and other financing uses were \$12,951,006. Summaries of the revenues and other financing sources and expenditures and other financing uses reported on the governmental fund financial statements appear in the tables on the following page.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) - Continued**

Revenues and Other Financing Sources

	<i>2019</i>	<i>2018</i>	<i>Increase (Decrease)</i>
General fund	\$ 8,067,113	\$ 7,932,411	\$ 134,702
Food service fund	459,732	476,273	(16,541)
Community service fund	249,398	251,106	(1,708)
Building and construction fund	153	524	(371)
Debt service fund	4,445,891	1,040,759	3,405,132
Totals	\$ 13,222,287	\$ 9,701,073	\$ 3,521,214

Expenditures and Other Financing Uses

	<i>2019</i>	<i>2018</i>	<i>Increase (Decrease)</i>
General fund	\$ 7,686,515	\$ 7,796,705	\$ (110,190)
Food service fund	467,346	468,341	(995)
Community service fund	258,518	253,893	4,625
Building and construction fund	23,902	27,511	(3,609)
Debt service fund	4,514,725	1,079,000	3,435,725
Totals	\$ 12,951,006	\$ 9,625,450	\$ 3,325,556

General Fund Budgetary Highlights

The original budget was approved in June 2018 using the best-forecasted data at the time. The budget was updated in January 2019 as the result of the following factors: Special Ed changes, changes in staff and ADM, and levy changes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Note 3 to the financial statements presents an analysis of capital asset transactions occurring during the year ended June 30, 2019. Additions totaling \$146,644 consisted mostly of a new floor scrubber, new high school freezer, athletic equipment and construction on a new safe school project.

Long-Term Debt

At year-end, the District had \$14,886,850 of long-term debt. This consisted of bonded indebtedness of \$8,330,000, unamortized bond premium/discount of \$162,623, special assessments payable of \$106,269, capital leases of \$523,305, severance payable of \$147,662, vacation payable of \$8,639, pension liabilities of \$4,776,437, and an OPEB liability of \$831,915.

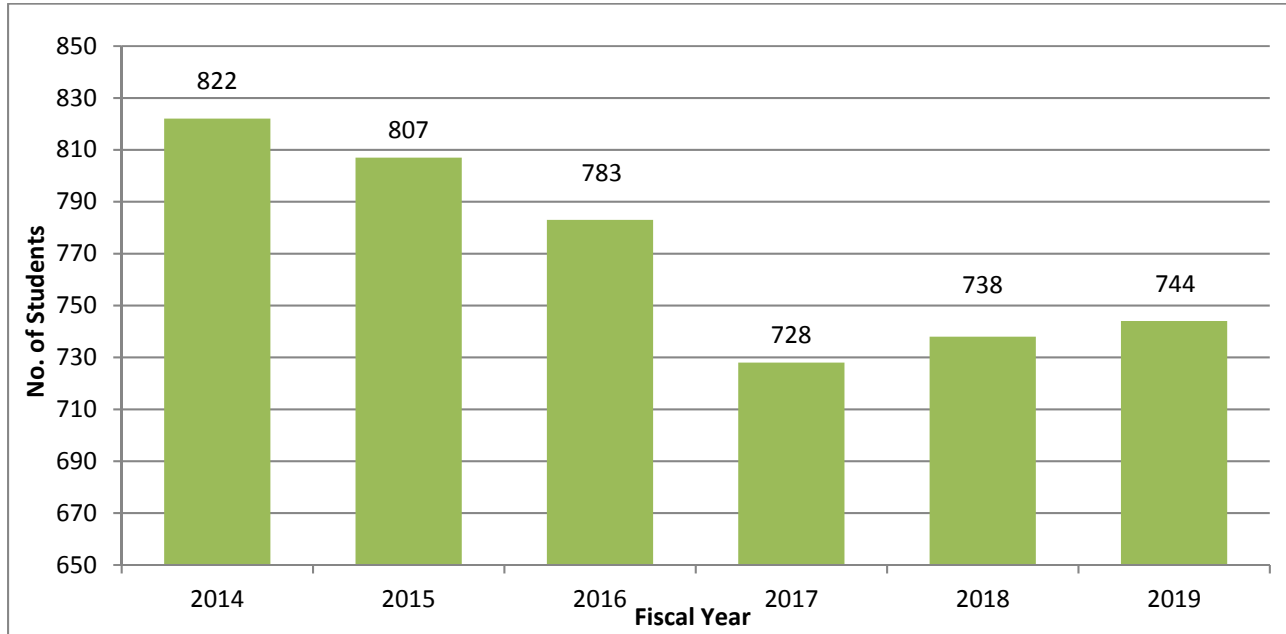
During the fiscal year ended June 30, 2009, the District entered into an agreement with a construction manager for improvements to the mechanical, electrical, ventilation, and temperature control systems that would provide an energy savings, thereby reducing the costs of operation. The capital lease listed above is the debt that is remaining to be paid on this project. The total cost of the project will be recovered in 15 years due to increased efficiencies and utility savings.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019

FACTORS BEARING ON THE DISTRICT'S FUTURE

Enrollment has seen a slow increase over the last three years after seeing a sharp decrease four to six years prior in ADM (average daily membership). The District counts on enrollment that drives ADM for its financial future. Since Minnesota school districts are paid based on pupil units served, a decline in enrollment results in less revenue being received for operations while increases result in more revenue for operations. The District's ADM for the current and past five years are illustrated below. The Enrollment-Table below presents this information.



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

Labor contracts, which are in effect for a two-year period, have been re-negotiated for the two-year period beginning July 1, 2017. The current contract saw no substantive changes for the prior agreement.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers 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 any questions about this report or would like additional information, contact Judy Patzoldt, Business Manager, Braham ISD #314, 531 Elmhurst Ave S, Braham, Minnesota, 55006.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

STATEMENT OF NET POSITION
June 30, 2019

	<u>Governmental Activities</u>
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Assets:	
Cash and Investments	\$ 1,466,650
Receivables:	
Due from Minnesota Department of Education	886,074
Accounts	25,565
Property Taxes	1,107,298
Due from Federal through State	216,097
Due from Other Governments	99,696
Inventory	17,928
Prepaid Items	35,797
Capital Assets:	
Assets Not Being Depreciated	393,355
Other Capital Assets, Net of Depreciation	11,777,942
Total Assets	<u>16,026,402</u>
Deferred Outflows of Resources:	
Pension Plan Deferments	5,829,257
Other Post Employment Benefits Plan Deferments	180,977
Deferred Refunding Debits	8,901
Total Deferred Outflows of Resources	<u>6,019,135</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 22,045,537</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities:	
Payables	\$ 890,009
Due to Other Governments	45,000
Unearned Revenue	6,887
Noncurrent Liabilities:	
Due Within One Year	831,693
Due in More Than One Year	14,055,157
Total Liabilities	<u>15,828,746</u>
Deferred Inflows of Resources:	
Property Taxes Levied For Subsequent Year	1,954,331
Pension Plan Deferments	8,811,828
Other Post Employment Benefits Plan Deferments	17,375
Total Deferred Inflows of Resources	<u>10,783,534</u>
Net Position:	
Net Investment in Capital Assets	3,843,002
Unrestricted	<u>(8,409,745)</u>
Total Net Position	<u>(4,566,743)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u><u>\$ 22,045,537</u></u>

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

STATEMENT OF ACTIVITIES
For The Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
GOVERNMENTAL ACTIVITIES:					
District and School Administration	\$ 283,402	\$ 0	\$ 0	\$ 0	\$ (283,402)
District Support Services	268,604	0	0	0	(268,604)
Regular Instruction	2,464,978	92,557	36,280	166,130	(2,170,011)
Vocational Instruction	114,086	0	8,809	4,983	(100,294)
Special Education Instruction	781,975	3,336	575,332	0	(203,307)
Community Education and Services	165,662	74,876	24,686	0	(66,100)
Instructional Support Services	52,368	0	0	0	(52,368)
Pupil Support Services	1,011,278	206,144	239,691	0	(565,443)
Site, Buildings, and Equipment	1,037,502	6,495	1,085	0	(1,029,922)
Fiscal and Other Fixed Costs	42,113	0	0	0	(42,113)
Unallocated Depreciation	329,544	0	0	0	(329,544)
Interest on Long-term Debt	412,603	0	0	0	(412,603)
Total Governmental activities	\$ 6,964,115	\$ 383,408	\$ 885,883	\$ 171,113	(5,523,711)
General Revenues:					
Taxes:					
Property Taxes Levied for General Purposes					713,217
Property Taxes Levied for Specific Purposes					803,724
Aids and Payments from the State					6,441,556
Aids and Payments from Local Sources					77,165
Other General Revenues					440,620
Unrestricted Interest Earnings					37,141
Total General Revenues					8,513,423
Change in Net Position					2,989,712
Net Position - Beginning					(7,556,455)
Net Position - Ending					\$ (4,566,743)

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 870,112	\$ 560,001	\$ 36,535	\$ 1,466,648
Accounts Receivable	25,417	0	148	25,565
Property Taxes Receivable	586,545	490,462	30,291	1,107,298
Due from Minnesota Department of Education	860,624	16,574	8,876	886,074
Due from Federal Through State	216,097	0	0	216,097
Due from Other Minnesota School Districts	96,108	0	0	96,108
Due from Other Governmental Unit	3,588	0	0	3,588
Inventory	0	0	17,928	17,928
Prepaid Items	35,797	0	0	35,797
	<u>\$ 2,694,288</u>	<u>\$ 1,067,037</u>	<u>\$ 93,778</u>	<u>\$ 3,855,103</u>
TOTAL ASSETS				
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities:				
Salaries and Benefits Payable	\$ 680,781	\$ 0	\$ 35,979	\$ 716,757
Accounts Payable	25,409	0	4,156	29,565
Due from Other Governments	394	0	0	394
Unearned Revenue	0	0	6,887	6,887
Due to Other Minnesota School Districts	45,000	0	0	45,000
Total Liabilities	<u>751,584</u>	<u>0</u>	<u>47,022</u>	<u>798,606</u>
 Deferred Inflows of Resources:				
Unavailable Revenue - Delinquent Taxes	16,435	22,770	1,213	40,418
Property Taxes Levied for Subsequent Year	1,006,495	892,356	55,480	1,954,331
Total Deferred Inflows of Resources	<u>1,022,930</u>	<u>915,126</u>	<u>56,693</u>	<u>1,994,749</u>
 Fund Balance:				
Nonspendable	35,797	0	17,928	53,725
Restricted	434,856	151,911	14,234	601,001
Unassigned	449,121	0	(42,099)	407,022
Total Fund Balance	<u>919,774</u>	<u>151,911</u>	<u>(9,937)</u>	<u>1,061,748</u>
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
	<u>\$ 2,694,288</u>	<u>\$ 1,067,037</u>	<u>\$ 93,778</u>	<u>\$ 3,855,103</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
June 30, 2019

Total Fund Balances - Governmental Funds \$ 1,061,748

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

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of capital assets	21,975,378
Less: Accumulated depreciation	(9,804,081)

Long-term liabilities, including compensated absences and severance benefits payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Bonds payable	(8,330,000)
Unamortized premiums/discounts	(162,623)
Obligations under capital leases	(523,306)
Special assessments payable	(106,269)
Severance benefits payable	(147,661)
Deferred refunding debit	8,901
Compensated absences payable	(8,639)
Unearned revenue	(6,887)

Long-term receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred inflows of resources in the funds.

Delinquent property taxes	47,305
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Net pension liabilities and net other post employment benefits (OPEB) liabilities are not recognized under the current financial resources measurement focus and, therefore, has no effect on fund balance

Net pension liability - Teacher's Retirement Association	(3,705,752)
Net pension liability - General Employees Retirement Fund	(1,070,685)
Net OPEB liability	(831,915)

Deferred inflows and outflows of resources related to net pension and net OPEB liabilities are not recognized under the current financial resources measurement focus and, therefore, has no effect on fund balance

Deferred outflow of resources related to pensions and OPEB	6,010,234
Deferred inflows of resources related to pensions and OPEB	(8,829,203)

Governmental funds do not report a liability for accrued interest payable until due and payable.

(143,293)

Total Net Position - Governmental Activities	<u>\$ (4,566,743)</u>
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INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
Revenues:				
Local Property Taxes	\$ 715,044	\$ 756,086	\$ 52,130	\$ 1,523,260
Other Local and County Revenues	300,176	24,327	121,271	445,774
Revenue From State Sources	6,784,974	166,293	103,160	7,054,427
Revenue From Federal Sources	252,037	0	212,948	464,985
Sales and Other Conversions of Assets	874	0	219,774	220,648
Total Revenues	<u>8,053,105</u>	<u>946,706</u>	<u>709,283</u>	<u>9,709,094</u>
Expenditures:				
Current:				
District and School Administration	438,249	0	0	438,249
District Support Services	359,941	0	0	359,941
Regular Instruction	3,675,385	0	0	3,675,385
Vocational Instruction	173,431	0	0	173,431
Special Education Instruction	1,173,582	0	0	1,173,582
Community Education and Services	0	0	258,518	258,518
Instructional Support Services	71,874	0	0	71,874
Pupil Support Services	681,430	0	467,346	1,148,776
Site, Buildings, and Equipment	777,168	0	23,902	801,070
Other Fiscal Expenditures	42,113	0	0	42,113
Capital Outlay:				
General Government	146,644	0	0	146,644
Debt Service:				
Principal	112,560	680,000	0	792,560
Interest	34,138	409,725	0	443,863
Total Expenditures	<u>7,686,515</u>	<u>1,089,725</u>	<u>749,766</u>	<u>9,526,006</u>
Excess of Revenues Over (Under) Expenditures	366,590	(143,019)	(40,483)	183,088
Other Financing Sources (Uses):				
Issuance of Captial Lease	14,008	0	0	14,008
Issuance of Refunding Bonds	0	3,499,185	0	3,499,185
Refunding of Long-Term Debt	0	(3,425,000)	0	(3,425,000)
Total Other Financing Sources (Uses)	<u>14,008</u>	<u>74,185</u>	<u>0</u>	<u>88,193</u>
Change in Fund Balance	380,598	(68,834)	(40,483)	271,281
Fund Balance - Beginning	<u>539,176</u>	<u>220,745</u>	<u>30,546</u>	<u>790,467</u>
Fund Balance - Ending	<u>\$ 919,774</u>	<u>\$ 151,911</u>	<u>\$ (9,937)</u>	<u>\$ 1,061,748</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2019

Net Change in Fund Balances - Governmental Funds	\$ 271,281
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	146,644
Depreciation expense	(766,325)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of discounts, premiums and similar items when the debt is first issued, whereas, these amounts are amortized in the Statement of Activities.</p>	
Principal repayments and capital lease retirement	792,560
Refunding of long-term debt	3,425,000
Amortization of debt premiums/discounts	40,116
Issuance of capital lease	(14,008)
Issuance of refunding bonds	(3,499,185)
<p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrued, regardless of when it is due.</p>	
	(8,856)
<p>Pension and OPEB expense in the Statement of Activities is recognized as the change in net pension and net OPEB liabilities, including the amortization of layered deferred inflows and deferred outflows of resources of the current and prior periods, this does not require the use of current financial resources, and therefore is not reported in the government funds.</p>	
Pension expense	2,604,889
OPEB expense	23,401
<p>Certain revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>	
Delinquent taxes	(6,321)
<p>Postemployment benefits payable in the Statement of Activities differs from the amount reported in the governmental funds because this benefit is recognized as an expenditure in the funds when due. In the Statement of Activities, postemployment benefits payable is recognized when accrued.</p>	
Compensated absences	4,080
Severance	(23,567)
	2,989,712
Change in Net Position - Governmental Activities	\$ 2,989,712

The Notes to the Financial an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2019

	Original Budget	Final Budget	Actual Amount	Over (Under) Budget
Revenues:				
Local Property Taxes	\$ 687,729	\$ 679,066	\$ 715,044	\$ 35,978
Other Local and County Revenues	200,100	340,036	300,176	(39,860)
Revenue From State Sources	6,560,570	6,761,397	6,784,974	23,577
Revenue From Federal Sources	256,726	257,142	252,037	(5,105)
Sales and Other Conversion of Assets	(1,300)	(400)	874	1,274
Total Revenues	7,703,825	8,037,241	8,053,105	15,864
Expenditures:				
Current:				
District and School Administration	435,469	434,221	438,249	4,028
District Support Service	440,848	421,438	359,941	(61,497)
Regular Instruction	3,663,122	3,730,695	3,675,385	(55,310)
Vocational Instruction	152,530	175,785	173,431	(2,354)
Special Education Instruction	1,223,034	1,210,479	1,173,582	(36,897)
Instructional Support Services	73,062	85,487	71,874	(13,613)
Pupil Support Services	702,451	702,496	681,430	(21,066)
Sites, Buildings, and Equipment	726,116	779,163	777,168	(1,995)
Capital Outlay:				
General Government	0	146,644	146,644	0
Debt Service:				
Principal	98,552	98,552	112,560	14,008
Interest	0	0	34,138	34,138
Other Fiscal Expenditures	42,113	41,926	42,113	187
Total Expenditures	7,557,297	7,826,886	7,686,515	(140,371)
Excess of Revenue Over (Under) Expenditures	146,528	210,355	366,590	156,235
Other Financing Sources:				
Issuance of Capital Lease	0	0	14,008	(14,008)
Change in Fund Balance	\$ 146,528	\$ 210,355	380,598	\$ 142,227
Fund Balance - Beginning			539,176	
Fund Balance - Ending			\$ 919,774	

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2019

	<u>Private Purpose Trust</u>	<u>Other Post- Employment Benefit Trust</u>
Assets:		
Cash and Investments	\$ 693,582	\$ 0
Cash and Investment held by Trustee	0	206,572
Interest Receivable	7,745	0
Total Assets	<u>\$ 701,327</u>	<u>\$ 206,572</u>
Net Position		
Held in Trust for Private Purposes/OPEB Beneficiaries	<u>\$ 701,327</u>	<u>\$ 206,572</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2019

	Private Purpose Trust	Other Post- Employment Benefit Trust
Additions:		
Gifts and Bequests	\$ 21,598	\$ 0
Net Increase (Decrease) in Fair Value of Investments	0	(1,069)
Implicit Subsidy Benefit Contribution	0	101,905
Interest Income	8,556	1,407
Total Additions	30,154	102,243
Deductions:		
Administrative Expense	0	250
Scholarships	21,387	0
Implicit Subsidy Benefit Payment	0	101,905
Total Deductions	21,387	102,155
Change in Net Position	8,767	88
Net Position - Beginning	692,560	206,484
Net Position - Ending	\$ 701,327	\$ 206,572

The Notes to the Financial Statements are an Integral Part of this Statement.

NOTES TO BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Independent School District No. 314 (the District) is an instrumentality of the state of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

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

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 includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered 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.

C. Government-Wide Financial Statement Presentation

The government-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 and Statement of Changes in Fiduciary Net Position at the fund financial statement level. Generally, the effect of material interfund activity has been removed from the government-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 and an allocation of indirect administrative and support service expenses. 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. Other internally directed revenues are reported as general revenues.

The government-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 related cash flows. 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. Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. 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 government-wide financial 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. 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 funding formulas established by Minnesota Statutes. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days. 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 long-term debt, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in the governmental funds. In the General Fund, capital expenditures 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 (MDE). Each fund is accounted for as an independent entity. A description of the funds included in this report is 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. The District maintains separate accounts within the General Fund for secondary education, secondary resale activities, special education, special education resale activities, district support services, capital expenditures, and costs to be reimbursed by others.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation debt principal, interest, and related costs. The regular debt service account is used for all general obligation debt service except for the financial activities of the other post-employment benefits (OPEB) debt service account. The OPEB debt service account is used for the 2018B taxable refunding OPEB bond issue.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is primarily used to account for the District's child nutrition program.

Community Service Fund – This Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs or other similar services. Community Service revenues are restricted for use in those activities permitted by state statute.

Capital Projects – Building Construction Fund – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

Fiduciary Funds

Private-Purpose Trust Fund – The Private-Purpose Trust Fund is used to account for resources held in trust to be used by various third parties to award scholarships to former students.

Post-Employment Benefits Trust Fund – The Post-Employment Benefits Trust Fund is used to administer resources received and held by the District as the trustee for others. The Post-Employment Benefits Trust Fund includes assets held in trust to fund post-employment benefits of eligible employees.

E. Budgetary Information

Each June, the School Board adopts an annual budget for the following fiscal year for all governmental funds. The budget for each fund is prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. During the fiscal year ended June 30, 2019, no fund had expenditures in excess of appropriations.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by Board action. Revisions to budgeted amounts must be approved by the Board.

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

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

F. Cash and Investments

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

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. In the Post-Employment Benefits Trust Fund, this represents assets contributed to an irrevocable trust established to finance the District's liability for post-employment insurance benefits. Interest earned on these investments is allocated directly to these accounts.

Investments are generally stated at fair value, except for investments in certain external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

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

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

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

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the District's recurring fair value measurements as of June 30, 2019.

G. Receivables

All receivables are shown net of any allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are property taxes receivable.

H. Inventories

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

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are recorded as expenditures/expenses at the time of consumption.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Property Taxes

The majority of the District's revenue in the General Fund 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. Currently, the mandated tax shift recognizes \$81,277 of the property tax levy collectible in 2019 as revenue to the District in fiscal year 2018-2019. The remaining portion of the taxes collectible in 2019 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

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 generally remits taxes to the District at periodic intervals, as they are collected.

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 reported as a deferred inflow of resources (unavailable revenue) in the fund financial statements because it is not known to be available to finance the operations of the District. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

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

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$5,000 for equipment and vehicles and \$25,000 for building and improvements and an estimated useful life in excess of two years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Long-Term Obligations

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period as other financing sources or uses, respectively. The face amount of debt issued is reported as other financing sources.

M. Compensated Absences

Under the terms of collectively bargained contracts, eligible employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for unused, accrued vacation to the limit specified in their labor contract or School Board policy upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued when earned in the government-wide financial statements. Compensated absences are accrued in the governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end due to employee termination or similar circumstances.

N. Severance

The District provides lump sum severance benefits to eligible employees in accordance with provisions in certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. Severance benefits are calculated by converting a portion of an eligible employee's unused accumulated sick leave. No individual can receive severance benefits in excess of one year's salary.

Severance benefits payable are recorded as a liability in the government-wide financial statements as they are earned and it becomes probable they will vest at some point in the future. Severance benefits payable are accrued in the governmental fund financial statements as the liability matures due to employee termination.

O. 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 ISD #314 Retiree Benefits Plan (the 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. Postemployment healthcare expenditures have been funded through a contribution to an irrevocable trust and are being funded through a pay as you go method under which contributions to the plan are generally made at the same time and amount as retiree benefits and expenses become due.

P. State-Wide Pension Plans

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 the PERA's and the TRA's fiduciary net positions have been determined on the same basis as they are reported by the PERA and the TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The TRA has a special funding situation created by direct aid contributions made by the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into the TRA in 2006. A second direct aid source is from the state of Minnesota for the merger of the Duluth Teachers Retirement Fund Association (DTRFA) in 2015.

Q. Deferred Inflows/Outflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred outflows of resources related to pensions reported in the government-wide Statement of Net Position. This deferred outflow results from differences between expected and actual experience, changes of assumptions, differences between projected and actual earnings on pension plan investments, and from contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

In addition to liabilities, statements of financial position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items which qualify for reporting in this category.

The first item is property taxes levied for subsequent years, which represents property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available.

The second item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available.

The third item, deferred inflows of resources related to pensions, is reported in the government-wide Statement of Net Position. This deferred inflow results from differences between expected and actual experience, changes of assumptions, and differences between projected and actual earnings on pension plan investments. These amounts are deferred and amortized as required under pension standards.

R. Net Position

In the government-wide and internal service fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

S. Fund Balance Classifications

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

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the District’s Board Chair, Superintendent, Finance Committee, or Finance Director are authorized to establish assignments of fund balance.
- **Unassigned** – The residual classification for the General Fund which also reflects negative residual amounts in other funds.

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

T. Risk Management

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

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

U. Use of Estimates

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

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Summarized Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Note 2 DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, including checking accounts, savings accounts, and non-negotiable certificates of deposit.

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 percent 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. The District's deposit policies do not further limit depository choices.

At year-end, the carrying amount of the District's deposits was \$1,466,650, while the balance on the bank records was \$1,566,291. At June 30, 2019, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District's agent in the District's name.

B. Investments

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 2 DEPOSITS AND INVESTMENTS (Continued)

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District’s investments to the following:

- Direct obligations or obligations guaranteed by the United States or its agencies;
- Shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better;
- General obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System;
- Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories;
- Repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers.

For assets held in the Post-Employment Benefits Trust Fund, the investment options available to the District are expanded to include the investment types specified in Minnesota Statute § 356A.06, Subd. 7. The District’s investment policies do not further restrict investing in specific financial instruments.

Concentration Risk – This is the risk associated with investing a significant portion of the District’s investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District’s investment policies do not address concentration risk. At June 30, 2019, the District’s investment portfolio includes the following percentages of specific issuers:

Negotiable certificates of deposit:

Community Bank	12.0%
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Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District’s investment policies do not limit the maturities of investments; however, when purchasing investments the District considers such things as interest rates and cash flow needs.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 2 DEPOSITS AND INVESTMENTS (Continued)

The following table presents the District's deposits and investments at year-end:

Deposit/Investments	Credit Risk		Fair Value Measurements Using	Interest Risk - Maturity Duration in Years		Total
	Rating	Agency		Less Than 1	1 to 5	
Negotiable certificates of deposit	N/R	N/R	Level 1	\$ 203,551	\$ -	\$ 203,551
Investment pools/mutual funds						
Minnesota School District						
Liquid Asset Fund	AAAm	S&P	NAV	N/A	N/A	1,455,344
MNTrust Investment Shares Portfolio	AAAm	S&P	Level 1	N/A	N/A	3,021
Total investments						<u>1,661,916</u>
Deposits						<u>704,885</u>
Total deposits and investments						<u>\$ 2,366,801</u>

NAV - Investments measured at the net asset value

N/A - Not applicable

N/R - Not rated

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

Statement of Net Position	
Cash and investments	\$ 1,466,648
Statement of Fiduciary Net Position	
Cash and investments - Private Purpose Trust Fund	693,582
Cash and investments - Post-Employment Benefits Trust Fund	<u>206,571</u>
Total deposits and investments	<u>\$ 2,366,801</u>

The Minnesota School District Liquid Asset Fund (MSDLAF) and the MNTrust Investment Shares Portfolio are regulated by Minnesota Statutes and are external investment pools not registered with the Securities Exchange Commission (SEC). The District's investment in the MSDLAF is measured at the net asset value (NAV) per share provided by the pool, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The NAV method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the investments. For MSDLAF investments valued at the NAV, there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice for the Liquid Class; the redemption notice period is 14 days for the MAX Class.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 3 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 310,600	\$ -	\$ -	\$ 310,600
Construction in process	-	82,755	-	82,755
Total capital assets not being depreciated	310,600	82,755	-	393,355
Capital assets being depreciated				
Land improvements	7,027,592	-	-	7,027,592
Buildings	12,897,473	-	-	12,897,473
Machinery and equipment	1,615,519	63,889	(22,448)	1,656,960
Total capital assets being depreciated	21,540,583	63,889	(22,448)	21,582,024
Less accumulated depreciation for				
Land improvements	(1,703,041)	(343,995)		(2,047,036)
Buildings	(6,242,711)	(344,887)		(6,587,598)
Machinery and equipment	(1,114,451)	(77,444)	22,448	(1,169,447)
Total accumulated depreciation	(9,060,203)	(766,326)	22,448	(9,804,081)
Total capital assets being depreciated, net	12,480,380	(619,682)	-	11,777,942
Capital assets, net	\$ 12,790,980	\$ (619,682)	\$ -	\$ 12,171,297

Depreciation expense was charged to the following governmental functions:

Administration	\$ 2,401
District support	2,027
Regular instruction	38,076
Vocational support	1,746
Special Education	1,041
Community education	628
Instructional support	-
Pupil support	12,194
Site, buildings and equipment	378,667
Unallocated	329,544
Total depreciation expense	\$ 766,326

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 4 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

The District currently has the following long-term obligations outstanding:

Issue	Issue Date	Interest Rate	Face/ Par Value	Final Maturity	Principal Outstanding
General obligation bonds					
2015 School building	7/23/2015	2.25-3.50%	\$ 4,950,000	2/1/2036	\$ 4,950,000
2018A Facilities Refunding Bonds	11/7/2018	4.00	2,595,000	2/1/2024	2,595,000
2018A GO Taxable Refunding OPEB Bonds	11/7/2018	3.00-3.55	785,000	2/1/2025	<u>785,000</u>
Total general obligation bonds payable					8,330,000
Unamortized premium/discount					162,623
Special assessments payable					106,269
Capital leases payable					523,306
Net pension liability - Teacher's Retirement Association					3,705,752
Net pension liability - General Employees Retirement Fund					1,070,685
Net OPEB liability					831,915
Severance benefits payable					147,661
Compensated absences payable					<u>8,639</u>
Total long-term obligations					<u><u>\$ 14,886,850</u></u>

B. Descriptions of Long-Term Liabilities

General Obligation Bonds Payable – These obligations were issued to finance acquisition, construction, and/or improvements of capital facilities to finance the retirement (refunding) of prior bond issues, or to finance OPEB obligations. Assets of the Debt Service Fund, together with scheduled deferred ad valorem tax levies, are dedicated for the retirement of these obligations. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

Capital Leases Payable – The District has purchased various assets through capitalized lease-purchase agreements. Annual principal and interest on these leases will be paid from the General Fund.

Asset Leased	Asset Value Capitalized	Interest Rate	Lease Date	Final Maturity	Principal Outstanding
Sun Trust equipment lease	\$ 1,020,126	5.20%	2/12/2009	2/15/2025	\$ 486,169
SHI equipment lease	60,628	3.50%	9/1/2017	9/1/2019	26,206
First Western Bank and Trust	<u>14,008</u>	4.90%	10/17/2018	10/17/2022	<u>10,932</u>
	<u><u>\$ 1,094,762</u></u>				<u><u>\$ 523,307</u></u>

Amortization of assets capitalized through these lease agreements is included in depreciation expense in the government-wide financial statements. The amount charged to depreciation for the year ended June 30, 2019 was \$78,157.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 4 LONG-TERM LIABILITIES (Continued)

The assets acquired through these capital leases are reported as follows:

Asset	Amount
Building Improvements	\$ 1,020,126
Equipment	92,657
Less accumulated depreciation	(485,986)
Total	\$ 626,797

Net Pension Liability – PERA and TRA – The District offers a number of benefits to its employees, including pensions. The details of these benefit liabilities are discussed elsewhere in these notes. The amounts reported as long-term debt represent the District’s proportionate share of the obligations of their respective plans. Such benefits are financed primarily from the General Fund and special revenue funds.

Severance Benefits Payable – Severance benefits payable consist of early retirement incentive pay or convertible sick leave benefits payable to employees upon retirement. Severance benefits are paid by the General Fund and special revenue funds. Annual payments to retire the severance benefits liability have not been determined and will depend on actual employee turnover.

Severance Pay Non-Certified Staff – Severance pay shall be paid to all employees who have provided 20 years of uninterrupted service to the District. Payment shall be at 50% of unused sick leave at the hourly rate in effect the year prior to the year of severance. Payment shall be in two equal installments with the first payment made in January immediately following the date of severance.

Severance Pay Certified Staff – Certified District employees are not eligible for severance benefits.

Compensated Absences Payable – Under the terms of union contracts, certain employees accrue vacation at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation and related benefits upon termination. Compensated absence benefits are paid by the General Fund and special revenue funds. Annual payments to retire this liability have not been determined and will depend on actual employee utilization and turnover.

Special Assessment Payable – The City of Braham completed a street reconstruction project and has levied special assessments to the District of \$137,374, payable over 11 years. Annual payments are \$16,601 with the final payment due in 2027. As of June 30, 2019 the remaining principal balance of the special assessment was \$106,269.

Non-exchange financial guaranteed obligations - The District has non-exchange financial guaranteed obligations outstanding during the year on its general obligation bonds. The state of Minnesota through their department of education (MDE) has guaranteed to make all required payments that the District is unable to make. The District is required to repay MDE with interest for any payments MDE makes pursuant to the guarantees. As of June 30, 2019, the District has made all required debt service payments on the guaranteed debt. At June 30, 2019, the outstanding principal amount of the guaranteed debt was \$8,330,000.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 4 LONG-TERM LIABILITIES (Continued)

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 9,055,000	\$ 3,380,000	\$ (4,105,000)	\$ 8,330,000	\$ 700,000
Discount/Premium	76,200	119,185	(32,762)	162,623	-
Total bonds payable	<u>9,131,200</u>	<u>3,499,185</u>	<u>(4,137,762)</u>	<u>8,492,623</u>	<u>700,000</u>
Capital leases payable	608,446	14,008	(99,149)	523,305	103,267
Special assessments payable	119,680	-	(13,411)	106,269	19,787
Severance benefits payable	124,094	23,568	-	147,662	-
Compensated absences payable	12,718	18,910	(22,989)	8,639	8,639
Net OPEB liability	682,971	262,013	(113,069)	831,915	-
Net pension liability - TRA	12,555,983	1,850,536	(10,700,767)	3,705,752	-
Net pension liability - GERS	1,232,097	479,218	(640,630)	1,070,685	-
Total long-term liabilities	<u>\$ 24,467,189</u>	<u>\$ 6,147,438</u>	<u>\$ (15,727,777)</u>	<u>\$ 14,886,850</u>	<u>\$ 831,693</u>

D. Minimum Debt Payments

Minimum annual principal and interest to maturity for general obligation bonds and other long-term debt outstanding as follows:

Year Ending June 30	General Obligation Bonds			Capital Leases		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 700,000	\$ 313,584	\$ 1,013,584	\$ 103,268	\$ 25,312	\$ 128,580
2021	760,000	256,415	1,016,415	81,137	20,303	101,440
2022	785,000	227,078	1,012,078	85,429	16,012	101,441
2023	810,000	196,588	1,006,588	89,947	11,494	101,441
2024	180,000	164,998	344,998	91,629	6,736	98,365
2025-2029	1,655,000	709,561	2,364,561	71,896	1,877	73,773
2030-2034	2,045,000	444,640	2,489,640	-	-	-
2035-2037	1,395,000	98,700	1,493,700	-	-	-
Total	<u>\$ 8,330,000</u>	<u>\$ 2,411,564</u>	<u>\$ 10,741,564</u>	<u>\$ 523,306</u>	<u>\$ 81,734</u>	<u>\$ 605,040</u>

Year Ending June 30	Special Assessments Payable		
	Principal	Interest	Total
2020	\$ 19,787	\$ 3,747	\$ 23,534
2021	13,321	3,280	16,601
2022	13,805	2,797	16,602
2023	14,306	2,295	16,601
2024	14,826	1,775	16,601
2025-2029	30,223	1,916	32,139
Total	<u>\$ 106,268</u>	<u>\$ 15,810</u>	<u>\$ 122,078</u>

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 5 FUND BALANCES

The Uniform Financial Accounting and Reporting Standards (UFARS) fund balance reporting standards are slightly different than the reporting standards under GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Below is a reconciliation between the fund balances following GASB standards and UFARS reporting standards:

A. **Classifications**

	GASB Balance	Reconciling Transfer	UFARS Balance
Nonspendable:			
Inventory	\$ 17,928	\$ -	\$ 17,928
Prepaid items	35,797	-	35,797
Total nonspendable	53,725	-	53,725
Restricted:			
Safe school	-	(210)	(210)
Long-term facilities maintenance	321,613	-	321,613
Medical assistance	113,243	-	113,243
Food service	14,234	-	14,234
Community education	-	1,972	1,972
ECFE	-	(117,592)	(117,592)
School readiness	-	64,875	64,875
Community education programs	-	8,646	8,646
Debt service	151,911	-	151,911
Total restricted	601,001	(42,309)	558,692
Unassigned	407,022	42,309	449,331
Total fund balance	\$ 1,061,748	\$ -	\$ 1,061,748

B. **Minimum Unassigned Fund Balance Policy**

The School Board has formally adopted a fund balance policy regarding the minimum unassigned fund balance for the General Fund. The policy establishes a minimum unassigned General Fund balance of not less than 10% or more than 30% of the annual budget. At June 30, 2019, the unassigned fund balance (excluding restricted account deficits) was 5.74 percent of fiscal 2019 budgeted expenditures.

C. **Deficit Fund Equity**

As of June 30, 2019, the Community Service Fund had an overall deficit fund equity of \$42,099. The fund deficits will be eliminated with future receipts.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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

A. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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

2. Teachers Retirement Association (TRA)

The 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. The TRA is a separate statutory entity and administered by a Board of Trustees. The Board of Trustees consists of four active members, one retired member, and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the City of St. Paul and the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by Minnesota State Colleges and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement (DCR) Plan administered by MnSCU.

B. Benefits Provided

The PERA and the TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statutes and can only be modified by the State Legislature.

- PERA – Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded status, or have fallen below 80.0 percent, are given 1.0 percent increases. 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.
- TRA – Post-retirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.2 percent. After the TRA funded ratio exceeds 90.0 percent for two consecutive years, the annual post-retirement benefit will increase to 2.7 percent.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

1. GERS Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. 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% for each of the first 10 years of service and 1.7% for each additional year. The rates are 2.2% and 2.7%, respectively, for Basic members. Under Method 2, the accrual rate for Coordinated members is 1.7% for all years of service, and 2.7% for Basic members. The accrual rates for former MERF members is 2.0% for each of the first 10 years of service and 2.5% for each additional year. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

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

2. TRA Benefits

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

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

Tier I Benefits

Tier I	Step Rate Formula	Percentage
Basic	First 10 years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First 10 years if service years are up to July 1, 2006	1.2% per year
	First 10 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) Three 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).

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statutes. 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.

C. Contributions

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

1. GERF Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2018; 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 \$94,365. The District’s contributions were equal to the required contributions as set by state statute.

2. TRA Contributions

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

	Year Ended June 30,			
	2018		2019	
	Employee	Employer	Employee	Employer
Basic Plan	11.0%	11.5%	11.0%	11.5%
Coordinated Plan	7.5%	7.5%	7.5%	7.7%

The District’s contributions to the TRA for the year ended June 30, 2019 were \$249,681. The District’s contributions were equal to the required contributions for each year as set by state statutes.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

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

Employer contributions reported in the TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 378,728,000
Add (deduct) employer contributions not related to future contribution efforts	522,000
Deduct the TRA's contributions not included in allocation	<u>(471,000)</u>
Total employer contributions	378,779,000
Total non-employer contributions	<u>35,588,000</u>
Total contributions reported in Schedule of Employer and Non-Employer Pension Allocations	<u><u>\$ 414,367,000</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. The TRA has rounded percentage amounts to the nearest ten thousandths.

D. Pension Costs

1. GERF Pension Costs

At June 30, 2019, the District reported a liability of \$1,070,685 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$35,238. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2018, the District's proportion was 0.0193%, which was unchanged from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized pension revenue of \$132,314 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional \$8,217 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 28,083	\$ 43,440
Differences between projected and actual investment earnings	134,920	259,061
Changes in actuarial assumptions	100,556	120,303
Changes in proportion	-	112,778
District's contributions subsequent to the measurement date	94,365	-
Total	<u>\$ 357,924</u>	<u>\$ 535,582</u>

A total of \$94,365 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERF 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 the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2020	\$ (48,090)
2021	(114,709)
2022	(86,877)
2023	(22,347)
2024	-
Thereafter	\$ -

2. TRA Pension Costs

At June 30, 2019, the District reported a liability of \$9,705,752 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. At June 30, 2018, the District's proportionate share was 0.0590%, which was a decrease of 0.0039% from its proportionate share measured as of June 30, 2017.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

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:

Description	Amount
District's proportionate share of net pension liability	\$ 3,705,752
State's proportionate share of the net pension liability associated with the District	\$ 347,934

For the year ended June 30, 2019, the District recognized pension revenue of \$2,472,575. It also recognized \$242,835 as pension expense for the support provided by direct aid.

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 36,802	\$ 83,585
Differences between projected and actual investment earnings	461,760	861,008
Changes in actuarial assumptions	4,723,090	6,497,482
Changes in proportion	-	834,172
District's contributions subsequent to the measurement date	249,681	-
Total	\$ 5,471,333	\$ 8,276,247

A total of \$249,681 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2020	\$ 141,680
2021	(99,171)
2022	(281,634)
2023	(1,735,012)
2024	(1,080,458)
Thereafter	\$ -

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

E. Actuarial Assumptions

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

Assumptions	GERF	TRA
Inflation	2.50% per year	2.50% per year
Active member payroll growth	3.25% after 26 years of service	2.85% to 8.85% for 10 years and 3.25 to 9.25%, thereafter
Investment rate of return	7.50%	7.50%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed 1.0% per year for all future years for the General Employees Plan. Cost of living benefit increases for retirees are assumed 2.0% per year for all future years for the TRA.

Actuarial assumptions used in the June 30, 2018, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan and TRA was completed in 2016.

The following changes in actuarial assumptions for General Employee Retirement Fund occurred in 2018:

- 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.

The following changes in actuarial assumptions for Teacher’s Retirement Association occurred in 2018:

- 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.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

The long-term expected rate of return on pension plan investments is 7.50% for GEF and 7.50% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

Asset Class	GERF		TRA	
	Target Allocation	Long-Term Expected Rate of Return	Target Allocation	Long-Term Expected Rate of Return
Domestic stocks	36%	5.10%	36%	5.10%
International stocks	17%	6.30%	17%	5.30%
Bonds	20%	75.00%	25%	5.90%
Fixed income	0%	0.00%	20%	0.75%
Alternative assets	25%	5.90%	0%	0.50%
Cash	2%	0.00%	2%	0.00%
Total	<u>100%</u>		<u>100%</u>	

F. Discount Rate

The discount rate used to measure the total General Employees Plan pension liability in 2018 was 7.50% and in 2017. 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 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

The discount rate used to measure the TRA pension liability was 7.50 percent. This is an increase from the discount rate at the prior measurement date of 5.12 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions would 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).

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 one percentage point lower or one percentage point higher than the current discount rate:

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

Description	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	\$ 1,740,000	\$ 1,070,685	\$ 518,184
TRA discount rate	6.50%	7.50%	8.50%
District's proportionate share of the TRA net pension liability	\$ 5,881,014	\$ 3,705,752	\$ 1,911,176

H. Pension Plan Fiduciary Net Position

Detailed information about GERF's fiduciary's net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

Detailed information about TRA's fiduciary net position is available in a separately issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-2409 or 1-800-652-9026.

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through its OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements.

The assets of the plan are reported in the District's financial report in the Other Post-Employment Benefits Trust Fund, administered by the District. Plan assets may be used only for the payment of benefits of the plan, in accordance with the terms of the plan. The plan does not issue a publicly available financial report.

B. Benefits Provided

Eligible participants and their dependents are allowed access to the health plans. Participants meeting additional requirements are eligible for a direct subsidy of the premium paid by the District as described in below.

All retirees of the District have the option under state law to continue their medical insurance coverage through the District from the time of retirement. For members of certain employee groups, the District pays for all or part of the eligible retiree's premiums for medical insurance from the time of retirement until the employee reaches the age of eligibility for Medicare or a limited number of years depending on contractual language.

Benefits paid by the District differ by bargaining unit and date of hire, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these district-paid premium benefits must pay the full district premium rate for their coverage.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees until the retiree reaches Medicare eligibility, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an “implicit rate subsidy.” This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District’s younger and statistically healthier active employees.

C. Contributions

Postemployment healthcare expenditures are being funded through a contribution to an irrevocable trust and are being funded through a pay as you go method under which contributions to the plan are generally made at the same time and amount as retiree benefits and expenses become due.

The implicit subsidy is provided to all retirees and dependents who elect non-Medicare medical coverage, provided the retiree has satisfied the applicable pension plan requirements and is eligible. The implicit subsidy is the difference between the actual and apparent cost of OPEB coverage. The actual cost for early retirees is usually higher than the average per person premium for the active/retiree group. Plans in which retirees pay the average active/retiree rate (the apparent cost) give rise to an implicit rate subsidy: the employer pays the difference between the actual and apparent cost.

The direct subsidies (i.e., fringe benefit amounts) amounts increased 0% from 2016 to 2017 and 2.44% from 2017 to 2018. The fringe benefit amount is assumed to increase 3% annually after 2018.

D. Membership

At June 30, 2019, the following employees were covered by the benefit terms:

Active employees electing coverage	76
Active employees waiving coverage	18
Retirees electing coverage	12
Total	106

E. Net OPEB Liability

The components of the District’s Net OPEB liability at June 30, 2019, were as follows:

Total OPEB liability	\$ 1,038,486
Plan fiduciary net position	(206,571)
District's Net OPEB liability	\$ 831,915
Plan fiduciary net position as a percentage of total OPEB liability	19.89%

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

F. Actuarial Assumptions

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.25 percent
Salary increases	3.50 percent, average, including inflation
Investment rate of return	2.50 percent
Healthcare cost trend rates	6.90 percent for FY2019, gradually decreasing over several decades to an ultimate rate of 4.00% in FY2076 and later years.

Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period July 1, 2005–April 30, 2017.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best estimates 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 asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if available) and by adding expected inflation (2.25%). All results are then rounded to the nearest quarter percentage point.

The best estimates of expected future asset class returns were published in the 2017 Survey of Capital Market Assumptions produced by Horizon Actuarial Services. These expected returns, along with expected asset class standard deviations and correlation coefficients, are based on Horizon's annual survey of investment advisory firms. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market data.

The following changes in actuarial assumptions for OPEB occurred in 2019:

- The discount rate was changed from 3.59% to 3.03% based on updated expectations of long-term returns on trust assets and 20-year municipal bond rates.
- Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans.
- Medical per capita claims costs were updated to reflect recent experience.
- Mortality and salary increase rates were updated from the rates used in the 7/1/2016 PERA General Employees Retirement Plan and 7/1/2016 Teachers Retirement Association valuations to the rates used in the 7/1/2018 valuations.
- The percent of future non-Medicare eligible retirees electing each medical plan changed to reflect recent plan experience.
- The long-term inflation assumption was changed from 2.75% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.
- A short-term inflation assumption was added to reflect the plan's asset allocation and the anticipated short future duration of those assets.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

G. Rate of Return

For the current year ended, the annual money-weighted rate of return on investments, net of investment expense, was 2.50 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Best-estimates of geometric real and nominal rates of return for each major asset class included in the OPEB plan's asset allocation as of the measurement date are summarized in the following table:

Asset Class	Allocation at Measurement Date	Long-Term Expected Real Rate of Return	Long-Term Expected Nominal Rate of Return
Domestic equity	0%	3.83%	6.08%
International equity	0%	4.47%	6.72%
Fixed income	0%	1.13%	3.38%
Real estate and alternative	0%	3.66%	5.91%
Cash and equivalents	100%	0.24%	2.49%
 Total	 100%		 2.52%
Reduction for assumed investment expense			0.00%
Reduction for short-term adverse deviation			0.00%
Net assumed investment return			2.50%

H. Discount rate

The discount rate used to measure the total OPEB liability was 3.03 percent. The projection of cash flows and OPEB trust assets used to determine the discount rate were based on recent employer contribution history and their stated funding policy (if any). The OPEB trust's long-term assumed investment return was used to discount projected benefit payments for as long as projected trust assets are available to fund OPEB payments. Once projected trust assets are exhausted, any remaining benefit payments after the trust fund is exhausted are discounted at the 20-year municipal bond rate. The equivalent single rate is the discount rate. The contribution and benefit payment history, as well as the funding policy have also been taken into account. The District discount rate used in the prior measurement date was 3.59 percent.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

I. Changes in the Net OPEB Liability

The following table presents the changes in net pension liability during the year:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(c) = (a) - (b)
Balance at Previous			
Fiscal Year 6/30/2018	\$ 889,455	\$ 206,484	\$ 682,971
Changes for the year:			
Service cost	37,588	-	37,588
Interest	31,452	-	31,452
Differences between expected and actual experience	119,503	-	119,503
Changes of assumptions	73,220	-	73,220
Changes of benefit terms	(10,827)	-	(10,827)
Employer contributions	-	101,905	(101,905)
Net investment incomes	-	337	(337)
Other additions (e.g. receivables)	-	-	-
Benefit payments, including member contribution refunds	(101,905)	(101,905)	-
Administrative expense	-	(250)	250
Other deductions (e.g. payables)	-	-	-
Net changes	149,031	87	148,944
Balance at Current			
Fiscal Year 6/30/2019	\$ 1,038,486	\$ 206,571	\$ 831,915

J. Sensitivity of the Net OPEB Liability to changes in the discount rate and 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 that is 1-percentage-point lower (2.03 percent) or 1-percentage-point higher (4.03 percent) than the current discount rate:

Description	Changes in the Discount Rate		
	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
OPEB discount rate	2.03%	3.03%	4.03%
District's Net OPEB liability	\$ 893,340	\$ 831,915	\$ 772,314

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

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 healthcare cost trend rates that are 1-percentage-point lower (6.90 percent decreasing to 4.00 percent) or 1-percentage-point higher (7.90 percent decreasing to 4.00 percent) than the current healthcare cost trend rates:

Changes in Trend Rates		
1 percent decrease in rate	Current Trend Rate	1 percent increase in rate
\$ 739,294	\$ 831,915	\$ 941,281

K. OPEB expense and deferred outflows and deferred inflows of resources related to OPEB

For the year ended June 30, 2019, the District recognized OPEB revenue of \$23,401. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 103,902	\$ -
Differences between projected and actual investment earnings	8,271	-
Changes in actuarial assumptions	68,804	17,375
Total	\$ 180,977	\$ 17,375

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

Year Ending June 30,	OPEB Expense Amount
2018	\$ 25,200
2019	25,200
2020	23,060
2021	23,015
2022	25,117
Thereafter	\$ 42,010

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2019

Note 8 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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 fund. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

B. Contingencies

The District has the usual and customary types of legal claims pending at year-end, mostly of a minor nature and usually covered by insurance carried for that purpose. The District's management believes that the District will not incur any material liabilities relating to these claims, and none have been accrued at year-end.

Note 9 JOINT VENTURE

Pursuant to an agreement authorized by state statutes, the District joined with six other Districts to establish the Rum River Special Education Cooperative (RRSEC), an entity through which the member District's may jointly and cooperatively share services that no one District could efficiently provide. One member of the School Board of each member District serves on the governing Board of the RRSEC. The operating and capital budget are charged to member Districts based on the annual assessment manual which allocates costs based on enrollment and program usage. RRSEC is an agency of seven-member school districts that have joined to provide services to students ages B-21, identified as having a disability. The RRSEC also provides resources and staff development to school staff, administrators and parents/guardians. This technical assistance helps support districts in their efforts to provide appropriate services to all children with disabilities that might otherwise be difficult for an individual school district to provide. For the year ended June 30, 2019, the cost of services provided to the District by RRSEC was \$176,228. RRSEC is separately audited from the District's complete financial statements can be obtained by contacting the RRSEC business office, Rum River Special Education Cooperative District 6079, 140 Buchanan Street North, Suite 150 Cambridge, MN 55008.

Note 10 INTERFUND BALANCES AND OPERATING TRANSFERS

The District had no interfund receivable or payable balances at June 30, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEE RETIREMENT ASSOCIATION
Year Ended June 30, 2019

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District	Total	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2019	6/30/2018	0.0193%	\$ 1,070,685	\$ 35,238	\$ 1,105,923	\$ 1,273,458	86.8%	79.5%
6/30/2018	6/30/2017	0.0193%	\$ 1,232,099	\$ 15,492	\$ 1,247,591	\$ 1,296,998	96.2%	75.9%
6/30/2017	6/30/2016	0.0225%	\$ 1,826,888	\$ 23,866	\$ 1,850,754	\$ 1,394,880	132.7%	68.9%
6/30/2016	6/30/2015	0.0236%	\$ 1,223,074	\$ -	\$ 1,223,074	\$ 1,365,960	89.5%	78.2%
6/30/2015	6/30/2014	0.0246%	\$ 1,155,585	\$ -	\$ 1,155,585	\$ 1,398,206	82.6%	78.7%

SCHEDULE OF DISTRICT'S CONTRIBUTIONS
PUBLIC EMPLOYEE RETIREMENT ASSOCIATION
Year Ended June 30, 2019

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/2019	6/30/2018	\$ 97,463	\$ 97,463	\$ -	\$ 1,299,507	7.50%
6/30/2018	6/30/2017	\$ 93,248	\$ 93,248	\$ -	\$ 1,243,307	7.50%
6/30/2017	6/30/2016	\$ 104,616	\$ 104,616	\$ -	\$ 1,394,880	7.50%
6/30/2016	6/30/2015	\$ 102,447	\$ 102,447	\$ -	\$ 1,365,960	7.50%
6/30/2015	6/30/2014	\$ 93,471	\$ 93,471	\$ -	\$ 1,246,280	7.50%

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
TEACHERS RETIREMENT ASSOCIATION
Year Ended June 30, 2019

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District	Total	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2019	6/30/2018	0.0590%	\$ 3,705,752	\$ 347,934	\$ 4,053,686	\$ 3,228,277	125.6%	78.1%
6/30/2018	6/30/2017	0.0629%	\$ 12,555,981	\$ 1,214,092	\$ 13,770,073	\$ 3,245,298	424.3%	51.6%
6/30/2017	6/30/2016	0.0698%	\$ 16,648,965	\$ 1,670,989	\$ 18,319,954	\$ 3,629,867	504.7%	44.9%
6/30/2016	6/30/2015	0.0706%	\$ 4,367,308	\$ 535,964	\$ 4,903,272	\$ 3,581,147	136.9%	76.8%
6/30/2015	6/30/2014	0.0787%	\$ 3,626,439	\$ 255,005	\$ 3,881,444	\$ 3,666,125	105.9%	81.5%

SCHEDULE OF DISTRICT'S CONTRIBUTIONS
TEACHERS RETIREMENT ASSOCIATION
Year Ended June 30, 2019

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/2019	6/30/2018	\$ 244,638	\$ 244,638	\$ -	\$ 3,261,840	7.50%
6/30/2018	6/30/2017	\$ 254,110	\$ 254,110	\$ -	\$ 3,388,133	7.50%
6/30/2017	6/30/2016	\$ 272,240	\$ 272,240	\$ -	\$ 3,629,867	7.50%
6/30/2016	6/30/2015	\$ 268,586	\$ 268,586	\$ -	\$ 3,581,147	7.50%
6/30/2015	6/30/2014	\$ 251,353	\$ 251,353	\$ -	\$ 3,351,373	7.50%

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF CHANGES IN THE DISTRICT'S
NET OPEB LIABILITY AND RELATED RATIOS
Year Ended June 30, 2019

Total OPEB Liability	2019	2018	2017
Service cost	\$ 37,588	\$ 35,551	\$ 36,893
Interest	31,452	31,851	29,238
Difference between expected and actual experience	119,503	-	-
Changes of assumptions	73,220	7,102	(29,640)
Changes in benefit terms	(10,827)	-	-
Benefit payments, including member contribution refunds	(101,905)	(134,780)	(166,002)
Net change in total OPEB liability	149,031	(60,276)	(129,511)
Total OPEB Liability - beginning of year	889,455	949,731	1,079,242
Total OPEB Liability - end of year	<u>\$ 1,038,486</u>	<u>\$ 889,455</u>	<u>\$ 949,731</u>
 Plan Fiduciary Net Position			
Employer Contributions	\$ 101,905	\$ 59,338	\$ -
Net investment income	337	6,660	337
Other additions (e.g. receivable)	-	-	-
Benefit payments, including member contribution refunds	(101,905)	(134,780)	(166,002)
Administrative expenses	(250)	(250)	(250)
Other deductions (e.g. payables)	-	-	-
Net change in plan fiduciary net position	87	(69,032)	(165,915)
Plan Fiduciary Net Position - beginning of year	206,484	275,516	441,431
Plan Fiduciary Net Position - end of year	<u>\$ 206,571</u>	<u>\$ 206,484</u>	<u>\$ 275,516</u>
Net OPEB (Asset) Liability - end of year	<u>\$ 831,915</u>	<u>\$ 682,971</u>	<u>\$ 674,215</u>
FNP as a percentage of the NOL	19.89%	23.21%	29.01%
Covered employee payroll	\$ 4,181,163	\$ 4,250,892	\$ 4,322,281
Net OPEB Liability as a percent of covered employee payroll	19.90%	16.07%	15.60%

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF DISTRICT'S CONTRIBUTIONS
OTHER POST-EMPLOYMENT BENEFITS
Year Ended June 30, 2019

	Fiscal Year Ending June 30,			
	2019	2018	2017	2016
Actuarially determined contribution (ADC)	N/A	N/A	N/A	N/A
Contributions in relation to the ADC	N/A	N/A	N/A	N/A
Contribution deficiency (excess)	N/A	N/A	N/A	N/A
Payroll for reporting period (fiscal year)	N/A	N/A	N/A	N/A
Contributions as a percent of payroll	N/A	N/A	N/A	N/A

SCHEDULE OF INVESTMENT RETURNS
OTHER POST-EMPLOYMENT BENEFITS
Year Ended June 30, 2019

	Fiscal Year Ending June 30,			
	2019	2018	2017	2016
Annual money-weighted rate of return, net investment expense	0.16%	2.42%	0.80%	N/A

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2019

Note 1 CHANGE IN PLAN PROVISIONS

A. Public Employees Retirements Association

2018 changes:

Change of 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.

2017 changes:

Change of Assumptions. The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability. 2) The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2 044 and 2.5 percent per year thereafter.

2016 changes:

Changes in Actuarial Assumptions: 1) the assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years. 2) The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%. 3) Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 changes:

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

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

B. Teacher's Retirement Association

2018 changes:

Changes in Benefit and Funding Terms: 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.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2019

Note 1 CHANGE IN PLAN PROVISIONS (Continued)

B. Teacher's Retirement Association (continued)

The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula. The investment return assumption was reduced from 8.5% to 7.5% and the price inflation assumption was reduced from 3.0% to 2.5%. The payroll growth assumption was reduced from 3.5% to 3.0% while the wage inflation assumption (above price inflation) was reduced from 0.75% to 0.35% for the next 10 years, and 0.75% thereafter. The total salary increase assumption was adjusted by the wage inflation change.

2017 changes:

Changes of Benefit Terms. The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

Change of Assumptions. The cost of living adjustment (COLA) was assumed to increase from 2.0 percent annually to 2.5 percent annually on July 1, 2045. The COLA was not assumed to increase to 2.5 percent, but remain to 2.0 percent for all future years. Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4 percent to 0.0 percent, the vested inactive load increased from 4.0 percent to 7.0 percent and the non-vested inactive load increased from 4.0 percent to 9.0 percent. The investment return assumption was changed from 8.00 percent to 7.50 percent. The price inflation assumption was lowered from 2.75 percent to 2.50 percent. The payroll growth assumption was lowered from 3.50 percent to 3.00 percent. The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter. The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption. Details, if necessary, can be obtained from the TRA CAFR.

2016 changes:

Changes of benefit terms. The Duluth Teacher's Retirement Association was merged into TRA on June 30, 2015.

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

2015 changes:

There are no factors that affect trends in the amounts reported, such as change of benefit terms or assumptions. With only one year reported in the RSI, there is no additional information to include in notes. Details, if necessary, can be obtained from the TRA CAFR.

C. Other Post-Employment Benefits

2019 changes:

Change of Assumptions. The discount rate was changed from 3.59% to 3.03% based on updated expectations of long-term returns on trust assets and 20-year municipal bond rates. Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans. Medical per capita claims costs were updated to reflect recent experience. Mortality and salary increase rates were updated from the rates used in the 7/1/2016 PERA General Employees Retirement Plan and 7/1/2016 Teachers Retirement Association valuations to the rates used in the 7/1/2018 valuations. The percent of future non-Medicare eligible retirees electing each medical plan changed to reflect recent plan experience. The long-term inflation assumption was changed from 2.75% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations. A short-term inflation assumption was added to reflect the plan's asset allocation and the anticipated short future duration of those assets.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE REQUIRED SUPPLEMENTAL INFORMATION
June 30, 2019

Note 1 CHANGE IN PLAN PROVISIONS (Continued)

C. Other Post-Employment Benefits (continued)

2018 changes:

Change of Assumptions. The discount rate was changed from 3.47% to 3.59% based on updated expectations of long-term returns on trust assets and 20-year municipal bond rates. Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans. Medical per capita claims costs were updated to reflect recent experience. The spouse age assumption was changed from assuming husbands are the same age as wives to assuming husbands are 3 years older than wives. This assumption change had no impact on liabilities.

2017 changes:

Change of Assumptions. The actuarial cost method changed from using the Projected Unit Credit cost method to the Entry Age Normal level percent of pay cost method due to new GASB 74/75 accounting rules. The discount rate was changed from 3.00% to 3.47% based on updated expectations of long-term returns on trust assets and 20-year municipal bond rates. Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans. Medical per capita claims costs were updated to reflect recent experience. The spouse age assumption was changed from assuming husbands are the same age as wives to assuming husbands are 3 years older than wives. This assumption change had no impact on liabilities.

2016 changes:

Change of Assumptions. The discount rate was changed from 2.60% to 3.00% based on blend of expected asset class returns using historical market experience and current investment policy for the trust. Healthcare trend rates were reset to reflect updated cost increase expectations.

SUPPLEMENTARY INFORMATION SECTION

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

COMBINING BALANCE SHEET
NONMAJOR FUNDS
June 30, 2019

	Food Service Fund	Community Service Fund	Building Construction Fund	Total Nonmajor Funds
ASSETS				
Cash and Investments	\$ 31,424	\$ 5,111	\$ 0	\$ 36,535
Accounts Receivable	148	0	0	148
Property Taxes Receivable	0	30,291	0	30,291
Due from Minnesota Department of Education	0	8,876	0	8,876
Inventory	17,928	0	0	17,928
TOTAL ASSETS	\$ 49,500	\$ 44,278	\$ 0	\$ 93,778
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities:				
Salaries and Benefits Payable	\$ 6,330	\$ 29,649	\$ 0	\$ 35,979
Accounts Payable	4,121	35	0	4,156
Unearned Revenue	6,887	0	0	6,887
Total Liabilities	17,338	29,684	0	47,022
Deferred Inflows of Resources:				
Unavailable Revenue - Delinquent Taxes	0	1,213	0	1,213
Property Taxes Levied for Subsequent Year	0	55,480	0	55,480
Total Deferred Inflows of Resources	0	56,693	0	56,693
Fund Balance:				
Nonspendable	17,928	0	0	17,928
Restricted	14,234	0	0	14,234
Unassigned	0	(42,099)	0	(42,099)
Total Fund Balance	32,162	(42,099)	0	(9,937)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 49,500	\$ 44,278	\$ 0	\$ 93,778

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - NONMAJOR FUNDS
For the Year Ended June 30, 2019

	Food Service Fund	Community Service Fund	Building Construction Fund	Total Nonmajor Funds
Revenues:				
Local Property Taxes	\$ 0	\$ 52,130	\$ 0	\$ 52,130
Other Local and County Revenues	267	120,851	153	121,271
Revenue From State Sources	26,743	76,417	0	103,160
Revenue From Federal Sources	212,948	0	0	212,948
Sales and Other Conversions of Assets	219,774	0	0	219,774
Total Revenues	<u>459,732</u>	<u>249,398</u>	<u>153</u>	<u>709,283</u>
Expenditures:				
Community Education and Services	0	258,518	0	258,518
Pupil Support Services	467,346	0	0	467,346
Site, Buildings, and Equipment	0	0	23,902	23,902
Total Expenditures	<u>467,346</u>	<u>258,518</u>	<u>23,902</u>	<u>749,766</u>
Excess of Revenues Over (Under) Expenditures	(7,614)	(9,120)	(23,749)	(40,483)
Fund Balance - Beginning	<u>39,776</u>	<u>(32,979)</u>	<u>23,749</u>	<u>30,546</u>
Fund Balance - Ending	<u>\$ 32,162</u>	<u>\$ (42,099)</u>	<u>\$ 0</u>	<u>\$ (9,937)</u>

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

COMBINING BALANCE SHEET - DEBT SERVICE FUNDS
June 30, 2019

	Regular Debt Service	Other Post- Employment Benefit Bonds	Totals
ASSETS			
Cash and Cash Equivalents	\$ 456,120	\$ 103,881	\$ 560,001
Property Taxes Receivable	412,505	77,957	490,462
Due From Minnesota Department of Revenue	16,094	480	16,574
TOTAL ASSETS	\$ 884,719	\$ 182,318	\$ 1,067,037
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Deferred Inflows of Resources:			
Unavailable Revenue - Delinquent Property Taxes	\$ 18,955	\$ 3,815	\$ 22,770
Property Taxes Levied For Subsequent Year	750,893	141,463	892,356
Total Deferred Inflows of Resources	769,848	145,278	915,126
Fund Balance:			
Restricted for Debt Service	114,871	37,040	151,911
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 884,719	\$ 182,318	\$ 1,067,037

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - DEBT SERVICE FUNDS
For the Year Ended June 30, 2019

	Regular Debt Service	Other Post- Employment Benefit Bonds	Totals
Revenue:			
Local Property Taxes	\$ 609,679	\$ 146,407	\$ 756,086
Other Local and County Revenues	19,219	5,108	24,327
Revenue From State Sources	161,498	4,795	166,293
Total Revenues	790,396	156,310	946,706
Expenditures:			
Principal	575,000	105,000	680,000
Interest and Other Fiscal Expenditures	338,310	71,415	409,725
Total Expenditures	913,310	176,415	1,089,725
Excess of Revenue Over (Under) Expenditures	(122,914)	(20,105)	(143,019)
Other Financing Sources (Uses):			
Issuance of Refunding Bonds	2,714,185	785,000	3,499,185
Refunding of Long-Term Debt	(2,665,000)	(760,000)	(3,425,000)
Total Other Financing Sources (Uses)	49,185	25,000	74,185
Change in Fund Balance	(73,729)	4,895	(68,834)
Fund Balance - Beginning	188,600	32,145	220,745
Fund Balance - Ending	\$ 114,871	\$ 37,040	\$ 151,911

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

BALANCE SHEET
GENERAL FUND

June 30, 2019

(With Comparative Amounts for June 30, 2018)

	2019	2018
ASSETS		
Cash and Investments	\$ 870,112	\$ 336,658
Accounts Receivable	25,417	77,933
Property Taxes Receivable	586,545	379,097
Due from Minnesota Department of Education	860,624	736,902
Due from Federal Through State	216,097	213,438
Due from Other Minnesota School Districts	96,108	47,113
Due from Other Governmental Unit	3,588	4,925
Prepaid Items	35,797	80,700
TOTAL ASSETS	\$ 2,694,288	\$ 1,876,766
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Salaries and Benefits Payable	\$ 680,781	\$ 623,226
Accounts Payable	25,409	44,836
Due to Other Governments	394	394
Due to Other Minnesota School Districts	45,000	82,250
Total Liabilities	751,584	750,706
Deferred Inflows of Resources:		
Unavailable Revenue - Delinquent Taxes	16,435	18,263
Property Taxes Levied for Subsequent Year	1,006,495	568,621
Total Deferred Inflows of Resources	1,022,930	586,884
Fund Balance:		
Nonspendable	35,797	80,700
Restricted	434,856	293,790
Unassigned	449,121	164,686
Total Fund Balance	919,774	539,176
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 2,694,288	\$ 1,876,766

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2019
(With Comparative Amounts for the Year Ended June 30, 2018)

	2019 Original Budget	2019 Final Budget	2019 Amount	Over (Under) Budget	2018 Amount
Revenues:					
Local Property Taxes	\$ 687,729	\$ 679,066	\$ 715,044	\$ 35,978	\$ 648,929
Other Local and County Revenues	200,100	340,036	300,176	(39,860)	264,893
Revenue From State Sources	6,560,570	6,761,397	6,784,974	23,577	6,669,606
Revenue From Federal Sources	256,726	257,142	252,037	(5,105)	267,467
Sales and Other Conversion of Assets	(1,300)	(400)	874	1,274	2,867
Total Revenues	<u>7,703,825</u>	<u>8,037,241</u>	<u>8,053,105</u>	<u>15,864</u>	<u>7,853,762</u>
Expenditures:					
Current:					
District and School Administration	435,469	434,221	438,249	4,028	501,886
District Support Service	440,848	421,438	359,941	(61,497)	416,718
Regular Instruction	3,663,122	3,730,695	3,675,385	(55,310)	3,774,905
Vocational Instruction	152,530	175,785	173,431	(2,354)	126,429
Special Education Instruction	1,223,034	1,210,479	1,173,582	(36,897)	1,147,115
Instructional Support Services	73,062	85,487	71,874	(13,613)	150,051
Pupil Support Services	702,451	702,496	681,430	(21,066)	688,802
Sites, Buildings, and Equipment	726,116	779,163	777,168	(1,995)	836,997
Capital Outlay:					
General Government	0	146,644	146,644	0	0
Debt Service:					
Principal	98,552	98,552	112,560	14,008	105,912
Interest and Other Fiscal Expenditures	0	0	34,138	34,138	35,837
Other Fiscal Expenditures	42,113	41,926	42,113	187	12,053
Total Expenditures	<u>7,557,297</u>	<u>7,826,886</u>	<u>7,686,515</u>	<u>(140,371)</u>	<u>7,796,705</u>
Excess of Revenue Over (Under) Expenditures	146,528	210,355	366,590	156,235	57,057
Other Financing Sources:					
Issuance of Capital Lease	<u>0</u>	<u>0</u>	<u>14,008</u>	<u>(14,008)</u>	<u>78,649</u>
Change in Fund Balance	<u>\$ 146,528</u>	<u>\$ 210,355</u>	380,598	<u>\$ 142,227</u>	135,706
Fund Balance - Beginning			<u>539,176</u>		<u>403,470</u>
Fund Balance - Ending			<u>\$ 919,774</u>		<u>\$ 539,176</u>

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

BALANCE SHEET
FOOD SERVICE FUND

June 30, 2019

(With Comparative Amounts for June 30, 2018)

	2019	2018
ASSETS		
Cash and Investments	\$ 31,424	\$ 25,116
Accounts Receivable	148	0
Inventory	17,928	19,421
TOTAL ASSETS	\$ 49,500	\$ 44,537
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Salaries and Benefits Payable	\$ 6,330	\$ 3,748
Accounts Payable	4,121	1,013
Unearned Revenue	6,887	0
Total Liabilities	17,338	4,761
 Fund Balance:		
Nonspendable	17,928	19,421
Restricted	14,234	20,355
Total Fund Balance	32,162	39,776
TOTAL LIABILITIES AND FUND BALANCE	\$ 49,500	\$ 44,537

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - FOOD SERVICE FUND
For the Year Ended June 30, 2019
(With Comparative Amounts for the Year Ended June 30, 2018)

	<u>2019 Original Budget</u>	<u>2019 Final Budget</u>	<u>2019 Amount</u>	<u>Over (Under) Budget</u>	<u>2018 Amount</u>
Revenues:					
Other Local and County Revenues	\$ 0	\$ 0	\$ 267	\$ 267	\$ 0
Revenue From State Sources	28,200	28,200	26,743	(1,457)	31,012
Revenue From Federal Sources	224,145	221,795	212,948	(8,847)	231,436
Sales and Other Conversion of Assets	<u>249,800</u>	<u>255,800</u>	<u>219,774</u>	<u>(36,026)</u>	<u>213,825</u>
Total Revenues	<u>502,145</u>	<u>505,795</u>	<u>459,732</u>	<u>(46,063)</u>	<u>476,273</u>
Expenditures:					
Pupil Support Services	<u>481,114</u>	<u>480,164</u>	<u>467,346</u>	<u>(12,818)</u>	<u>468,341</u>
Excess of Revenue Over (Under) Expenditures	<u>\$ 21,031</u>	<u>\$ 25,631</u>	(7,614)	<u>\$ (33,245)</u>	7,932
Fund Balance - Beginning			<u>39,776</u>		<u>31,844</u>
Fund Balance - Ending			<u>\$ 32,162</u>		<u>\$ 39,776</u>

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

BALANCE SHEET
COMMUNITY SERVICE FUND

June 30, 2019

(With Comparative Amounts for June 30, 2018)

	2019	2018
ASSETS		
Cash and Investments	\$ 5,111	\$ 9,891
Accounts Receivable	0	344
Property Taxes Receivable	30,291	27,374
Due from Minnesota Department of Education	8,876	9,256
TOTAL ASSETS	\$ 44,278	\$ 46,865
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Salaries and Benefits Payable	\$ 29,649	\$ 24,604
Accounts Payable	35	0
Total Liabilities	29,684	24,604
 Deferred Inflows of Resources:		
Unavailable Revenue - Delinquent Taxes	1,213	1,402
Property Taxes Levied for Subsequent Year	55,480	53,838
Total Deferred Inflows of Resources	56,693	55,240
 Fund Balance:		
Restricted	(42,099)	(32,979)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 44,278	\$ 46,865

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - COMMUNITY SERVICE FUND
For the Year Ended June 30, 2019
(With Comparative Amounts for the Year Ended June 30, 2018)

	<u>2019 Original Budget</u>	<u>2019 Final Budget</u>	<u>2019 Amount</u>	<u>Over (Under) Budget</u>	<u>2018 Amount</u>
Revenues:					
Local Property Taxes	\$ 53,847	\$ 52,464	\$ 52,130	\$ (334)	\$ 50,114
Other Local and County Revenues	127,301	122,571	120,851	(1,720)	121,025
Revenue From State Sources	<u>78,546</u>	<u>73,651</u>	<u>76,417</u>	<u>2,766</u>	<u>79,967</u>
Total Revenues	<u>259,694</u>	<u>248,686</u>	<u>249,398</u>	<u>712</u>	<u>251,106</u>
Expenditures:					
Pupil Support Services	0	0	0	0	256
Community Education and Services	<u>275,238</u>	<u>266,818</u>	<u>258,518</u>	<u>(8,300)</u>	<u>253,637</u>
Total Expenditures	<u>275,238</u>	<u>266,818</u>	<u>258,518</u>	<u>(8,300)</u>	<u>253,893</u>
Excess of Revenue Over (Under) Expenditures	<u>\$ (15,544)</u>	<u>\$ (18,132)</u>	(9,120)	<u>\$ 9,012</u>	(2,787)
Fund Balance - Beginning			<u>(32,979)</u>		<u>(30,192)</u>
Fund Balance - Ending			<u>\$ (42,099)</u>		<u>\$ (32,979)</u>

OTHER REPORTS



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MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

Members of the School Board
Independent School District No. 314
Braham, 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 the Independent School District No. 314, Braham, Minnesota, (the District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated October 18, 2019.

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

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

The purpose of this report is 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.

Burkhardt & Burkhardt, Ltd.

Mankato, Minnesota
October 18, 2019

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INDEPENDENT AUDITORS' 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

Members of the School Board
Independent School District No. 314
Braham, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 314, Braham, Minnesota (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 18, 2019.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001, 2019-002 and 2019-003 that we consider to be significant deficiencies.

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Compliance and Other Matters

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

District’s Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result 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.

Burkhardt & Burkhardt, Ltd.

Mankato, Minnesota
October 18, 2019

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INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF FINDINGS
June 30, 2019

CURRENT YEAR FINDINGS

Significant Deficiencies

2019-001. Preparation of financial statements and related footnotes

- Condition:* The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. District personnel do prepare periodic financial statements and other financial information for internal use that meets the needs of management and the School Board. However, the District does not have the internal resources to prepare full-disclosure financial statements required by GAAP for external reporting. As auditors, we were requested to draft the financial statements and accompanying footnotes.
- Criteria:* Internal controls over financial reporting include those related to the actual preparation and review of the audited financial statements. In order to prepare a complete set of financial statements in conformity with GAAP, the preparer must have the necessary expertise.
- Cause:* The District does not have the resources to compile their own financial statements.
- Effect:* This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.
- Recommendation:* This control deficiency is not unusual in a small district. However, it is the responsibility of management and the School Board to decide whether to accept the degree of risk associated with this condition based on the cost of correction and other considerations.
- Response:* The District will consider putting new procedures in place to ensure that all balances are properly adjusted at year-end. The District will review all adjusting entries posted at year-end and decide if they are appropriate and complete.

Corrective Action Plan (CAP)

- a) *Actions Planned in Response to the Finding:* The District does not plan to take any action but is aware of the condition. Based on the cost of correcting this deficiency, the District has decided to accept the risk associated with this deficiency.
- b) *Official Responsible for Ensuring Corrective Action:* The Business Manager and Superintendent will review the financial statements and related footnotes and approve them.
- c) *Planned Completion Date for the Corrective Action:* The corrective action plan for this finding will be ongoing.
- d) *Explanation of Disagreement:* There is no disagreement with the audit finding.
- e) *Plan to Monitor Completion of Corrective Action:* The School Board will be monitoring this corrective action plan.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF FINDINGS
June 30, 2019

2019-002. Segregation of Duties

- Condition:* The District has a limited number of office personnel and accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties. An effective internal control structure provides an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.
- Criteria:* Internal controls should be in place that provides reasonable assurance that proper segregation of duties is achieved.
- Cause:* The District has a limited number of office personnel and inadequate internal controls.
- Effect:* The failure to properly segregate duties increases the risk that misstatements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
- Recommendation:* While it is recognized that the District's office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective internal control structure, it is important that the District be aware of this situation.
- Response:* The Board has already taken measures to attempt to comply even though the District is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Board has addressed this circumstance by active participation in the District's affairs. This includes approval of disbursements, regular review of financial reports, regular review of bank reconciliations and budget comparisons.

Corrective Acton Plan (CAP)

- a) *Actions Planned in Response to the Finding:* The District has determined the benefit of adequately segregating duties is less than the cost. Based on this assessment, the District is accepting the risk posed by the deficiency while also evaluating mitigating controls that will help reduce the risk of material misstatement of the financial statements. Management is attempting to mitigate the associated risks by doing the following:
1. Identifying areas lacking segregation of duties and where there are higher risks of fraud occurring.
 2. Implementing limited segregation to the extent possible to reduce risks without impairing efficiency.
 3. Using the knowledge of management and the School Board to review accounting records and reports,
- b) *Official Responsible for Ensuring Corrective Action:* The Business Manager will monitor the effectiveness of the above actions and make changes as considered appropriate.
- c) *Planned Completion Date for the Corrective Action:* The corrective action plan for this finding will be ongoing.
- d) *Explanation of Disagreement:* There is no disagreement with the audit finding.
- e) *Plan to Monitor Completion of Corrective Action:* The School Board will be monitoring this corrective action plan to review the recommendations and take appropriate action.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF FINDINGS
June 30, 2019

STATUS OF PRIOR AUDIT FINDINGS

The prior audit contained two findings:

2018-001. Preparation of financial statements and related footnotes

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

Current status: This condition is noted during the current year audit of the financial statements.

2018-002. Segregation of Duties

Condition: The District has a limited number of office personnel and, accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties. This finding was again noted for the current year.

Current status: This condition is noted during the current year audit of the financial statements.

2018-003. Adjusting journal entries

Condition: The audit firm proposed and the District posted to its general ledger journal entries to correct certain year-end general ledger balances

Current status: This condition was not noted during the current year audit of the financial statements.

STUDENT ACTIVITY ACCOUNTS



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INDEPENDENT AUDITOR'S REPORT

Members of the School Board, Advisors, and Students
Independent School District No. 314
Braham, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statement of the cash receipts and disbursements of the student activity accounts of Independent School District No. 314, Braham, Minnesota, for the year ended June 30, 2019, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the regulatory basis of accounting described in the Note to the financial statement; 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. 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.

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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in the note to the financial statement, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statement is prepared by the Independent School District No. 314 in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in the note to the financial statement and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District No. 314 as of June 30, 2019, or changes in financial position for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

We were unable to audit cash receipts because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. We were unable to obtain sufficient appropriate audit evidence about the completeness of cash receipts by other auditing procedures.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion on Regulatory Basis paragraph, the financial statement referred to in the first paragraph present fairly, in all material respects, the cash balances of the Student Activity Funds of Independent School District No. 314 as of June 30, 2019, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the note to the financial statement.

Burkhardt & Burkhardt, Ltd.

Mankato, Minnesota
October 18, 2019

INDEPENDENT SCHOOL DISTRICT NO. 314
STUDENT ACTIVITY ACCOUNT
BRAHAM, MINNESOTA

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
For The Year Ended June 30, 2019

	Beginning Balance	Receipts	Disbursements	Ending Balance
FFA	\$ 3,876	\$ 5,331	\$ 6,235	\$ 2,972
Baseball	4,225	22,603	20,732	6,096
Fall musical/spring play	1,919	1,820	1,864	1,875
Echelon - Jazz	333	1,308	730	911
Football	13,145	3,967	5,414	11,698
Interest Earned	205	5	-	210
Boys Basketball	1,543	9,149	10,006	686
Girls Basketball	2,143	6,602	5,028	3,717
Golf	289	1,305	1,485	109
Softball	2,362	1,641	1,732	2,271
Volleyball	3,614	35	2,297	1,352
Wrestling	5,493	1,209	434	6,268
Track	8,655	4,476	3,885	9,246
German class	-	100	-	100
Cross Country	2,974	1,794	3,075	1,693
Class of 2019	1,216	-	1,216	(0)
Class of 2020	-	8,612	8,596	16
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals	<u>\$ 51,989</u>	<u>\$ 69,957</u>	<u>\$ 72,729</u>	<u>\$ 49,217</u>

The Accompanying Note to the Financial Statement is an Integral Part of This Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA
NOTES TO STUDENT ACTIVITY FUNDS FINANCIAL STATEMENTS
June 30, 2019

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Student activity fund transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by the students, under the guidance of a staff member or other adult.

Student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fundraising events.

The accounts of the student activity funds are maintained, and the accompanying financial statement has been prepared, on the cash basis of accounting. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE
MANUAL FOR STUDENT ACTIVITY ACCOUNTING

To the School Board,
Advisors and Students
Independent School District No. 314
Braham, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the Statements of Receipts and Disbursements of the student activity accounts of Independent School District No. 314, Braham, Minnesota, for the year ended June 30, 2019, and the related Notes to the Financial Statements and have issued our report thereon dated October 18, 2019.

The *Manual for Student Activity Accounting*, issued by the Minnesota Department of Education, pursuant to *Minnesota Statutes* Section 123B.49, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this Manual.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Manual for Student Activity Accounting*, except as described in the accompanying schedule of findings. 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 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.

Burkhardt & Burkhardt, Ltd.

Mankato, Minnesota

October 18, 2019