

JOINT POWERS DISTRICT #938
MEEKER AND WRIGHT
SPECIAL EDUCATION COOPERATIVE

AUDITED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

JUNE 30, 2019

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
LITCHFIELD, MINNESOTA

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JOINT POWERS DISTRICT #938

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JOINT POWERS DISTRICT #938

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JOINT POWERS DISTRICT #938

SCHEDULE OF APPOINTED OFFICIALS AND ADMINISTRATION
JUNE 30, 2019

<u>Appointed Officials</u>	<u>Title</u>	<u>Term Expires</u>
Amy Johnson Delano	Chair	December 31, 2020
Jessica Johnson Rockford	Vice Chair	January 4, 2021
Julie Pennertz Litchfield	Clerk	December 31, 2021
Irene Bender Dassel-Cokato	Treasurer	December 31, 2020
Katie Koch Howard Lake-Waverly-Winsted	Director	December 31, 2022
Chris Paumen Maple Lake	Director	December 31, 2020
Gena Jacobson Annandale	Director	December 31, 2022
<u>Administration</u>		
Janell Bullard	Executive Director	

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INDEPENDENT AUDITOR'S REPORT

To The Board of Directors
Joint Powers District #938
Howard Lake, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Joint Powers District #938, Howard Lake, Minnesota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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 the major fund of Joint Powers District #938, Howard Lake, Minnesota, as of June 30, 2019, and the respective changes in financial position, thereof 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.

Report on Partial Comparative Information

We have previously audited the District's financial statements, and we expressed unmodified audit opinions on those audited financial statements in our report dated November 27, 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 Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Proportionate Share of the Net Pension Liability, the Schedule of Employer Contributions and the Schedule of Changes in the District's Total OPEB Liability as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Appointed Officials and Administration page and the schedules listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The individual fund financial schedule, UFARS Compliance Table, and the Schedule of Expenditures of Federal Awards (supplementary information) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The Schedule of Appointed Officials and Administration page has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on the information presented.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
LITCHFIELD, MINNESOTA

November 26, 2019

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REQUIRED SUPPLEMENTARY INFORMATION

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JOINT POWERS DISTRICT #938
Howard Lake, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2019

This section of the Joint Powers District Meeker and Wright Special Education Cooperative (MAWSECO) #938's annual financial report presents the District's management's discussion and analysis of the District's financial performance during the fiscal year that ended 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 Standard Board's (GASB) Statement No. 34 - Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments issued in June 1999.

FINANCIAL HIGHLIGHTS

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

- Net position increased 22.2% or \$1,687,304 over the prior year.
- Overall actual revenues in the Statement of Activities were \$9,347,520 while overall expenses totaled \$7,660,216.
- The governmental fund general fund balance increased \$14,745 over the prior year due to changes in revenues and expenditures that varied from the projected budget. Nonspendable fund balance decreased by 54,965 due to no prepaids, assigned collaborative fund balance increased \$2,753, unassigned fund balance increased \$36,348 due to MDE tuition billing, and reserved third party revenue increased \$53,633. Assigned fund balances for the climate committee decreased by \$24 and employee wellness increased by \$329. Restricted fund balance for Basic Skills decreased by \$23,329.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the government-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short-term* as well as what remains for future spending.
- The *Proprietary fund* statements offer *short-term* and *long-term* financial information about the activity the District operates *like a business* – N/A.
- The *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others to whom the resources belong – N/A.

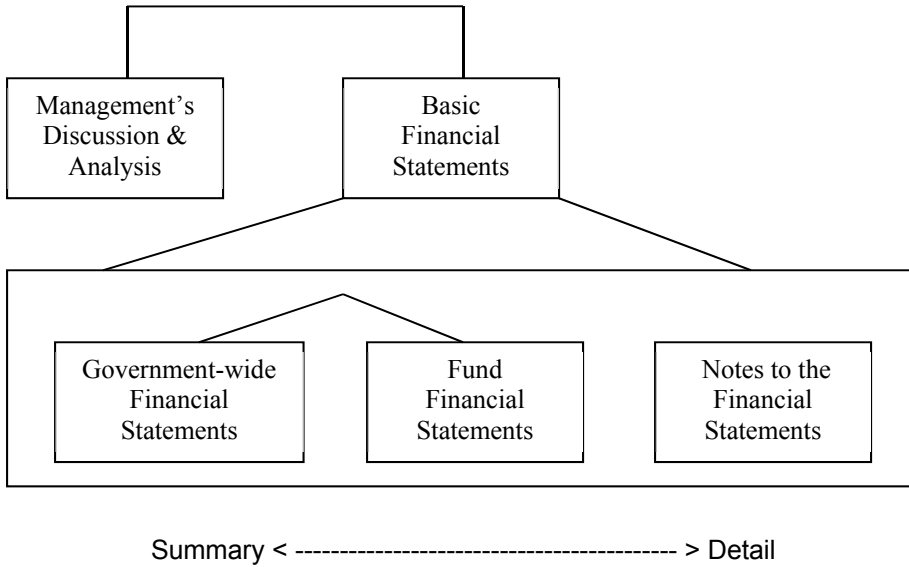
The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

JOINT POWERS DISTRICT #938
Howard Lake, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (Cont'd)

**Figure A-1 Organization of MAWSECO
Annual Financial Report**



JOINT POWERS DISTRICT #938
Howard Lake, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (Cont'd)

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

Figure A-2 Major Features of the Government-Wide and Fund Financial Statements				
	Government-wide Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Activities the District operates similar to private businesses: Internal service fund	Instances in which the District administers resources on behalf of someone else, such as scholarship programs
Required financial statements	<ul style="list-style-type: none"> ▪ Statement of Net Position ▪ Statement of Activities 	<ul style="list-style-type: none"> ▪ Balance Sheet ▪ Statement of Revenues, Expenditures and Changes in Fund Balances 	<ul style="list-style-type: none"> ▪ Statement of Net Position ▪ Statement of Revenues, Expenses and Changes in Net Position ▪ Statement of Cash Flows 	<ul style="list-style-type: none"> ▪ Statement of Fiduciary Net Position ▪ Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset and deferred outflows of resources/ liability and deferred inflows of resources information	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, short-term and long-term	Generally assets and deferred outflows of resources expected to be used up and liabilities and deferred inflows of resources that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both financial and capital, and short-term and long-term	All assets and deferred outflows of resources and liabilities and deferred inflows of resources, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/out flow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

JOINT POWERS DISTRICT #938
Howard Lake, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2019

OVERVIEW OF THE FINANCIAL STATEMENTS (Cont'd)

Government-wide Statements

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

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

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

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

- *Governmental activities* – The District's basic services are included here, such as special and regular education, administration and student support services. Program tuition billings, purchase service billings, federal funds and administrative fees finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes.

The District has one type of fund:

- *Governmental funds* – The District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information in a separate statement.

JOINT POWERS DISTRICT #938
Howard Lake, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position was (\$5,912,255) on June 30, 2019. (See Table A-1.) This was an increase of 22.2% from the prior year.

Table A-1
Condensed Statement of Net Position
Governmental Activities

	2019	2018	Percentage Change
Current Assets	\$ 3,234,547	\$ 3,012,675	7.36%
Net Capital Assets	131,325	122,897	6.86%
Total Assets	<u>3,365,872</u>	<u>3,135,572</u>	7.34%
Deferred Outflows of Resources	<u>6,684,815</u>	<u>8,855,819</u>	-24.51%
Total Assets and Deferred Outflows of Resources	<u>\$10,050,687</u>	<u>\$11,991,391</u>	-16.18%
Current Liabilities	\$ 1,615,639	\$ 1,408,512	14.71%
Long-Term Liabilities	5,446,397	15,513,581	-64.89%
Total Liabilities	<u>7,062,036</u>	<u>16,922,093</u>	-58.27%
Deferred Inflows of Resources	8,900,906	2,668,857	233.51%
Net Position			
Net Investment in Capital Assets	131,325	122,897	6.86%
Restricted for State-Mandated Restrictions	110,047	79,743	-38.00%
Unrestricted	(6,153,627)	(7,802,199)	-21.13%
Total Net Position	<u>(5,912,255)</u>	<u>(7,599,559)</u>	-22.20%
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$10,050,687</u>	<u>\$11,991,391</u>	-16.18%

JOINT POWERS DISTRICT #938
Howard Lake, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2019

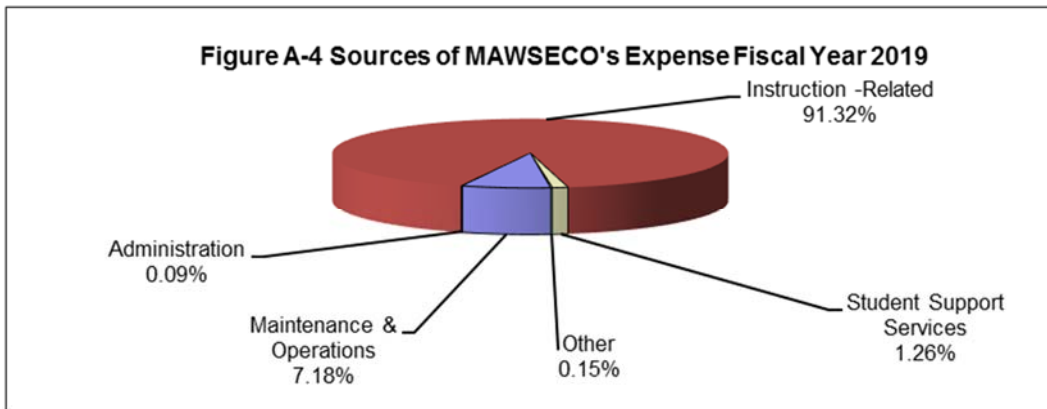
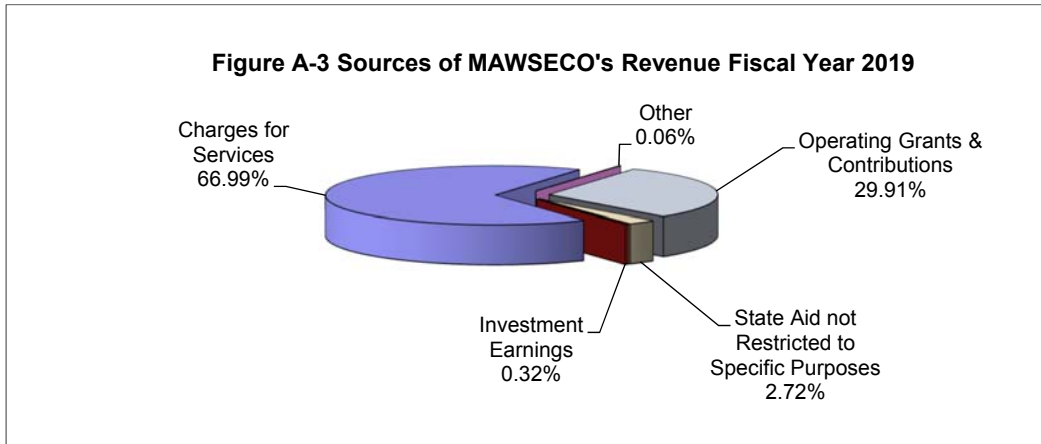
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Cont'd)

Changes in net position. The District's total revenues were \$9,347,520 for the year ended June 30, 2019. Federal aid, compensatory/basic skills aid and collaborative aid accounted for 29.91% of total revenue for the year. (See Figure A-3.) 66.99% came from formula share, tuition billing revenue, purchase service billing or MDE tuition billing state aid. The remaining 3.1% came from investments, state aid not restricted for specific purpose and other revenues.

The increase in revenue for 2019 versus 2018 in charges for services is due to revenue being directly related to expenditures, which increased mostly due to inflationary factors. The increase in operating grants is due to an increase in federal funds. The increase in unrestricted state aid is due to an increase to special funding revenue for pensions. The increase in interest earnings is due to slightly higher monthly cash balances due to MDE aid payment schedules and district billings as well as higher rates of return.

The total cost of all programs and services was \$7,660,216. The District's expenses are predominately related to educating and caring for students and accounts for 91.3% of total costs. (See Figure A-4.) Administrative costs, maintenance and operations and other account for 8.7% of remaining total costs.

There was a 30% cost decrease in special education and regular education expense. This is primarily due to the change in the pension liabilities and related items. Total revenues exceeded total expenses by \$1,687,304.



JOINT POWERS DISTRICT #938
Howard Lake, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Cont'd)

- The cost of all *governmental* activities this year was \$7,660,216.
- Users of the District's programs paid \$6,261,768 and the revenue is reported as charges for services in the Statement of Activities. Tuition or purchased service District billing and facility remodel project was \$2,365,911. Medical assistance and third party billing was \$74,522. MDE tuition billing state aid is \$3,821,335.
- Total subsidized program revenues were \$2,795,695 and are reported as operating grants and contributions in the Statement of Activities. The federal government provided grants and contributions of \$2,428,857 and Title I grant of \$60,433. Local grants and other funds were as follows: compensatory/basic skills aid \$291,273, pension aid \$7,176 and collaborative \$7,956.
- Unrestricted state aid, investment earnings and other general revenues were \$290,057.

The net cost of governmental activities is their total costs less program revenues applicable to each category. (See Table A-3.)

Table A-3
Net Cost of Governmental Activities

	Total Cost of Service			Net Cost of Service		
	2019	2018	Percentage Change	2019	2018	Percentage Change
Administration	\$ 6,637	\$ 6,094	8.91%	\$ 260	\$ (20)	-1400.00%
District Support Services	96,350	92,505	4.16%	910	(155)	-687.10%
Regular Education Instruction	913,826	1,315,219	-30.52%	(186,546)	(690,060)	-72.97%
Vocational Education Instruction	256,967	359,608	-28.54%	(160,416)	(161,303)	-0.55%
Special Education Instruction	5,824,823	8,519,077	-31.63%	1,962,810	(1,087,463)	-280.49%
Sites and Buildings	549,766	519,747	5.78%	(218,311)	(195,974)	11.40%
Fiscal and Other Fixed Cost Programs	11,847	9,092	30.30%	(1,460)	(1,711)	-14.67%
	\$ 7,660,216	\$10,821,342	-29.21%	\$ 1,397,247	\$ (2,136,686)	-165.39%

JOINT POWERS DISTRICT #938
Howard Lake, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2019

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

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 \$1,618,910, an increase of \$14,745 or 0.92% more than last year's ending fund balance. The overall increase is due to an increase in fiscal year 2018 tuition allocation and receivable after MDE recalculation of tuition billings and Trek third party revenue.

Revenues and Expenditures

Revenues for the District's governmental funds totaled \$9,347,520 while total expenditures were \$9,332,775. A summary of the revenues and expenditures reported on the governmental fund financial statements appears in Table A-4.

Table A-4
Revenue/Expenditure/Fund Balance

	<u>Revenue</u>	<u>Expenditure</u>	<u>Fund Balance Increase (Decrease)</u>
General Fund - 2019	\$ 9,347,520	\$ 9,332,775	\$ 14,745
General Fund - 2018	\$ 8,733,926	\$ 8,644,629	\$ 89,297

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund Budgetary Highlights

During the year ended June 30, 2019 the District revised its operating budget in February. These revisions were made to reflect federal grant amounts known at that time, District federal sub-award expenditures, staff FTE, and related expenditures.

Actual revenues were \$114,375 less than budget and actual expenditures were \$129,120 less than budget. Local and County Revenues were less than budget by \$637,588. Revenue from State Sources was more than budgeted by \$519,543. Both of these revenues are related and have somewhat of an inverse relationship. The deviations from the budget in both of these revenue areas is due to fluctuations based on whether students are Special Education Students or non-Special Education as this determines the revenue source. On the expenditure side, salary and benefits were less than budgeted by \$195,041 mainly due to position vacancies and unfilled positions.

JOINT POWERS DISTRICT #938
Howard Lake, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2019

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

By the end of 2019, the District had invested \$418,926 in a broad range of equipment for the individual programs and the central office. (See Table A-5.) Detailed information on Capital Assets can be found in Note 5 to the financial statements. Total depreciation expense for the year was \$44,032.

Table A-5
Capital Assets

	2019	2018	Percentage Change
Equipment	\$ 418,926	\$ 385,367	8.71%
Less Accumulated Depreciation	(287,601)	(262,470)	9.57%
Total	\$ 131,325	\$ 122,897	6.86%

Long-Term Liabilities

The District had \$40,717 in compensated absences payable at June 30, 2019. (See Table A-6).

Table A-6
Outstanding Long-Term Liabilities

	2019	2018	Percentage Change
Compensated Absences	\$ 40,717	\$ 43,946	-7.35%

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District is dependent on federal funds, formula/enrollment share Member District billing, program tuition billing and purchased service billing by District and MDE tuition billing state aid to cover the cost of the special education and regular education services provided.

The District continues to analyze the best way to leverage federal, state and local funds to continue to provide education service and support to our Member Districts in an economically feasible manner.

The District also tracks and analyzes data to assure our Member Districts are being billed for the services that benefit their students and not expenses relative to serving students from non-member participating Districts.

The District is always analyzing the best way to become more efficient and yet still provide academic excellence and educational opportunity for students with a framework of financial fiduciary responsibility.

This District has always maintained sound fiscal policies and strives to continue this tradition in these challenging economic times.

JOINT POWERS DISTRICT #938
Howard Lake, Minnesota

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended June 30, 2019

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Office, Meeker and Wright Special Education Cooperative #938, P.O. Box 1010, Howard Lake, MN 55349.

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BASIC FINANCIAL STATEMENTS

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JOINT POWERS DISTRICT #938

STATEMENT OF NET POSITION

JUNE 30, 2019

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2018

	Governmental Activities	
	2019	2018
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Cash and Investments	\$ 1,030,130	\$ 1,179,501
Accounts Receivable	761	565
Due from Other Governments	2,203,656	1,777,644
Prepaid Items		54,965
Capital Assets, Net of Depreciation	131,325	122,897
Total Assets	<u>3,365,872</u>	<u>3,135,572</u>
Deferred Outflows of Resources	<u>6,684,815</u>	<u>8,855,819</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 10,050,687</u>	<u>\$ 11,991,391</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Liabilities		
Accounts Payable	\$ 48,490	\$ 33,469
Salaries and Benefits Payable	834,737	629,901
Due to Other Governments	732,412	745,142
Long-Term Liabilities		
Net Pension Liability	4,857,994	14,958,730
Total OPEB Liability	547,686	510,905
Other Long-Term Liabilities Due in More Than One Year	40,717	43,946
Total Liabilities	<u>7,062,036</u>	<u>16,922,093</u>
Deferred Inflows of Resources	8,900,906	2,668,857
Net Position		
Investment in Capital Assets	131,325	122,897
Restricted for State-Mandated Restrictions	110,047	79,743
Unrestricted	(6,153,627)	(7,802,199)
Total Net Position	<u>(5,912,255)</u>	<u>(7,599,559)</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$ 10,050,687</u>	<u>\$ 11,991,391</u>

See Accompanying Notes to the Financial Statements

JOINT POWERS DISTRICT #938

STATEMENT OF ACTIVITIES
JUNE 30, 2019

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2018

	2019			2018	
	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
GOVERNMENTAL ACTIVITIES					
Administration	\$ 6,637	\$ 6,897	\$	\$ 260	\$ (20)
District Support Services	96,350	97,260		910	(155)
Elementary and Secondary Regular Instruction	913,826	433,071	294,209	(186,546)	(690,076)
Vocational Education Instruction	256,967	94,460	2,091	(160,416)	(161,303)
Special Education Instruction	5,824,823	5,288,238	2,499,395	1,962,810	(1,087,447)
Sites and Buildings	549,766	331,455		(218,311)	(195,974)
Fiscal and Other Fixed Costs Programs	11,847	10,387		(1,460)	(1,711)
Total Governmental Activities	\$ 7,660,216	\$ 6,261,768	\$ 2,795,695	\$ 1,397,247	(2,136,686)
GENERAL REVENUES					
State Aid not Restricted to Specific Purposes				254,506	25,715
Other General Revenues				5,854	4,398
Investment Earnings				29,697	19,157
Total General Revenues				290,057	49,270
Change in Net Position				1,687,304	(2,087,416)
NET POSITION, BEGINNING OF YEAR, AS ORIGINALLY STATED				(7,599,559)	(5,275,045)
PRIOR PERIOD ADJUSTMENT					(237,098)
NET POSITION, BEGINNING OF YEAR, AS RESTATED				(7,599,559)	(5,512,143)
NET POSITION, END OF YEAR				\$ (5,912,255)	\$ (7,599,559)

See Accompanying Notes to the Financial Statements

JOINT POWERS DISTRICT #938

BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2019

WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2018

	General	Total Governmental Fund	
		2019	2018
ASSETS			
Cash and Investments	\$ 1,030,130	\$ 1,030,130	\$ 1,179,501
Accounts Receivable	761	761	565
Due from Other Governments			
Other Minnesota School Districts	697,037	697,037	872,809
State Department of Education	755,303	755,303	35,923
Federal Department of Education	751,316	751,316	868,912
Prepaid Items			54,965
			<u>54,965</u>
Total Assets	<u>\$ 3,234,547</u>	<u>\$ 3,234,547</u>	<u>\$ 3,012,675</u>
LIABILITIES AND FUND BALANCE			
Liabilities			
Accounts Payable	\$ 48,490	\$ 48,490	\$ 33,469
Salaries and Benefits Payable	834,737	834,737	629,901
Due to Other Governments	732,412	732,412	745,142
Total Liabilities	<u>1,615,639</u>	<u>1,615,639</u>	<u>1,408,512</u>
Fund Balance			
Nonspendable			54,965
Restricted	110,047	110,047	79,743
Committed	100,000	100,000	100,000
Assigned	60,967	60,967	57,909
Unassigned	1,347,894	1,347,894	1,311,546
Total Fund Balance	<u>1,618,908</u>	<u>1,618,908</u>	<u>1,604,163</u>
Total Liabilities and Fund Balance	<u>\$ 3,234,547</u>	<u>\$ 3,234,547</u>	<u>\$ 3,012,675</u>

See Accompanying Notes to the Financial Statements

JOINT POWERS DISTRICT #938

RECONCILIATION OF THE GOVERNMENTAL FUND
BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2019
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2018

	<u>2019</u>	<u>2018</u>
Total Fund Balances - Governmental Fund	\$ 1,618,908	\$ 1,604,163
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 the governmental funds.		
Governmental Capital Assets	418,926	385,367
Less: Accumulated Depreciation	(287,601)	(262,470)
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions	6,649,089	8,808,681
Deferred Inflows of Resources Related to Pensions	(8,900,906)	(2,668,857)
Deferred outflows and inflows of resources related to other post-employment benefits are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to OPEB	35,726	47,138
Long-term liabilities, including pensions, compensated absences and other postemployment benefits, are not due and payable in the current period and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the Statement of Net Position. Balances at year-end are:		
Net Pension Liability	(4,857,994)	(14,958,730)
Total OPEB Liability	(547,686)	(510,905)
Compensated Absences	(40,717)	(43,946)
	<u> </u>	<u> </u>
Total Net Position - Governmental Activities	<u>\$ (5,912,255)</u>	<u>\$ (7,599,559)</u>

JOINT POWERS DISTRICT #938

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 GOVERNMENTAL FUND
 YEAR ENDED JUNE 30, 2019
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2018

	General	Total Governmental Fund	
		2019	2018
REVENUES			
Other Local and County Revenues	\$ 2,483,938	\$ 2,483,938	\$ 2,291,642
Revenue from State Sources	4,374,292	4,374,292	4,116,209
Revenue from Federal Sources	2,489,290	2,489,290	2,326,075
Total Revenues	<u>9,347,520</u>	<u>9,347,520</u>	<u>8,733,926</u>
EXPENDITURES			
Current			
Administration	6,617	6,617	6,074
District Support Services	97,261	97,261	92,491
Elementary and Secondary Regular Instruction	1,130,219	1,130,219	1,001,887
Vocational Education Instruction	276,168	276,168	294,546
Special Education Instruction	7,203,263	7,203,263	6,676,526
Sites and Buildings	549,518	549,518	519,209
Fiscal and Other Fixed Costs Programs	11,847	11,847	9,092
Capital Outlay	57,882	57,882	44,804
Total Expenditures	<u>9,332,775</u>	<u>9,332,775</u>	<u>8,644,629</u>
Net Change in Fund Balances	14,745	14,745	89,297
FUND BALANCE, BEGINNING OF YEAR	<u>1,604,163</u>	<u>1,604,163</u>	<u>1,514,866</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,618,908</u>	<u>\$ 1,618,908</u>	<u>\$ 1,604,163</u>

JOINT POWERS DISTRICT #938

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUND
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2018

	<u>2019</u>	<u>2018</u>
Total Net Change in Fund Balances - Governmental Fund	\$ 14,745	\$ 89,297
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p> <p>Capital outlay is reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.</p>		
Capital Outlay	52,460	46,422
Depreciation Expense	(44,032)	(38,460)
Cost of Capital Assets Disposed	18,901	(14,154)
Accumulated Depreciation Related to Disposed Capital Assets	(18,901)	14,040
<p>In the Statement of Activities, certain operating expenses - pensions, other post-employment benefits and compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).</p>		
Pensions	1,709,095	(2,220,324)
Other Postemployment Benefits	(48,193)	37,598
Compensated Absences	<u>3,229</u>	<u>(1,835)</u>
Change in Net Position - Governmental Activities	<u>\$ 1,687,304</u>	<u>\$ (2,087,416)</u>

JOINT POWERS DISTRICT #938

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
REVENUES				
Other Local and County Revenues	\$ 3,205,475	\$ 3,121,526	\$ 2,483,938	\$ (637,588)
Revenue from State Sources	4,193,265	3,854,749	4,374,292	519,543
Revenue from Federal Sources	2,428,287	2,485,620	2,489,290	3,670
Total Revenues	<u>9,827,027</u>	<u>9,461,895</u>	<u>9,347,520</u>	<u>(114,375)</u>
EXPENDITURES				
Current				
Administration	7,483	7,483	6,617	(866)
District Support Services	130,988	138,918	97,261	(41,657)
Elementary and Secondary Regular Instruction	1,100,043	1,137,526	1,130,219	(7,307)
Vocational Education Instruction	404,173	427,009	276,168	(150,841)
Special Education Instruction	7,539,141	7,085,366	7,203,263	117,897
Sites and Buildings	546,178	551,257	549,518	(1,739)
Fiscal and Other Fixed Costs Programs	12,010	12,010	11,847	(163)
Capital Outlay				
Elementary and Secondary Regular Instruction	12,834	17,884	9,528	(8,356)
Vocational Education Instruction		1,250	1,087	(163)
Special Education Instruction	74,177	83,192	47,267	(35,925)
Total Expenditures	<u>9,827,027</u>	<u>9,461,895</u>	<u>9,332,775</u>	<u>(129,120)</u>
Net Change in Fund Balances	<u>\$ 0</u>	<u>\$ 0</u>	14,745	<u>\$ 14,745</u>
FUND BALANCE, BEGINNING OF YEAR			<u>1,604,163</u>	
FUND BALANCE, END OF YEAR			<u>\$ 1,618,908</u>	

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JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Joint Powers District #938 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America. The more significant of the District's accounting policies are described below.

A. REPORTING ENTITY

The Joint Powers District #938 ("District") was established to provide participating school districts with special education and other services for students with disabilities. The District is governed by a joint powers board composed of appointed members from each participating district. Member districts are as follows: Litchfield #465, Dassel-Cokato #466, Annandale #876, Delano #879, Maple Lake #881, Rockford #883, and Howard Lake-Waverly-Winsted #2687.

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments and offices that are not legally separate from such. Component units are legally separate entities for which the District is financially accountable, or for which the exclusion of the component unit would render the financial statements of the District misleading.

The criteria used to determine if the District is financially accountable for a component unit includes whether or not 1) the District appoints the voting majority of the potential component unit's governing body and is able to impose its will on the potential component unit or is in a relationship of financial benefit or burden with the potential component unit, or 2) the potential component unit is fiscally dependent on and there is potential for the potential component unit to provide specific financial benefits to, or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

The Joint Powers District #938 does not have a Student Activities Fund.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

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

Separate financial statements are provided for the governmental fund. The District reports all activities in one fund.

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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 governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting, in which revenues are recognized when they become measurable and available. Revenues are considered to be measurable when the amount of the transaction can be determined and available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue (except interest earnings) is recorded as revenue when received because they are generally not measurable until then. Interest earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences and claims and judgments are recorded only when payment is due. The District does not use encumbrances for either budgeting or financial reporting purposes.

It is generally the District's policy to use restricted resources first, then unrestricted resources as they are needed when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

Description of Funds:

The existence of the District fund has been established by the State of Minnesota, Department of Education. A description of the fund included in this report is as follows:

Major Governmental Fund:

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

D. BUDGETS AND BUDGETARY ACCOUNTING

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the Board of Directors adopts an annual budget for the following fiscal year for the General Fund. Reported budget amounts represent the amended budget as adopted by the Board of Directors. Legal budgetary control is at the fund level.

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

D. BUDGETS AND BUDGETARY ACCOUNTING (Cont'd)

Procedurally, in establishing the budgetary data reflected in these financial statements, the Executive Director 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 departmental line items are controlled by the Executive Director.

Unencumbered expenditure appropriations lapse at year-end. Encumbrances are not recorded.

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, FUND BALANCE AND NET POSITION

Cash and Investments:

The District's cash and cash equivalents are considered to be cash on hand, deposits and highly liquid debt instruments purchased with original maturities of three months or less from the date of acquisition.

The District may invest in the following types of investments as authorized by Minn. Stat. §§118A.04 and 118A.05:

- (1) securities which are direct obligations or are guaranteed or insured issues of the United States, its agencies, its instrumentalities, or organizations created by an act of Congress, except mortgage-backed securities defined as "high risk" by Minn. Stat. §118A.04, subd. 6;
- (2) mutual funds through shares of registered investment companies provided the mutual fund receives certain ratings depending on its investments;
- (3) general obligations of the State of Minnesota and its municipalities, and in certain state agency and local obligations of Minnesota and other states provided such obligations have certain specified bond ratings by a national bond rating service;
- (4) time deposits that are fully insured by the Federal Deposit Insurance Corporation or bankers acceptances of United States bank;
- (5) commercial paper issued by United States corporations or their Canadian subsidiaries that is rated in the highest quality category by at least two nationally recognized rating agencies and matures in 270 days or less; and
- (6) with certain restrictions, in repurchase agreements, securities lending agreements, joint powers investment trusts, and guaranteed investment contracts.

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, FUND BALANCE AND NET POSITION (Cont'd)

The District invests in an external investment pool, the Minnesota School District Liquid Asset Fund, which is created under a joint powers agreement pursuant to Minn. Stat. §471.59. The Minnesota School District Liquid Asset Fund is not registered with the Securities Exchange Commission (SEC), but satisfy the requirements of Rule 2a-7 prescribed by the SEC pursuant to the Investment Company Act of 1940 (17 CFR §270.2a-7), as amended. The investment in the pool is measured at the net asset value per share provided by the pool.

Cash and Investments: (Cont'd)

The District has an investment policy in place that addresses interest rate risk, credit risk, concentration of credit risk and custodial credit risk as follows:

Custodial Credit Risk - Deposits: Custodial credit risk is the risk that in the event of bank failure, the District's deposits may not be returned to it. Minnesota Statutes require all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. government agencies; general obligations of a state or local government rated "A" or better and revenue obligations of a state or local government rated "AA" or better; unrated general obligation securities of the District; irrevocable standby 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 does not have a policy that further limits its collateral choices.

Custodial Credit Risk - Investments. For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy on custodial credit risk states securities shall be held in third party safekeeping by an institution designated as custodial agent. The institution or dealer shall issue a safekeeping receipt to the District listing the specific instrument, the name of the issuer, the name in which the security is held, the rate, the maturity, serial numbers and other distinguishing marks, and other pertinent information related to the securities held.

Interest Rate Risk. This is the risk that the market value of securities will fall due to the changes in market interest rates. The District's policy states investment maturities shall be scheduled to coincide with projected District cash flow needs, taking into account large routine or scheduled expenditures, as well as anticipated receipt dates of anticipated revenues. Maturities for short-term and long-term investments shall be timed according to anticipated need. Within these parameters, portfolio maturities shall be staggered to avoid undue concentration of assets and a specific maturity sector. The maturities selected shall provide for stability of income and reasonable liquidity.

Credit Risk. This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law limits certain investments to the top two ratings issued by the rating organizations. The District's investment policy states it will comply with Minnesota Statutes Chapter 118A.

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, FUND BALANCE AND NET POSITION (Cont'd)

Concentration Risk. This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states the District shall diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities.

Accounts Receivable:

Accounts receivable represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

Prepaid Items:

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

Capital Assets:

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

Tangible and intangible capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for program purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 3 to 15 years for equipment.

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

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

The District does not possess any material amounts of intangible capital assets.

Deferred Outflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. Deferred outflows of resources represents a consumption of net position that applies to a future reporting period. During that future period, it will be recognized as an outflow of resources (expense/expenditure). The District has items that qualify for reporting in this category on the government-wide Statement of Net Position which are related to pensions and OPEB.

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, FUND BALANCE AND NET POSITION (Cont'd)

Compensated Absences:

The District compensates employees for unused accrued vacation upon voluntary termination of employment. The liability has been calculated using the vesting method, in which vacation amounts for both employees who are currently eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Unpaid vacation pay totaling \$40,717 is recorded in the government-wide financial statements. Employees are entitled to sick leave pay at various rates for each month of full-time service. Employees are not compensated for unused sick leave upon termination of employment. Sick leave is recorded as an expenditure when payment is made.

Other Postemployment Benefits:

Under the provisions of various employee contracts, the District provides a contribution to a health care savings plan if certain age and minimum years of service requirements are met. The amount to be incurred is limited as specified by contract. All contributions are funded on a pay-as-you-go basis.

Pensions:

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

The District participates in various pension plans; total pension expense for the fiscal year ended was \$1,057,546. The components of pension expense are noted in the plan summaries.

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

Deferred Inflows of Resources:

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. Deferred inflows of resources represents an acquisition of net position that applies to a future reporting period. During that future period, it will be recognized as an inflow of resources (revenue). The District has one item that qualifies for reporting in this category on the government-wide Statement of Net Position related to pensions.

Fund Balance:

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in governmental funds. These classifications are as follows:

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

E. ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, FUND BALANCE AND NET POSITION (Cont'd)

Fund Balance: (Cont'd)

Nonspendable - consists of amounts that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact, such as, prepaid items.

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 amounts that are constrained for specific purposes that are internally imposed by formal action of the Board of Directors. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts. These constraints are established by Resolution of the Board of Directors.

Assigned - consists 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 other than the General Fund, assigned fund balance represents the remaining amount that is not restricted or committed. In the General Fund, 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 the Board policy, the Executive Director and Business Manager are authorized to establish assignments of fund balance.

Unassigned - is the residual classification for the General Fund and also reflects negative residual amounts in remaining governmental funds.

The District requires restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District's goal is to maintain an unrestricted General Fund balance, including committed, assigned and unassigned categories, of not less than 10% and not more than 15% of the General Fund operating budget.

Net Position:

Net position represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations on their use through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position consists of all other net position that does not meet the definition of restricted or net investment in capital assets.

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

F. REVENUES AND EXPENDITURES

Revenues:

Federal and other state revenues are reported under the legal and contractual requirements of the individual programs. There are essentially two types of these revenues. In one, monies must be expended for the specific purpose before any amounts will be paid to the District; therefore, revenues are recognized based on expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure, and the resources are recorded as revenue at the time of receipt or earlier if they are available.

Other revenues, such as tuition and other local and county revenues (except investment earnings), are recorded as revenue when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available.

Expenditures:

Expenditure recognition for governmental fund types is limited to amounts represented by current liabilities. Long-term liabilities are not recognized as governmental fund expenditures or fund liabilities.

G. USE OF ESTIMATES

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

H. PRIOR YEAR INFORMATION

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. DEFICIT FUND BALANCES

The District has no deficit fund balances.

B. EXCESS OF EXPENDITURES OVER BUDGET

General Fund expenditures did not exceed the budget.

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 3. CASH AND INVESTMENTS

A. DEPOSITS

In accordance with applicable Minnesota Statutes, the District maintains deposits at a depository bank

Custodial Credit Risk - Deposits: The District's bank balances were not exposed to custodial credit risk because they were fully insured through the FDIC as well as collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

Governmental Activities

Checking Accounts	<u>\$ 381,230</u>
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B. INVESTMENTS

The District had the following investments:

	<u>Concentration Risk</u>	<u>Interest Rate Risk</u>	<u>Credit Risk</u>	
	Over 5 Percent of Portfolio	Weighted Average Maturity Years	Credit Rating	<u>Total</u>
<u>Governmental Activities</u>				
Investments at amortized cost:				
External Investment Pool				
MSDLAF				
Liquid Class	N/A	N/A	AAA	\$ 5,155
MAX Class	N/A	N/A	AAA	<u>643,745</u>
				<u>\$ 648,900</u>

The following is a summary of total deposit and investments:

Deposits (Note 3.A.)	\$ 381,230
Investments (Note 3.B.)	<u>648,900</u>
Total Deposits and Investments	<u>\$ 1,030,130</u>

Deposits and Investments are presented in the basic financial statements as follows:

Statement of Net Position	
Cash and Investments	<u>\$ 1,030,130</u>

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 4. RECEIVABLES

Receivables are as follows:

	<u>Total Due from Other Governments</u>	<u>Amounts not Scheduled for Collection During the Subsequent Year</u>
<u>Governmental Activities</u>		
Receivables		
Accounts Receivable	\$ 761	\$
Due from Other Governments		
Other Minnesota School Districts	697,037	
State Department of Education	755,303	
Federal Department of Education	751,316	
Total Due from Other Governments	<u>2,203,656</u>	<u>0</u>
Total Governmental Activities	<u>\$ 2,204,417</u>	<u>\$ 0</u>

NOTE 5. CAPITAL ASSETS

Capital asset activity was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
<u>Governmental Activities</u>				
Capital Assets, Being Depreciated				
Equipment	\$ 385,367	\$ 52,460	\$ 18,901	\$ 418,926
Less Accumulated Depreciation for Equipment	<u>262,470</u>	<u>44,032</u>	<u>18,901</u>	<u>287,601</u>
Governmental Activities Net Capital Assets	<u>\$ 122,897</u>	<u>\$ 8,428</u>	<u>\$ 0</u>	<u>\$ 131,325</u>

Depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities</u>	
Administration	\$ 20
Elementary and Secondary Regular Instruction	6,668
Vocational Education Instruction	501
Special Education Instruction	<u>36,843</u>
Total Governmental Activities	<u>\$ 44,032</u>

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 6. LONG-TERM LIABILITIES

The following table summarizes changes in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
Compensated Absences	\$ 43,946	\$ 31,150	\$ (34,379)	\$ 40,717	\$ 0

NOTE 7. FUND BALANCE

The following is a summary of fund balance components:

	<u>General</u>
Restricted for:	
Teacher Development and Evaluation	\$ 8,715
Basic Skills Programs	4,473
Medical Assistance	96,859
Total Restricted	<u>110,047</u>
Committed to:	
Legal	100,000
Assigned to:	
Cornerstones Program - District	36,800
Cornerstone Programs - Collaborative	23,276
Climate Committee	56
Employee Wellness	835
Total Assigned	<u>60,967</u>
Unassigned	<u>1,347,894</u>
	<u>\$ 1,618,908</u>

Fund Equity:

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The following is a summary of the restricted fund balance for the governmental fund:

A. RESTRICTED FOR BASIC SKILLS

The fund balance restriction represents accumulated resources available to provide basic skills programming in accordance with funding made available for that purpose.

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 7. FUND BALANCE (Cont'd)

Fund Equity: (Cont'd)

B. RESTRICTED FOR TEACHER DEVELOPMENT AND EVALUATION

The fund balance restriction represents unspent resources available for teacher development and evaluation.

C. RESTRICTED FOR MEDICAL ASSISTANCE

The fund balance restriction represents unspent resources available for medical assistance expenditures.

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE

A. PLAN DESCRIPTION

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

General Employees Retirement Plan (GERP; General Employees Plan; accounted for in the General Employees Fund):

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.

Teachers Retirement Fund (TRA):

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

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

B. BENEFITS PROVIDED

GERP Benefits:

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

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. BENEFITS PROVIDED (Cont'd)

GERP Benefits: (Cont'd)

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% 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.

TRA Benefits:

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

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

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. BENEFITS PROVIDED (Cont'd)

TRA Benefits: (Cont'd)

Tier I Benefits:

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

With these provisions:

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

-or-

Tier II Benefits:

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

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

B. BENEFITS PROVIDED (Cont'd)

TRA Benefits: (Cont'd)

Tier II Benefits: (Cont'd)

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

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

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

C. CONTRIBUTIONS

GERP Contributions:

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

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2019; 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 \$87,928. The District's contributions were equal to the required contributions as set by state statute.

TRA Contributions:

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

	<u>June 30, 2017</u>	<u>June 30, 2018</u>	<u>June 30, 2019</u>
Basic:			
Employee	11.00%	11.00%	11.00%
Employer	11.50%	11.50%	11.71%
Coordinated:			
Employee	7.50%	7.50%	7.50%
Employer	7.50%	7.50%	7.71%

The District's contributions to TRA for the plan's fiscal year ended June 30, 2019 were \$309,115. The District's contributions were equal to the required contributions for each year as set by state statute.

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

C. CONTRIBUTIONS (Cont'd)

TRA Contributions: (Cont'd)

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

Employer Contributions Reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position	\$	378,728,000
Add Employer Contributions Not Related to Future Contribution Efforts		522,000
Deduct TRA's Contributions Not Included in Allocation		<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 Allocations	 \$	 <u>414,367,000</u>

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

D. PENSION COSTS

GERP:

At June 30, 2019 the District reported a liability of \$976,376 for its proportionate share of the General Employees Fund's net pension liability. The District net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2019. 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 \$31,891. 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, 2019 the District's proportion share was 0.0176% which was an increase of 0.0006% from its proportion measured as of June 30, 2018.

Post-retirement benefit increases were changed from 1.0% per year with a provision to increase to 2.5% upon attainment of 90% funding ratio to 50% of the Social Security Cost of Living Adjustment, not less than 1.0% and not more than 1.5%, beginning January 1, 2019.

For the year ended June 30, 2019, the District recognized pension expense of \$66,845 for its proportionate share of GERP's pension expense. In addition, the District recognized an additional \$7,437 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

GERP: (Cont'd)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 25,002	\$ 25,726
Changes in actuarial assumptions	84,260	107,146
Differences between projected and actual investment earnings		108,300
Changes in proportion	87,637	
Contributions paid to PERA subsequent to measurement date	<u>87,928</u>	
Totals	<u>\$ 284,827</u>	<u>\$ 241,172</u>

\$87,928 reported as deferred outflows of resources related to pensions resulting from District contributions to GERP subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to GERP pensions will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>Pension Expense Amount</u>
2020	\$ 67,533
2021	(23,405)
2022	(68,023)
2023	(20,378)

TRA:

On June 30, 2019, the District reported a liability of \$3,881,618 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. District proportionate share was 0.0618% at the end of the measurement period and 0.0695% for the beginning of the year.

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

District's proportionate share of net pension liability	\$ 3,881,618
State's proportionate share of the net pension liability associated with the District	364,656

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

D. PENSION COSTS (Cont'd)

TRA: (Cont'd)

For the year ended June 30, 2019, the District recognized pension expense of \$(2,913,280). It also recognized \$254,506 as an increase to pension expense for the support provided by direct aid.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 41,367	\$ 86,898
Changes in actuarial assumptions	5,366,002	6,790,895
Differences between projected and actual investment earnings		323,773
Changes in proportion	647,778	1,458,168
Contributions paid to TRA subsequent to measurement date	<u>309,115</u>	
 Totals	 <u>\$ 6,364,262</u>	 <u>\$ 8,659,734</u>

\$309,115 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year ended June 30,</u>	<u>Pension Expense Amount</u>
2020	\$ 288,319
2021	187,989
2022	(122,820)
2023	(1,652,873)
2024	(1,305,202)

E. ACTUARIAL ASSUMPTIONS

GERP:

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

Actuarial Assumptions

Inflation	2.50% per year
Active Member Payroll Growth	3.25% after 26 years of service
Investment Rate of Return	7.50% per year

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

E. ACTUARIAL ASSUMPTIONS (Cont'd)

GERP: (Cont'd)

The total pension liability for each of the defined benefit cost-sharing plans was determined by an actuarial valuation as of June 30, 2018, using the entry age normal actuarial cost method. Inflation is assumed to be 2.50 percent for the General Employees Plan. Salary growth assumptions in the General Employees Plan decrease in annual increments from 11.25 percent after one year of service, to 3.25 percent after 26 years of service.

Mortality rates for all plans are based on RP-2014 mortality tables. The tables are adjusted slightly to fit PERA's experience. Actuarial assumptions for the General Employees Plan are reviewed every four to six years. The most recent six-year experience study for the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2017:

The mortality projection scale was changed from MP-2015 to MP-2017.

The assumed benefit increase was changed from 1.00 percent per year through 2044 and 2.50 percent per year thereafter to 1.25 percent per year.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39.00%	5.10%
International Stocks	19.00%	5.30%
Bonds	20.00%	0.75%
Alternative Assets	20.00%	5.90%
Cash	2.00%	0.00%
	100.00%	

TRA:

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

Actuarial Information

Experience Study	June 5, 2015 November 6, 2017 (Economic Assumptions)
Actuarial Cost Method	Entry Age Normal

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

E. ACTUARIAL ASSUMPTIONS (Cont'd)

TRA: (Cont'd)

Actuarial Assumptions

Investment Rate of Return	7.50%
Price Inflation	2.50%
Wage Growth Rate	2.85% for 10 years and 3.25%, thereafter
Projected Salary Increase	2.85% to 8.85% for 10 years and 3.25 to 9.25%, thereafter
Cost of Living Adjustment	1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

Mortality Assumptions

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

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

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

The following changes in actuarial assumptions occurred since the 2017 valuation:

The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.

Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.

The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

E. ACTUARIAL ASSUMPTIONS (Cont'd)

TRA: (Cont'd)

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.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	36.00%	5.10%
International Stocks	17.00%	5.30%
Bonds	25.00%	5.90%
Alternative Assets	20.00%	0.75%
Cash	2.00%	0.00%
	100.00%	

F. DISCOUNT RATE

GERP:

The discount rate used to measure the total pension liability was 7.50 percent. 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 positions of the General Employees Fund. 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.

TRA:

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

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 8. DEFINED BENEFIT PENSION PLANS - STATEWIDE (Cont'd)

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 paragraphs, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	<u>GERF</u>		<u>TRA</u>	
1% Lower	6.50%	\$ 1,586,736	15.20%	\$ 6,160,113
Current Discount Rate	7.50%	976,376	16.20%	3,881,618
1% Higher	8.50%	472,541	17.20%	2,001,876

H. PENSION PLAN FIDUCIARY NET POSITION

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

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

NOTE 9. DEFERRED COMPENSATION PLAN

The Joint Powers Board implemented a 403(b) plan effective July 1, 1998. This 403(b) plan replaced the existing Severance Plan on July 1, 2006. Eligible employees may participate in this plan upon attaining tenure with the District.

For the teacher group, to be eligible for the maximum contribution, persons must be employed the full year at least 1,092 hours/year. Persons employed at least 728 hours/year for the full year shall be eligible for partial benefits proportional to the extent of their employment.

For all other groups, to be eligible for the maximum contribution, persons must be employed the full year at least (30) hours/week for thirty-six (36) weeks. Persons employed at least twenty (20) hours/week and twenty (20) weeks for the full year shall be eligible for partial benefits proportional to the extent of their employment.

Upon receiving tenure, an employee of the special education coordinator/consultant/supervisor group will receive a one-time \$2,000 District contribution for the first tenured year in place of the amount indicated on the next page for that year. This is assuming the employee is contributing \$2,000 for that year. After that year, the contribution follows the schedule below.

Employees receive matching contributions from the District, based on the following schedule. The maximum District contribution for the special education coordinator/consultant/supervisor group is \$26,000 and the program site coordinator is \$18,000.

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 9. DEFERRED COMPENSATION PLAN (Cont'd)

<u>Teacher Group for 2017-19</u>			<u>Special Education Coordinator/ Consultant/Supervisor Group for 2019-21</u>		
<u>Years of Service</u>	<u>District Contribution</u>	<u>Teacher Contribution</u>	<u>Years of Service</u>	<u>District Contribution</u>	<u>Coordinator/ Supervisor Contribution</u>
1-4	\$ 450	\$ 450	1-3	\$ 2,100	\$ 2,100
5-7	750	750	4-6	2,400	2,400
8-11	1,005	1,005	7-9	2,700	2,700
12-15	1,350	1,350	10+	3,200	3,200
16-19	1,970	1,970			
20+	2,650	2,650			

Program Site Coordinator Agreement for 2018-19

Employees retiring from the Cooperative, drawing TRA annuity, who are at least 55 years of age, have worked on a Cooperative contract for at least 10 years and are presently working full-time qualify for this benefit. These employees are eligible to receive \$1,800 per year over a 10-year period for a maximum of \$18,000. For those meeting this eligibility after age 55, the Cooperative shall divide the \$18,000 into the remaining years (less than ten years) to determine the amount due.

For the year ended June 30, 2019, the District match was \$81,123.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. PLAN DESCRIPTION

The District operates a single-employer retiree benefit plan (the Plan) that provides health, dental, and life insurance to eligible employees and their spouses through the District's commercial insurance plans. There are 57 active participants and 3 retired participants. Benefit and eligibility provisions are established through negotiations between the District and employee groups including a union. The union contract is renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report. No assets are accumulated in a trust that meets all of the criteria in GASB Statement No. 75, paragraph 4.

B. TOTAL OPEB LIABILITY

The District's total OPEB liability of \$547,686 was measured as of June 30, 2017, and was determined by an actuarial valuation as of that date. Update procedures were used to roll forward the total OPEB liability to June 30, 2019.

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN: (Cont'd)

C. CHANGES IN TOTAL OPEB LIABILITY

Changes in the total OPEB liability were as follows:

	<u>Total OPEB Liability</u>
Balance at June 30, 2018	\$ 510,905
Changes for the Year:	
Service Cost	46,275
Interest	18,997
Changes of Assumptions or Other Inputs	18,647
Benefit Payments	<u>(47,138)</u>
Net Changes	<u>36,781</u>
Balance at June 30, 2019	<u>\$ 547,686</u>

Changes of benefit terms reflect an decrease in the retirees' share of health insurance premiums from 6.90% in 2018 6.3% in 2019.

Changes of assumptions and other inputs reflect a change in the discount rate from 3.56% in 2018 to 3.62% in 2019.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.62%) or 1-percentage-point higher (4.62%) than the current discount rate:

	<u>1.0% Decrease in Discount Rate (2.62%)</u>	<u>Discount Rate (3.62%)</u>	<u>1.0% Increase in Discount Rate (4.62%)</u>
Total OPEB Liability	\$ 586,749	\$ 547,686	\$ 510,853

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Cont'd)

C. CHANGES IN TOTAL OPEB LIABILITY (Cont'd)

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (5.90% decreasing to 3.40%) or 1-percentage-point higher (7.90% decreasing to 5.40%) than the current healthcare cost trend rates:

	Healthcare Cost		
	1.0% Decrease (5.90% decreasing to 3.40%)	Trend Rates (6.90% decreasing to 4.40%)	1.0% Increase (7.90% decreasing to 5.40%)
Total OPEB Liability	\$ 492,279	\$ 547,686	\$ 612,514

D. OPEB EXPENSE, DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO OPEB

For the year ended June 30, 2019, the District recognized OPEB expense of \$83,919. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Contributions paid subsequent to measurement date	<u>\$ 35,726</u>	<u>\$ 0</u>

\$35,726 reported as deferred outflows of resources related to OPEB resulting from the District contributions to subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2020.

E. ACTUARIAL METHODS AND ASSUMPTIONS

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75%
Salary Increases	Based on the most recently disclosed assumptions for the pension plan in which the employee participates.
Healthcare Cost Trend Rates	6.90% for 2018, decreasing on average 0.40% per year to an ultimate rate of 4.40% for 2075 and later years.
Retiree's Share of Benefit-Related Costs	Assumed to increase with healthcare trend rates.

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Cont'd)

E. ACTUARIAL METHODS AND ASSUMPTIONS (Cont'd)

A discount rate of 3.62% was applied in the measurement of the total OPEB liability. The discount rate is based on the index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on scale MP-2017, and other adjustments.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period July 1, 2018–June 30, 2019.

NOTE 11. OPERATING LEASES

The District is committed under a long-term operating lease for the rental of instructional and administrative facilities. The facilities lease calls for semi-annual lease payments of \$121,790 which includes interest at a rate of 2.87%, with payments running through April 1, 2030. Lease expenditures are recovered through billing of member districts with revenues totaling \$243,580 in fiscal year 2019.

Total lease expenditures include the following:

Instructional facilities	\$ 52,482
Administrative facilities	<u>191,098</u>
Total	<u>\$ 243,580</u>

Future minimum lease payments due under existing operating leases are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 179,314	\$ 64,266
2021	184,498	59,083
2022	189,830	53,750
2023	195,318	48,263
2024	200,964	42,617
Thereafter	<u>1,333,822</u>	<u>127,659</u>
Total	<u>\$ 2,283,746</u>	<u>\$ 395,638</u>

NOTE 12. CONTINGENCIES

A. LITIGATION

The District is not involved in any litigation as of the date of this report.

JOINT POWERS DISTRICT #938

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2019

NOTE 12. CONTINGENCIES (Cont'd)

B. 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.

NOTE 13. 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, and natural disasters and workers' compensation. To mitigate these risks, the District has obtained commercial property and casualty insurance and workers' compensation coverage. The District pays an annual premium with no additional assessments.

The District carries commercial insurance for employee health and dental coverage.

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.

The District's workers' compensation insurance policy is retrospectively rated. With this type of policy, final premiums are determined after loss experience is known. The amount of premium adjustment for the year is estimated to be immaterial based on workers' compensation rates and salaries for the year.

NOTE 14. RECLASSIFICATIONS

Certain immaterial prior year financial statement amounts have been reclassified to conform to current year's presentation. There was no affect on net position or fund balance.

NOTE 15. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The following is a summary of the major components of deferred outflows and inflows as presented in the Statement of Net Position:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Related to Pensions	\$ 6,649,089	\$ 8,900,906
Related to OPEB	35,726	
Totals	<u>\$ 6,684,815</u>	<u>\$ 8,900,906</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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JOINT POWERS DISTRICT #938

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
YEAR ENDED JUNE 30, 2019

Fiscal Year Ending	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability (Asset) Associated with the Employer (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) and the State's Proportionate Share of the Net Pension Liability (Asset) Associated with the Employer (a+b)	Employer's Covered Payroll (c)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<u>Pensions</u>							
<u>PERA</u>							
6/30/2018	0.0176%	\$ 976,376	\$ 31,891	\$ 1,008,267	\$ 1,202,253	83.86%	79.53%
6/30/2017	0.0170%	1,085,269	13,674	1,098,943	1,103,022	99.63%	75.90%
6/30/2016	0.0159%	1,291,001	16,853	1,307,854	981,987	133.18%	68.91%
6/30/2015	0.0148%	767,013		767,013	846,533	90.61%	78.19%
6/30/2014	0.0151%	709,322		709,322	809,313	87.64%	78.75%
<u>TRA</u>							
6/30/2018	0.0618%	3,881,618	364,656	4,246,274	3,887,707	109.22%	78.07%
6/30/2017	0.0695%	13,873,461	1,340,780	15,214,241	3,748,144	405.91%	51.57%
6/30/2016	0.0661%	15,766,427	1,581,783	17,348,210	3,440,579	504.22%	44.88%
6/30/2015	0.0692%	4,280,704	525,150	4,805,854	3,508,187	136.99%	76.77%
6/30/2014	0.0615%	2,833,876	199,279	3,033,155	3,414,706	88.83%	81.50%

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

JOINT POWERS DISTRICT #938

SCHEDULE OF EMPLOYER CONTRIBUTION
YEAR ENDED JUNE 30, 2019

Fiscal Year Ending June 30,	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
<u>Pensions</u>					
<u>PERA</u>					
6/30/2019	\$ 87,928	\$ 87,928	\$	\$ 1,172,256	7.50%
6/30/2018	90,169	90,169		1,202,253	7.50%
6/30/2017	82,737	82,737		1,103,022	7.50%
6/30/2016	73,623	73,623		981,987	7.50%
6/30/2015	63,490	63,490		846,533	7.50%
<u>TRA</u>					
6/30/2019	309,115	309,115		4,009,272	7.71%
6/30/2018	291,578	291,578		3,887,707	7.50%
6/30/2017	281,156	281,156		3,748,144	7.50%
6/30/2016	258,044	258,044		3,440,579	7.50%
6/30/2015	263,077	263,077		3,508,187	7.50%

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

JOINT POWERS DISTRICT #938

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY
JUNE 30, 2019

	Measurement Date	
	6/30/2018	6/30/2017
Service Cost	\$ 46,275	\$ 47,357
Interest	18,997	15,636
Changes in Assumptions	18,647	(22,484)
Benefit Payments	(47,138)	(35,469)
Net Change in Total OPEB Liability	36,781	5,040
Total OPEB Liability - Beginning of Year	510,905	505,865
Total OPEB Liability - End of Year	\$ 547,686	\$ 510,905
Covered Employee Payroll	\$ 5,052,152	\$ 4,792,767
Total OPEB Liability as a % of Covered Employee Payroll	10.84%	10.66%

The District implemented GASB Statement No. 75 for the year ended June 30, 2018. Information for prior years is not available. Additional years will be reported as they become available.

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NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 1. CHANGES IN PLAN PROVISIONS

A. GENERAL EMPLOYEE RETIREMENT PLAN (GERP)

2018 Changes:

No changes.

2017 Changes:

No changes.

2016 Changes:

No changes.

2015 Changes:

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.

2014 Changes:

No changes.

B. TEACHERS RETIREMENT ASSOCIATION (TRA)

2018 Changes:

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.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 1. CHANGES IN PLAN PROVISIONS (Cont'd)

B. TEACHERS RETIREMENT ASSOCIATION (TRA) (Cont'd)

2017 Changes:

No changes.

2016 Changes:

No changes.

2015 Changes:

The Duluth Teachers Retirement Fund Association was merged into TRA on June 30, 2015. This also resulted in an additional state-provided contribution stream of \$14.377 million until the System becomes fully funded.

2014 Changes:

The increase in the post-retirement benefit adjustment (COLA) is to be made once the System is 90% funded (on a market value basis) in two consecutive years, rather than just one year.

C. OTHER POST-EMPLOYMENT BENEFITS PLAN (OPEB) NOT ADMINISTERED IN A TRUST

2018 Changes:

No changes.

2017 Changes:

No changes.

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS

A. GENERAL EMPLOYEE RETIREMENT PLAN (GERP)

2018 Changes:

The mortality projection was changed from MP-2015 to MP-2017.

The assumed benefit increase was changed from 1.00% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

2017 Changes:

The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability and 3.0% for non-vested deferred member liability.

The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

2016 Changes:

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 years.

JOINT POWERS DISTRICT #938

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

A. GENERAL EMPLOYEE RETIREMENT PLAN (GERP) (Cont'd)

2016 Changes: (Cont'd)

The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

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:

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. TEACHERS RETIREMENT ASSOCIATION (TRA)

2018 Changes:

The investment return assumption was changed from 8.50% to 7.50%.

The price inflation assumption was lowered from 3.00% to 2.50%.

The payroll growth assumption was lowered from 3.50% to 3.00%.

The wage inflation assumption (above price inflation) was reduced from 0.75% to 0.35% for 10 years followed by 0.75%, thereafter.

The total salary increase assumption was adjusted by the wage inflation change.

The amortization date for the funding of the Unfunded Actuarial Accrued Liability (UAAL) was reset to June 30, 2048 (30 years).

A mechanism in the law that provided the TRA Board with some authority to set contribution rates was eliminated.

2017 Changes:

Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.

The investment return assumption was changed from 8.00% to 7.50%.

The price inflation assumption was lowered from 2.75% to 2.50%.

The payroll growth assumption was lowered from 3.50% to 3.00%.

The general wage growth assumption was lowered from 3.50% to 2.85% for 10 years followed by 3.25%, thereafter.

JOINT POWERS DISTRICT #938

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

B. TEACHERS RETIREMENT ASSOCIATION (TRA) (Cont'd)

2017 Changes: (Cont'd)

The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

2016 Changes:

The price inflation assumption was lowered from 3.00% to 2.75%.

The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.50%.

Minor changes at some durations for the merit scale of the salary increase assumption.

The pre-retirement mortality assumption was changed to the RP-2014 white collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP-2015 scale.

The post-retirement mortality assumption was changed to the RP-2014 white collar annuitant table, male rates set back 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.

The post-disability mortality assumption was changed to the RP-2014 disabled retiree mortality table, without adjustment.

Separate retirement assumptions for members hired before or after July 1, 1989 were created to better reflect each group's behavior in light of different requirements for retirement eligibility.

Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.

A minor adjustment and simplification of the assumption regarding the election of optional forms of payment at retirement were made.

2015 Changes:

The Cost of Living Adjustment was not assumed to increase to 2.5%, but remain at 2.0% for all future years.

The investment return assumption was changed from 8.25% to 8.00%.

2014 Changes:

The Cost of Living Adjustment was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2034.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2019

NOTE 2. CHANGES IN ACTUARIAL ASSUMPTIONS (Cont'd)

C. OTHER POST-EMPLOYMENT BENEFITS PLAN (OPEB) NOT ADMINISTERED IN A TRUST

2018 Changes:

Changes of benefit terms reflect an increase in the retirees' share of health insurance premiums from 6.90% in 2018 to 6.30% in 2019.

Changes of assumptions and other inputs reflect a change in the discount rate from 3.56% in 2018 to 3.62% in 2019.

2017 Changes:

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.

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.

Withdrawal, retirement and mortality rates were updated to the rates used in the 7/1/2017 PERA General Employees Retirement Plan and 7/1/2017 Teachers Retirement Association valuations.

A salary scale assumption was added to reflect the cost method change. Rates are from the 7/1/2017 PERA General Employees Retirement Plan and 7/1/2017 Teachers Retirement Association valuations.

Mortality rates were updated from the 2000 United States Life Tables to the RP 20014 headcount-weighted tables to reflect recently-published mortality rates. This change was made due to updated valuation methods.

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SUPPLEMENTARY INFORMATION

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JOINT POWERS DISTRICT #938

BALANCE SHEET
 GENERAL FUND
 YEAR ENDED JUNE 30, 2019
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2018

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and Investments	\$ 1,030,130	\$ 1,179,501
Accounts Receivable	761	565
Due from Other Governments		
Other Minnesota School Districts	697,037	872,809
State Department of Education	755,303	35,923
Federal Department of Education	751,316	868,912
Prepaid Items		<u>54,965</u>
 Total Assets	 <u>\$ 3,234,547</u>	 <u>\$ 3,012,675</u>
 LIABILITIES AND FUND BALANCE		
Liabilities		
Accounts Payable	\$ 48,490	\$ 33,469
Salaries and Benefits Payable	834,737	629,901
Due to Other Governments	<u>732,412</u>	<u>745,142</u>
Total Liabilities	1,615,639	1,408,512
 Fund Balance		
Nonspendable		54,965
Restricted	110,047	79,743
Committed	100,000	100,000
Assigned	60,967	57,909
Unassigned	<u>1,347,894</u>	<u>1,311,546</u>
Total Fund Balance	<u>1,618,908</u>	<u>1,604,163</u>
 Total Liabilities and Fund Balance	 <u>\$ 3,234,547</u>	 <u>\$ 3,012,675</u>

JOINT POWERS DISTRICT #938

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2019
WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2018

	2019		2018	
	Final Budget	Actual	Over (Under) Final Budget	Actual
REVENUES				
Other Local and County Revenues	\$ 3,121,526	\$ 2,483,938	\$ (637,588)	\$ 2,291,642
Revenue from State Sources	3,854,749	4,374,292	519,543	4,116,209
Revenue from Federal Sources	2,485,620	2,489,290	3,670	2,326,075
Total Revenues	9,461,895	9,347,520	(114,375)	8,733,926
EXPENDITURES				
Current				
Administration				
Salaries and Wages	5,050	4,560	(490)	4,000
Employee Benefits	386	349	(37)	306
Purchased Services	2,047	1,708	(339)	1,768
Total Administration	7,483	6,617	(866)	6,074
District Support Services				
Salaries and Wages	29,058	25,113	(3,945)	24,316
Employee Benefits	54,128	10,956	(43,172)	18,042
Purchased Services	47,885	53,266	5,381	47,887
Supplies and Materials	6,700	7,129	429	1,099
Other Expenditures	1,147	797	(350)	1,147
Total District Support Services	138,918	97,261	(41,657)	92,491
Elementary and Secondary Regular Instruction				
Salaries and Wages	811,797	761,786	(50,011)	729,077
Employee Benefits	258,454	271,821	13,367	216,272
Purchased Services	36,130	29,695	(6,435)	26,310
Supplies and Materials	27,205	32,271	5,066	26,258
Other Expenditures	3,940	34,646	30,706	3,970
Total Elementary and Secondary Regular Instruction	1,137,526	1,130,219	(7,307)	1,001,887
Vocational Education Instruction				
Salaries and Wages	306,492	182,985	(123,507)	209,776
Employee Benefits	92,418	55,380	(37,038)	61,964
Purchased Services	22,537	27,168	4,631	18,224
Supplies and Materials	4,825	6,927	2,102	3,845
Other Expenditures	737	3,708	2,971	737
Total Vocational Education Instruction	427,009	276,168	(150,841)	294,546

JOINT POWERS DISTRICT #938

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2019
 WITH PARTIAL COMPARATIVE AMOUNTS AS OF JUNE 30, 2018

	2019		2018	
	Final Budget	Actual	Over (Under) Final Budget	Actual
EXPENDITURES (Cont'd)				
Current (Cont'd)				
Special Education Instruction				
Salaries and Wages	\$ 4,429,971	\$ 4,349,720	\$ (80,251)	\$ 4,249,368
Employee Benefits	1,291,431	1,419,240	127,809	1,259,165
Purchased Services	1,226,791	1,123,460	(103,331)	1,053,627
Supplies and Materials	112,540	91,775	(20,765)	89,259
Other Expenditures	24,633	219,068	194,435	25,107
Total Special Education Instruction	<u>7,085,366</u>	<u>7,203,263</u>	<u>117,897</u>	<u>6,676,526</u>
Sites and Buildings				
Salaries and Wages	12,024	13,950	1,926	8,316
Employee Benefits	1,740	2,057	317	1,245
Purchased Services	534,993	532,890	(2,103)	509,384
Supplies and Materials	2,500	577	(1,923)	264
Other Expenditures		44	44	
Total Sites and Buildings	<u>551,257</u>	<u>549,518</u>	<u>(1,739)</u>	<u>519,209</u>
Fiscal and Other Fixed Costs Programs				
Purchased Services	12,010	11,847	(163)	9,092
Capital Outlay				
Elementary and Secondary Regular Instruction	17,884	9,528	(8,356)	8,705
Vocational Education Instruction	1,250	1,087	(163)	961
Special Education Instruction	83,192	47,267	(35,925)	35,138
Total Capital Outlay	<u>102,326</u>	<u>57,882</u>	<u>(44,444)</u>	<u>44,804</u>
Total Expenditures	<u>9,461,895</u>	<u>9,332,775</u>	<u>(129,120)</u>	<u>8,644,629</u>
Net Change in Fund Balances	<u>\$ 0</u>	14,745	<u>\$ 14,745</u>	89,297
FUND BALANCE, BEGINNING OF YEAR		<u>1,604,163</u>		<u>1,514,866</u>
FUND BALANCE, END OF YEAR		<u>\$ 1,618,908</u>		<u>\$ 1,604,163</u>

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REQUIRED REPORTS

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JOINT POWERS DISTRICT #938

UFARS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2019

	Audited	UFARS	Difference		Audited	UFARS	Difference
<u>01 GENERAL FUND</u>				<u>06 BUILDING CONSTRUCTION</u>			
Total Revenue	\$ 9,347,520	\$ 9,347,521	\$ (1)	Total Revenue	\$	\$	\$
Total Expenditures	9,332,775	9,332,773	2	Total Expenditures			
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable				460 Nonspendable			
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development				407 Capital Projects Levy			
406 Health and Safety				409 Alternative Facilities Program			
407 Capital Projects Levy				413 Project Funded by COP/LP			
408 Cooperative Programs				<i>Restricted:</i>			
414 Operating Debt				464 Restricted			
416 Levy Reduction				<i>Unassigned:</i>			
417 Taconite Building Maintenance				463 Unassigned			
423 Certain Teacher Programs							
424 Operating Capital				<u>07 DEBT SERVICE</u>			
426 \$25 Taconite				Total Revenue			
427 Disabled Accessibility				Total Expenditures			
428 Learning & Development				<i>Restricted/Reserved:</i>			
434 Area Learning Center				425 Bond Refundings			
435 Contracted Alt. Programs				451 QZAB and QSCB Payments			
436 State Approved Alt. Programs				<i>Restricted:</i>			
438 Gifted & Talented				464 Restricted			
440 Teacher Development & Eval	8,715	8,715		<i>Unassigned:</i>			
441 Basic Skills Programs	4,473	4,473		463 Unassigned			
445 Career & Technical Programs							
449 Safe Schools - Crime Levy				<u>08 TRUST</u>			
450 Transition for Pre-Kindergarten				Total Revenue			
451 QZAB and QSCB Payments				Total Expenditures			
452 OPEB Liab Not Held in a Trust				<i>Unassigned:</i>			
453 Unfunded Sev & Retirement Levy				422 Unassigned			
467 LFTM				<u>09 AGENCY</u>			
472 Medical Assistance	96,859	96,859		<i>Unassigned:</i>			
<i>Restricted:</i>				422 Unassigned			
464 Restricted				<u>20 INTERNAL SERVICE</u>			
<i>Committed:</i>				Total Revenue			
418 Separation/Retirement Benefits				Total Expenditures			
461 Committed	100,000	100,000		<i>Unassigned:</i>			
<i>Assigned:</i>				422 Unassigned			
462 Assigned	60,967	60,967		<u>25 OPEB REVOCABLE TRUST</u>			
<i>Unassigned:</i>				Total Revenue			
422 Unassigned	1,347,894	1,347,896	(2)	Total Expenditures			
<u>02 FOOD SERVICE</u>				<i>Unassigned:</i>			
Total Revenue				422 Unassigned			
Total Expenditures				<u>45 OPEB IRREVOCABLE TRUST</u>			
<i>Nonspendable:</i>				Total Revenue			
460 Nonspendable				Total Expenditures			
<i>Restricted/Reserved:</i>				<i>Unassigned:</i>			
452 OPEB Liab Not Held in a Trust				422 Unassigned			
<i>Restricted:</i>				<u>47 OPEB DEBT SERVICE</u>			
464 Restricted				Total Revenue			
<i>Unassigned:</i>				Total Expenditures			
463 Unassigned				<i>Restricted:</i>			
<u>04 COMMUNITY SERVICE</u>				464 Restricted			
Total Revenue				<i>Unassigned:</i>			
Total Expenditures				463 Unassigned			
<i>Nonspendable:</i>							
460 Nonspendable							
<i>Restricted/Reserved:</i>							
426 \$25 Taconite							
431 Community Education							
432 E.C.F.E							
444 School Readiness							
447 Adult Basic Education							
452 OPEB Liab Not Held in a Trust							
<i>Restricted:</i>							
464 Restricted							
<i>Unassigned:</i>							
463 Unassigned							

JOINT POWERS DISTRICT #938

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures	Passed Through to Subrecipients
U.S. Department of Education				
Dassel-Cokato ISD #466				
Title I Grants to Local Educational Agencies	84.010A		\$ 60,433	\$
Sourcewell				
Special Education Cluster:				
Special Education Grants to States			31,292	
Minnesota Department of Education				
Special Education Cluster:				
Special Education Grants to States	84.027	* 0000205364	2,260,839	654,559
Total Special Education Grants to States			2,292,131	654,559
Special Education Preschool Grants	84.173	* 0000205364	83,679	83,679
Total Special Education Cluster			2,375,810	738,238
Special Education-Grants for Infants and Families	84.181	0000205364	53,047	
Total U.S. Department of Education			2,489,290	738,238
Total Federal Awards			\$ 2,489,290	\$ 738,238

* Denotes Major Program

JOINT POWERS DISTRICT #938

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2019

NOTE 1. REPORTING ENTITY

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by Joint Powers District #938, Howard Lake, Minnesota. The District's reporting entity is defined in Note 1 to the financial statements.

NOTE 2. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of Joint Powers District #938 under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in financial position, or cash flows of the District.

NOTE 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 *U.S. Code of Federal Regulations* Part 200, Subpart E - Cost Principles, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

NOTE 4. FOOD DISTRIBUTION

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

NOTE 5. DE MINIMIS COST RATE

The District elected not to charge the de minimis indirect cost rate of 10% to federal programs.

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COMPLIANCE SECTION

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INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To The Board of Directors
Joint Powers District #938
Howard Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 26, 2019.

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and uniform financial accounting and reporting standards for school districts. Our audit considered all of the listed categories, except that we did not test for compliance with the provisions for public indebtedness as the District has none.

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.

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
LITCHFIELD, MINNESOTA

November 26, 2019

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

To The Board of Directors
Joint Powers District #938
Howard Lake, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Joint Powers District #938, Howard Lake, Minnesota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 26, 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 over financial reporting.

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. 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 2019-001 that we consider to be a significant deficiency.

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Compliance and Other Matters

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

Purpose of this Report

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

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
LITCHFIELD, MINNESOTA

November 26, 2019



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

To The Board of Directors
Joint Powers District #938
Howard Lake, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Joint Powers District #938's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

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Opinion on Each Major Program

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

Report on Internal Control Over Compliance

Management of Joint Powers District #938 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Conway, Deuth & Schmiesing, PLLP

CONWAY, DEUTH & SCHMIESING, PLLP
CPAS & ADVISORS
LITCHFIELD, MINNESOTA

November 26, 2019

JOINT POWERS DISTRICT #938

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019

I. SUMMARY OF AUDITOR'S RESULTS

A. FINANCIAL STATEMENTS

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
- Material weakness(es) identified?	No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?	2019-001
Noncompliance material to financial statements noted?	No

B. FEDERAL AWARDS

Type of auditor's report issued on compliance for major program(s):	Unmodified
Internal control over major programs:	
- Material weakness(es) identified?	No
- Significant deficiency(ies) identified that are not considered to be material weakness(es)?	No
Any audit findings disclosed that are required to be reported in accordance with Part 200.516(a) of the Uniform Guidance?	No

C. IDENTIFICATION OF MAJOR PROGRAMS

CFDA No.:	84.027, 84.173
Name of Federal Program or Cluster:	Special Education Cluster
Dollar threshold used to distinguish between Types A and B programs:	\$750,000
Auditee qualified as low-risk auditee?	Yes

JOINT POWERS DISTRICT #938

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2019

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS

FINDING: 2019-001 LIMITED SEGREGATION OF DUTIES

- Condition: There is an absence of appropriate segregation of duties consistent with appropriate control objectives due to a limited number of employees.
- Criteria: The basic premise is that no one person should have access to both physical assets and the related accounting records or to all phases of a transaction. The lack of such controls could result in the occurrence of a material error or fraud in relation to the financial statements not being detected by management.
- Cause: The District has assigned duties to staff based on a cost-benefit relationship to the District and the practicality of the level of staffing the District maintains.
- Effect: The lack of adequate segregation of duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.
- Recommendation: The District should continue to monitor and evaluate the job responsibilities assigned to staff to determine whether there is an unacceptable risk.

CORRECTIVE ACTION PLAN (CAP):

Explanation of Disagreement with Audit Finding:

None

Actions Planned in Response to Finding:

The District is aware of the limited segregation of duties and will continue to review internal controls and make changes when they can be made.

Official Responsible for Ensuring CAP:

Scott LeSage, Business Manager

Planned Completion Date for CAP:

June 30, 2020

Plan to Monitor Completion of CAP:

Appointed Officials

III. MINNESOTA LEGAL COMPLIANCE

None

IV. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

None

JOINT POWERS DISTRICT #938

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
JUNE 30, 2019

<u>Comment Reference</u>	<u>Comment Title</u>	<u>Status</u>	<u>Year Finding Initially Occurred</u>	<u>If not corrected, Provide Planned Corrective Action or Other Explanation</u>
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Financial Statement Findings:

2018-001	Limited Segregation of Duties	Not Corrected	2018	See current year finding 2019-001
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Federal Award Findings:

None

Minnesota Legal Compliance Findings:

None