

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883**

**FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION**

YEAR ENDED JUNE 30, 2019

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INDEPENDENT SCHOOL DISTRICT NO. 883
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INTRODUCTORY SECTION

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHOOL BOARD AND ADMINISTRATION
JUNE 30, 2019**

SCHOOL BOARD

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Amy Edwards	December 31, 2020	Chair
Kevin Campbell	December 31, 2020	Vice-Chair
Eric Gordee	December 31, 2021	Treasurer
Jessica Johnson	December 31, 2020	Clerk
Brady Anderson	December 31, 2021	Member
Beth Praska	December 31, 2021	Member

ADMINISTRATION

Paul Durand	Superintendent
Sherlyn Tischner	Business Manager
Paula Wanous	Payroll Clerk
Sara Pepin	Account Clerk
District Offices:	Independent School District No. 883 Rockford Public Schools 6051 Ash Street Rockford, MN 55373 (763) 447-9165

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

School Board
Independent School District No. 883
Rockford Area Schools
Rockford, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 883 (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

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

Other Matters

Report on Summarized Comparative Information

We have previously audited the District's 2018 financial statements of the governmental activities, each major fund and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated October 31, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of changes in the District's Net OPEB Liability (Asset) and Related Ratios, the schedule of money weighted rate of return on plan assets, the schedule of the District's proportionate share of the net pension liability, and the schedule of Districts contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of 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 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 individual fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table, as listed in the table of contents, 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, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

Other Matters (Continued)

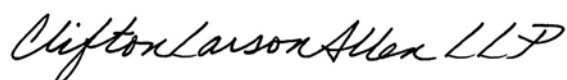
Supplementary Information (Continued)

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

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the District's basic financial statements for the year ended June 30, 2018, which are not presented with the accompanying financial statements and we expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements as a whole. The individual fund financial statements for the year ended June 30, 2018 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2018 basic financial statements. The information has been subjected to the auditing procedures applied in the audit of those 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 2018 individual fund financial statements are fairly stated in all material respects in relation to the basic financial statements from which they have been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 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.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 31, 2019

REQUIRED SUPPLEMENTARY INFORMATION

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

This section of Rockford Area Schools – Independent School District No. 883's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019. Please read it in conjunction with the District's financial statements, which immediately follows this section.

FINANCIAL HIGHLIGHTS

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

- Net position increased by approximately \$5,970,000 on revenues of \$25,222,000 compared to expenses of \$19,252,000.
- Total General Fund revenues were approximately \$19,014,000 as compared to about \$18,762,000 of expenditures.
- The fund balance of the General Fund increased by a net of approximately \$287,000 from the prior year due to the District receiving increased money from the state and levy dollars.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

District-Wide Statements

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

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

District-Wide Statements (Continued)

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

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

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

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

Fund Financial Statements

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

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., food service).

The District has two kinds of funds:

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

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
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 a negative \$3,513,214 on June 30, 2019. This was an increase from the prior year net position of \$5,970,104.

**Table A-1
The District's Net Position**

	Governmental Activities as of June 30,		Percentage Change
	2019	2018	
Current and Other Assets	\$ 16,678,093	\$ 14,929,355	11.7 %
Capital Assets	44,473,922	46,200,302	(3.7)
Total Assets	<u>61,152,015</u>	<u>61,129,657</u>	-
Deferred Outflows of Resources	12,470,433	16,013,726	(22.1)
Current Liabilities	5,570,206	5,475,558	1.7
Long-Term Liabilities	47,446,273	69,319,468	(31.6)
Total Liabilities	<u>53,016,479</u>	<u>74,795,026</u>	(29.1)
Deferred Inflows of Resources	<u>24,119,183</u>	<u>11,831,675</u>	103.9
Net Position			
Net Investment in Capital Assets	4,555,125	2,795,194	63.0
Restricted	3,225,669	3,054,214	5.6
Unrestricted	<u>(11,294,008)</u>	<u>(15,332,726)</u>	26.3
Total Net Position	<u>\$ (3,513,214)</u>	<u>\$ (9,483,318)</u>	63.0

The change in the District's financial position is due to the decrease of the net pension liability and change in related deferred inflows and outflows of resources.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's revenues for all governmental activities were approximately \$25,222,000 for the year ended June 30, 2019.

The total cost for all governmental activities of all programs and services including interest and fiscal charges was approximately \$19,252,000. Total revenues exceeded expenses, increasing net position by about \$5,970,000 from the prior year. The increase is due to the overall change in the net pension liability and related deferred inflows and outflows of resources.

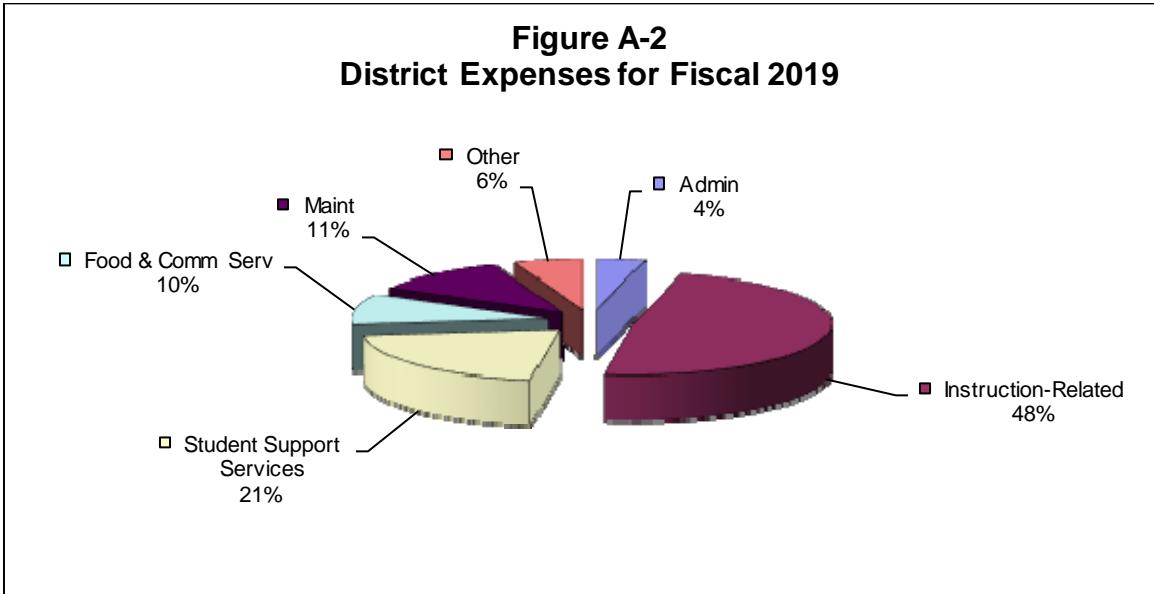
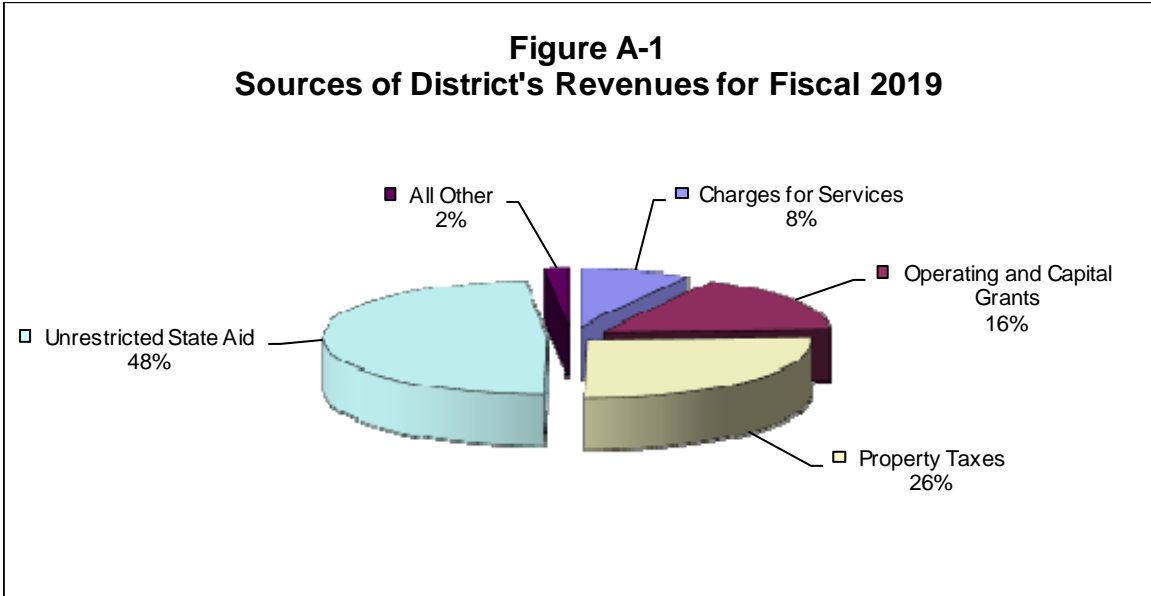
**Table A-2
Change in Net Position**

	Governmental Activities for the Fiscal Year Ended June 30,		Total % Change
	2019	2018	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 1,994,208	\$ 1,994,970	-
Operating Grants and Contributions	3,728,044	3,827,395	(2.6)
Capital Grants and Contributions	392,417	283,664	38.3
<u>General Revenues</u>			
Property Taxes	6,548,014	6,211,392	5.4
Unrestricted State Aid	12,144,346	12,305,909	(1.3)
Investment Earnings	152,187	78,009	95.1
Gain on Sale of Property and Equipment	36,310	912,942	(96.0)
Other	226,162	358,847	(37.0)
Total Revenues	<u>25,221,688</u>	<u>25,973,128</u>	(2.9)
Expenses			
Administration	762,942	1,271,527	(40.0)
District Support Services	779,626	409,045	90.6
Regular Instruction	7,313,513	12,572,901	(41.8)
Vocational Education Instruction	143,932	280,240	(48.6)
Special Education Instruction	1,862,628	2,918,195	(36.2)
Instructional Support Services	741,259	1,361,508	(45.6)
Pupil Support Services	2,473,955	2,448,188	1.1
Sites and Buildings	2,165,370	2,160,853	0.2
Fiscal and Other Fixed Cost Programs	125,855	129,166	(2.6)
Food Service	760,506	777,220	(2.2)
Community Service	1,151,825	1,445,048	(20.3)
Interest and Fiscal Charges on Long-Term Liabilities	970,173	1,104,757	(12.2)
Total Expenses	<u>19,251,584</u>	<u>26,878,648</u>	(28.4)
Change in Net Position	5,970,104	(905,520)	
Beginning Net Position	(9,483,318)	(8,577,798)	
Ending Net Position	<u>\$ (3,513,214)</u>	<u>\$ (9,483,318)</u>	

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The cost of all *governmental* activities this year was approximately \$25,222,000.



**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

All governmental activities includes not only funds received for the general operation of the District, which are used for classroom instruction, but also includes resources from the other operating funds of Food Service and Community Education, and from resources for fiscal service transactions. Funding for the general operation of the District is controlled by the state and the District does not have the latitude to allocate money received in Food Service or Community Education or for fiscal services to enhance classroom instruction resources. The District cannot take funds from these restricted areas and use the funds to hire teachers to enhance instruction.

**Table A-3
Program Expenses and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2019	2018		2019	2018	
Administration	\$ 762,942	\$ 1,271,527	(40.0)%	\$ 758,131	\$ 1,267,801	(40.2)%
District Support Services	779,626	409,045	90.6	609,844	409,045	49.1
Regular Instruction	7,313,513	12,572,901	(41.8)	6,027,486	10,709,241	(43.7)
Vocational Education Instruction	143,932	280,240	(48.6)	153,155	280,240	(45.3)
Special Education Instruction	1,862,628	2,918,195	(36.2)	124,283	1,450,341	(91.4)
Instructional Support Services	741,259	1,361,508	(45.6)	636,430	1,227,217	(48.1)
Pupil Support Services	2,473,955	2,448,188	1.1	1,828,576	1,860,570	(1.7)
Sites and Buildings	2,165,370	2,160,853	0.2	1,899,130	2,000,231	(5.1)
Fiscal and Other Fixed Cost Programs	125,855	129,166	(2.6)	125,855	129,166	(2.6)
Food Service	760,506	777,220	(2.2)	(3,953)	(65,580)	(94.0)
Community Service	1,151,825	1,445,048	(20.3)	7,805	399,590	(98.0)
Interest and Fiscal Charges on Long-Term Liabilities	970,173	1,104,757	(12.2)	970,173	1,104,757	(12.2)
Total	<u>\$ 19,251,584</u>	<u>\$ 26,878,648</u>	(28.4)	<u>\$ 13,136,915</u>	<u>\$ 20,772,619</u>	(36.8)

Expenses decreased from the prior year due to the decrease in net pension liability and a change in funding that liability.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a *combined* fund balance of approximately \$6,487,000 which is about \$378,000 more than last year's ending fund balance of \$6,108,740. This is due primarily to the District continuing to monitor expenditures and continuing to make cut backs, along with receiving more state and tax revenue than the prior year.

GENERAL FUND

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

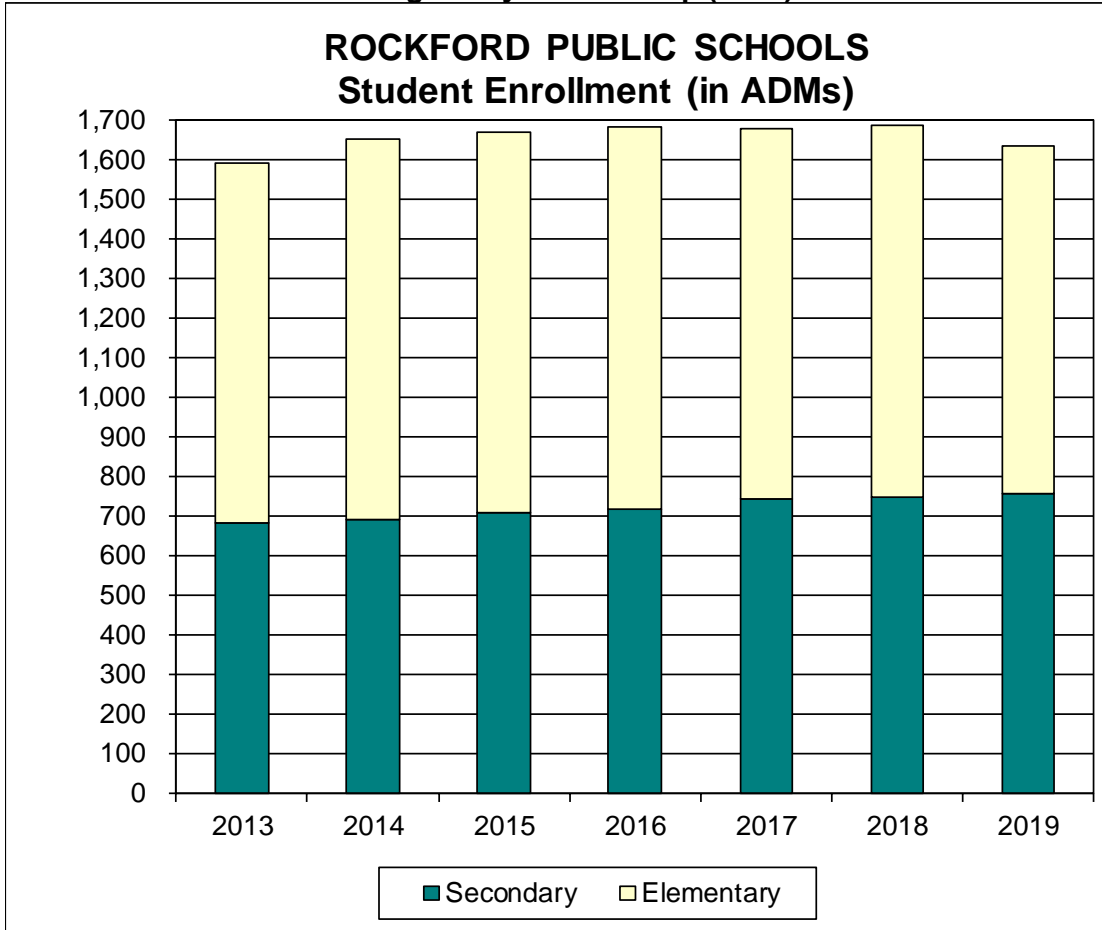
General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model. Other state formulas then determine what portion of the revenue will be provided by property taxes and what portion will come from state aid.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

ENROLLMENT

Enrollment is a critical factor in determining revenue. The following chart shows that the number of students increased over the prior year.

**Table A-4
Seven-Year Enrollment Trend
Average Daily Membership (ADM)**



Over the last seven years, the District has experienced a decrease in average daily membership by 44 students. The enrollment is expected to grow as the District has added new programs and is promoting many new initiatives. The District continues to encourage and welcome enrollment of students and hopes increased enrollment continues as new families move to the area and as students from neighboring areas choose to open enroll to Rockford.

	2013	2014	2015	2016	2017	2018	2019
Reg K, Pre-K & KH	155	160	151	143	142	151	133
Elementary	755	805	809	825	795	788	745
Secondary	682	690	710	716	741	749	758
Total Students for Aid	<u>1,592</u>	<u>1,655</u>	<u>1,670</u>	<u>1,684</u>	<u>1,678</u>	<u>1,688</u>	<u>1,636</u>
Percent Change	0.95%	3.96%	0.91%	0.83%	-0.33%	0.60%	-3.10%

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND

The following schedule presents a summary of General Fund revenues.

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2019	June 30, 2018	Increase (Decrease)	Percent
Local Sources:				
Property Taxes	\$ 2,175,617	\$ 2,015,855	\$ 159,762	7.9 %
Earnings on Investments	106,204	50,469	55,735	110.4
Other	776,274	917,116	(140,842)	(15.4)
State Sources	15,503,916	15,343,274	160,642	1.0
Federal Sources	451,958	235,278	216,680	92.1
Total General Fund Revenue	<u>\$ 19,013,969</u>	<u>\$ 18,561,992</u>	<u>\$ 451,977</u>	2.4

Total General Fund revenue increased by approximately \$452,000 or 2.4% from the previous year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of mostly state aid revenue. Other state-authorized revenue including operating levy referendum, operating capital revenue and the property tax shift also involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on total revenue.

Federal revenue increased overall by \$216,680 due mostly to new grant money that was received and spent in the current year.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2019	June 30, 2018		
Salaries	\$ 9,890,464	\$ 9,548,995	\$ 341,469	3.6 %
Employee Benefits	2,959,597	2,794,954	164,643	5.9
Purchased Services	4,391,647	3,919,553	472,094	12.0
Supplies and Materials	931,966	824,789	107,177	13.0
Capital Expenditures	367,320	272,468	94,852	34.8
Other Expenditures	221,447	230,574	(9,127)	(4.0)
Total Expenditures	<u>\$ 18,762,441</u>	<u>\$ 17,591,333</u>	<u>\$ 1,171,108</u>	6.7

Total General Fund expenditures increased approximately \$1,171,000 or 6.7% due to an increase in purchase services which was due to an increase in overall transportation costs to the District. Salaries and benefits increased due to new positions added and regular salary rate increases.

Revenues exceeded expenditures which resulted in an increase in fund balance at the end of 2018-19.

General Fund Budgetary Highlights

Following approval of the budget prior to the beginning of the fiscal year, the District revises the annual operating budget in mid-year. The school district monitored the budget closely and proposed one budget revision in addition to the original adopted budget. These budget amendments typically fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants and reinstating unexpended funds being carried over.
- Increases in appropriations for significant unbudgeted costs.

Actual revenues were approximately \$192,000 less than expected from the budget, primarily due to a decrease in federal revenues received as the District thought more grant money would be spent.

The actual expenditures were approximately \$506,000 less than budgeted. Restricted safe schools fund balance ended with a positive balance of \$96,204. Restricted operating capital fund balance ended with a positive balance of \$1,229,339. Restricted long-term facilities maintenance fund balance ended with a positive balance of \$375,541.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

DEBT SERVICE FUNDS

The Debt Service Fund revenues exceeded expenditures by approximately \$99,000 for fiscal 2019.

OTHER MAJOR FUNDS

Revenue exceeded expenditures in the Food Service Fund by about \$5,000. Expenditures exceeded revenues in the Community Service Fund by approximately \$300. The Building Construction Fund was closed during the year due to the project being completed.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2019, the District had invested approximately \$79.0 million in a broad range of capital assets (see Table A-7). (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was \$2,156,581.

**Table A-7
The District's Capital Assets**

	<u>2019</u>	<u>2018</u>	<u>Percentage Change</u>
Land	\$ 1,224,853	\$ 1,224,853	- %
Construction-in-Progress	10,660	3,500	204.6
Land Improvements	9,301,700	9,181,925	1.3
Buildings and Improvements	62,647,682	62,445,747	0.3
Equipment	5,744,769	5,726,864	0.3
Less: Accumulated Depreciation	<u>(34,455,742)</u>	<u>(32,382,587)</u>	6.4
Total	<u>\$ 44,473,922</u>	<u>\$ 46,200,302</u>	(3.7)

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

LONG-TERM LIABILITIES

At year-end, the District had \$39,918,797 in general obligation bonds and net bond premium (discount) – a decrease of 8.0% from last year – as shown in Note 5 to the financial statements. The decrease is due to regular payments made on outstanding debt. The District also had an estimated \$153,901 in vacation and severance payable at June 30, 2019, an increase of \$20,123 from June 30, 2018.

**Table A-8
The District's Long-Term Liabilities**

	2019	2018	Percentage Change
General Obligation Bonds	\$ 37,965,000	\$ 41,015,000	(7.4)%
Net Bond Premium (Discount)	1,953,797	2,390,108	(18.3)
Severance Benefits Payable	92,687	81,154	14.2
Compensated Absences Payable	61,214	52,624	16.3
Total	<u>\$ 40,072,698</u>	<u>\$ 43,538,886</u>	(8.0)
 Long-Term Liabilities:			
Due within One Year	\$ 3,291,214	\$ 3,102,624	
Due in More than One Year	36,781,484	40,436,262	
Total	<u>\$ 40,072,698</u>	<u>\$ 43,538,886</u>	

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District has made significant infrastructure and program enhancements to increase enrollment.

The District will need to monitor enrollment growth and continue to monitor the expenses associated with the new programs, to ensure they can be sustained.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District 883, 6051 Ash St., Rockford, Minnesota 55373.

Bond Ratings

The District's bonds presently carry a Standard & Poor's "AA-" rating.

Limitations on Debt

The state limits the amount of general obligation debt the District can issue to 15% of the assessed value of all taxable property within the District's corporate limits. Our outstanding debt is significantly below this limit – which is currently \$160 million.

BASIC FINANCIAL STATEMENTS

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF NET POSITION
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Governmental Activities	
	2019	2018
ASSETS		
Cash and Investments	\$ 9,663,814	\$ 9,182,894
Receivables:		
Property Taxes	4,058,697	3,110,517
Other Governments	2,226,591	1,937,578
Other	45,312	47,426
Due from Fiduciary Funds	40,589	30,210
Prepaid Items	19,065	18,840
Net OPEB Asset	624,025	601,890
Capital Assets:		
Land	1,224,853	1,224,853
Construction-in-Progress	10,660	3,500
Other Capital Assets, Net of Depreciation	43,238,409	44,971,949
Total Assets	<u>61,152,015</u>	<u>61,129,657</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	12,426,409	15,966,695
OPEB Related	44,024	47,031
Total Deferred Outflows of Resources	<u>12,470,433</u>	<u>16,013,726</u>
LIABILITIES		
Salaries and Compensated Absences Payable	1,351,740	1,304,066
Accounts and Contracts Payable	214,140	343,126
Accrued Interest	551,620	609,599
Due to Other Governmental Units	340	506
Due to Other Minnesota School Districts	63,626	56,740
Unearned Revenue:		
Local Sources	97,526	58,897
Net Pension Liability	10,664,789	28,883,206
Long-Term Liabilities:		
Portion Due Within One Year	3,291,214	3,102,624
Portion Due in More Than One Year	36,781,484	40,436,262
Total Liabilities	<u>53,016,479</u>	<u>74,795,026</u>
DEFERRED INFLOWS OF RESOURCES		
Pension Related	16,436,461	5,499,290
OPEB Related	67,905	-
Property Taxes	7,614,817	6,332,385
Total Deferred Inflows of Resources	<u>24,119,183</u>	<u>11,831,675</u>
NET POSITION (DEFICIT)		
Net Investment in Capital Assets	4,555,125	2,795,194
Restricted for:		
General Fund Operating Capital Purposes	1,229,339	1,615,729
General Fund State-Mandated Restricted	522,177	234,636
Food Service	101,819	97,205
Community Service	209,457	131,097
Other Postemployment Benefits	624,025	648,921
Debt Service	538,852	314,369
Capital Projects - Building Construction	-	12,257
Unrestricted	(11,294,008)	(15,332,726)
Total Net Position (Deficit)	<u>\$ (3,513,214)</u>	<u>\$ (9,483,318)</u>

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

Functions	2019				2018	
	Expenses	Program Revenues		Net (Expense)	Net (Expense)	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position	Revenue and Changes in Net Position
			Total Governmental Activities	Total Governmental Activities	Total Governmental Activities	Total Governmental Activities
GOVERNMENTAL ACTIVITIES						
Administration	\$ 762,942	\$ -	\$ 4,811	\$ -	\$ (758,131)	\$ (1,267,801)
District Support Services	779,626	-	-	169,782	(609,844)	(409,045)
Regular Instruction	7,313,513	491,179	785,583	9,265	(6,027,486)	(10,709,241)
Vocational Education Instruction	143,932	-	(9,223)	-	(153,155)	(280,240)
Special Education Instruction	1,862,628	-	1,737,463	882	(124,283)	(1,450,341)
Instructional Support Services	741,259	28,060	76,769	-	(636,430)	(1,227,217)
Pupil Support Services	2,473,955	-	645,379	-	(1,828,576)	(1,860,570)
Sites and Buildings	2,165,370	44,317	9,435	212,488	(1,899,130)	(2,000,231)
Fiscal and Other Fixed Cost Programs	125,855	-	-	-	(125,855)	(129,166)
Food Service	760,506	419,630	344,829	-	3,953	65,580
Community Service	1,151,825	1,011,022	132,998	-	(7,805)	(399,590)
Interest and Fiscal Charges on Long-Term Liabilities	970,173	-	-	-	(970,173)	(1,104,757)
Total School District	<u>\$ 19,251,584</u>	<u>\$ 1,994,208</u>	<u>\$ 3,728,044</u>	<u>\$ 392,417</u>	<u>(13,136,915)</u>	<u>(20,772,619)</u>
GENERAL REVENUES						
Property Taxes Levied for:						
General Purposes					2,208,000	2,015,243
Community Service					130,057	126,888
Debt Service					4,209,957	4,069,261
State Aid Not Restricted to Specific Purposes					12,144,346	12,305,909
Earnings on Investments					152,187	78,009
Gain on Sale of Capital Assets					36,310	912,942
Miscellaneous					226,162	358,847
Total General Revenues					<u>19,107,019</u>	<u>19,867,099</u>
CHANGE IN NET POSITION					5,970,104	(905,520)
Net Position - Beginning of Year					(9,483,318)	(8,577,798)
NET POSITION - END OF YEAR					<u>\$ (3,513,214)</u>	<u>\$ (9,483,318)</u>

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Major Funds		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 6,310,592	\$ 45,134	\$ 284,386
Receivables:			
Current Property Taxes	1,655,292	-	63,376
Delinquent Property Taxes	69,533	-	4,640
Accounts and Interest Receivable	33,169	-	4,952
Due from Other Minnesota School Districts	130,990	-	7,570
Due from Minnesota Department of Education	1,905,068	5,867	17,575
Due from Federal Government through Minnesota Department of Education	77,396	40,818	-
Due from Other Funds	37,181	-	3,408
Prepaid Items	216	18,849	-
Total Assets	<u>\$ 10,219,437</u>	<u>\$ 110,668</u>	<u>\$ 385,907</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
Liabilities:			
Salaries and Compensated Absences Payable	\$ 683,103	\$ -	\$ 27,961
Payroll Deductions and Employer Contributions Payable	640,676	-	-
Accounts and Contracts Payable	207,739	-	6,401
Due to Other Governmental Units	340	-	-
Due to Other Minnesota School Districts	63,626	-	-
Unearned Revenue	-	8,849	88,677
Total Liabilities	<u>1,595,484</u>	<u>8,849</u>	<u>123,039</u>
Deferred Inflows of Resources:			
Property Taxes Levied for Subsequent Year	3,237,259	-	129,974
Unavailable Revenue - Delinquent Taxes	69,533	-	4,640
Total Deferred Inflows of Resources	<u>3,306,792</u>	<u>-</u>	<u>134,614</u>
Fund Balance:			
Prepaid Items	216	18,849	-
Restricted:			
Staff Development	37,736	-	-
Health and Safety	-	-	-
Operating Capital	1,229,339	-	-
Area Learning Center	12,696	-	-
Safe Schools - Crime	96,204	-	-
Long-Term Facilities Maintenance	375,541	-	-
Community Education Programs	-	-	(76,563)
Early Childhood and Family Educations Programs	-	-	32,096
School Readiness	-	-	25,224
Other Restricted	-	82,970	147,497
Assigned:			
Q Comp	266,629	-	-
Greenhouse	50,000	-	-
Capital Projects	204,354	-	-
Unassigned	3,044,446	-	-
Total Fund Balance	<u>5,317,161</u>	<u>101,819</u>	<u>128,254</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 10,219,437</u>	<u>\$ 110,668</u>	<u>\$ 385,907</u>

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
BALANCE SHEET
GOVERNMENTAL FUNDS (CONTINUED)
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

Building Construction	Debt Service	Total Governmental Funds	
		2019	2018
\$ -	\$ 3,023,702	\$ 9,663,814	\$ 9,182,894
-	2,114,965	3,833,633	2,989,269
-	150,891	225,064	121,248
-	7,191	45,312	47,426
-	-	138,560	33,324
-	41,307	1,969,817	1,814,397
-	-	118,214	89,857
-	-	40,589	30,210
-	-	19,065	18,840
<u>\$ -</u>	<u>\$ 5,338,056</u>	<u>\$ 16,054,068</u>	<u>\$ 14,327,465</u>
\$ -	\$ -	\$ 711,064	\$ 673,218
-	-	640,676	630,848
-	-	214,140	343,126
-	-	340	506
-	-	63,626	56,740
-	-	97,526	58,897
-	-	<u>1,727,372</u>	<u>1,763,335</u>
-	4,247,584	7,614,817	6,332,385
-	150,891	225,064	123,005
-	<u>4,398,475</u>	<u>7,839,881</u>	<u>6,455,390</u>
-	-	19,065	18,840
-	-	37,736	27,130
-	-	-	(57,517)
-	-	1,229,339	1,615,729
-	-	12,696	12,971
-	-	96,204	78,319
-	-	375,541	116,216
-	-	(76,563)	(25,879)
-	-	32,096	26,323
-	-	25,224	28,690
-	939,581	1,170,048	1,030,698
-	-	266,629	197,158
-	-	50,000	50,000
-	-	204,354	152,451
-	-	<u>3,044,446</u>	<u>2,837,611</u>
-	<u>939,581</u>	<u>6,486,815</u>	<u>6,108,740</u>
<u>\$ -</u>	<u>\$ 5,338,056</u>	<u>\$ 16,054,068</u>	<u>\$ 14,327,465</u>

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019	2018
Total Fund Balance for Governmental Funds	\$ 6,486,815	\$ 6,108,740
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	1,224,853	1,224,853
Construction in Progress	10,660	3,500
Land Improvements, Net of Accumulated Depreciation	5,496,783	5,755,756
Buildings and Improvements, Net of Accumulated Depreciation	37,377,665	38,905,244
Equipment, Net of Accumulated Depreciation	363,961	310,949
OPEB trust contributions net of the OPEB liability and deferred outflows of resources recognized to date, are not current financial resources and, therefore, are not reported at fund level.	624,025	601,890
OPEB deferred outflows are reported only on the statement of net position.	44,024	47,031
OPEB deferred inflows are reported only on the statement of net position.	(67,905)	-
The District's net pension liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:		
Net Pension Liability	(10,664,789)	(28,883,206)
Deferred Inflows of Resources - Pension Related	(16,436,461)	(5,499,290)
Deferred Outflows of Resources - Pension Contributions	12,426,409	15,966,695
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current-period's expenditures and, therefore, are reported as deferred inflows of resources in the funds.	225,064	123,005
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(551,620)	(609,599)
Long-term liabilities that pertain to governmental funds, including bonds payable, 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:		
Bonds Payable	(37,965,000)	(41,015,000)
Unamortized Premiums	(1,953,797)	(2,390,108)
Severance Benefits Payable	(92,687)	(81,154)
Compensated Absences Payable	(61,214)	(52,624)
Total Net Position of Governmental Activities	\$ (3,513,214)	\$ (9,483,318)

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

	Major Funds		
	General	Food Service	Community Service
REVENUES			
Local Sources:			
Property Taxes	\$ 2,175,617	\$ -	\$ 127,963
Earnings on Investments	106,204	661	-
Other	776,274	419,630	1,011,022
State Sources	15,503,916	34,724	171,950
Federal Sources	451,958	310,105	-
Total Revenues	<u>19,013,969</u>	<u>765,120</u>	<u>1,310,935</u>
EXPENDITURES			
Current:			
Administration	1,039,842	-	-
District Support Services	784,618	-	-
Regular Instruction	8,009,026	-	-
Vocational Education Instruction	213,003	-	-
Special Education Instruction	2,455,292	-	-
Instructional Support Services	1,134,873	-	-
Pupil Support Services	2,610,625	-	-
Sites and Buildings	2,021,987	-	-
Fiscal and Other Fixed Cost Programs	125,855	-	-
Food Service	-	760,506	-
Community Service	-	-	1,305,557
Capital Outlay	367,320	-	5,675
Debt Service:			
Principal	-	-	-
Interest and Fiscal Charges	-	-	-
Total Expenditures	<u>18,762,441</u>	<u>760,506</u>	<u>1,311,232</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	251,528	4,614	(297)
OTHER FINANCING SOURCES (USES)			
Proceeds from Sale of Equipment	31,310	-	-
Proceeds from Sale of Real Property	-	-	-
Insurance Recovery Proceeds	4,255	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	<u>35,565</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	287,093	4,614	(297)
Fund Balance - Beginning of Year	<u>5,030,068</u>	<u>97,205</u>	<u>128,551</u>
FUND BALANCE - END OF YEAR	<u>\$ 5,317,161</u>	<u>\$ 101,819</u>	<u>\$ 128,254</u>

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS (CONTINUED)
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

Building Construction	Debt Service	Total Governmental Funds	
		2019	2018
\$ -	\$ 4,142,375	\$ 6,445,955	\$ 6,221,417
-	45,322	152,187	78,009
-	-	2,206,926	2,355,498
-	413,431	16,124,021	15,867,804
-	-	762,063	545,608
-	4,601,128	25,691,152	25,068,336
-	-	1,039,842	995,481
-	-	784,618	389,930
-	-	8,009,026	7,991,900
-	-	213,003	212,457
-	-	2,455,292	2,341,627
-	-	1,134,873	1,042,961
-	-	2,610,625	2,304,618
-	-	2,021,987	1,910,725
-	-	125,855	129,166
-	-	760,506	772,490
-	-	1,305,557	1,294,691
-	-	372,995	280,016
-	3,050,000	3,050,000	2,860,000
-	1,464,463	1,464,463	1,595,838
-	4,514,463	25,348,642	24,121,900
-	86,665	342,510	946,436
-	-	31,310	-
-	-	-	1,424,008
-	-	4,255	-
-	12,257	12,257	-
(12,257)	-	(12,257)	-
(12,257)	12,257	35,565	1,424,008
(12,257)	98,922	378,075	2,370,444
12,257	840,659	6,108,740	3,738,296
\$ -	\$ 939,581	\$ 6,486,815	\$ 6,108,740

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE – GOVERNMENTAL FUNDS
TO STATEMENT OF ACTIVITIES
GOVERNMENTAL ACTIVITIES
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

	2019	2018
Net Change in Fund Balance - Total Governmental Funds	\$ 378,075	\$ 2,370,444
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.		
Capital Outlay	430,201	118,202
Gain (Loss) on Disposal of Capital Assets	-	(511,066)
Depreciation Expense	(2,156,581)	(2,153,185)
Payment of OPEB benefits are recognized as expenditures at the fund level while the change in the net prepaid OPEB obligation, deferred outflows of resources and deferred inflows of resources is recognized in the statement of net position.		
	(48,777)	(48,048)
Pension expenditures on the governmental funds are measured by current year employee contributions. Pension expenses on the statement of activities are measured by the change in net pension liability and the related deferred inflows and outflows of resources.		
	3,740,960	(4,007,815)
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of discounts and premiums when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
Repayment of Bond Principal	3,050,000	2,860,000
Change in Accrued Interest Expense - General Obligation Bonds	57,979	54,770
Amortization of Bond Premium	436,311	436,311
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current-period's expenditures and, therefore, are unavailable in the funds.		
	102,059	(10,025)
In the statement of activities, certain operating expenses - severance 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).		
	(20,123)	(15,108)
Change in Net Position of Governmental Activities	\$ 5,970,104	\$ (905,520)

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Property Taxes	\$ 2,147,499	\$ 2,183,636	\$ 2,175,617	\$ (8,019)
Earnings on Investments	20,000	127,000	106,204	(20,796)
Other	647,500	724,651	776,274	51,623
State Sources	15,708,843	15,567,394	15,503,916	(63,478)
Federal Sources	272,967	603,556	451,958	(151,598)
Total Revenues	<u>18,796,809</u>	<u>19,206,237</u>	<u>19,013,969</u>	<u>(192,268)</u>
EXPENDITURES				
Current:				
Administration	1,054,741	1,068,517	1,039,842	(28,675)
District Support Services	828,607	785,523	784,618	(905)
Elementary and Secondary Regular Instruction	7,944,743	7,973,899	8,009,026	35,127
Vocational Education Instruction	216,928	176,603	213,003	36,400
Special Education Instruction	2,742,130	2,570,563	2,455,292	(115,271)
Instructional Support Services	1,291,089	1,350,935	1,134,873	(216,062)
Pupil Support Services	2,186,296	2,448,772	2,610,625	161,853
Sites and Buildings	2,334,958	2,323,615	2,021,987	(301,628)
Fiscal and Other Fixed Cost Programs	130,000	130,000	125,855	(4,145)
Capital Outlay	559,892	439,925	367,320	(72,605)
Total Expenditures	<u>19,289,384</u>	<u>19,268,352</u>	<u>18,762,441</u>	<u>(505,911)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(492,575)	(62,115)	251,528	313,643
OTHER FINANCING SOURCES				
Proceeds from Sale of Equipment	-	31,310	31,310	-
Insurance Recovery Proceeds	-	-	4,255	4,255
Total Other Financing Sources	<u>-</u>	<u>31,310</u>	<u>35,565</u>	<u>4,255</u>
NET CHANGE IN FUND BALANCE	<u>\$ (492,575)</u>	<u>\$ (30,805)</u>	287,093	<u>\$ 317,898</u>
FUND BALANCE				
Beginning of Year			<u>5,030,068</u>	
End of Year			<u>\$ 5,317,161</u>	

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Earnings on Investments	\$ -	\$ -	\$ 661	\$ 661
Other - Primarily Meal Sales	491,298	491,298	419,630	(71,668)
State Sources	36,623	36,623	34,724	(1,899)
Federal Sources	286,377	286,377	310,105	23,728
Total Revenues	<u>814,298</u>	<u>814,298</u>	<u>765,120</u>	<u>(49,178)</u>
EXPENDITURES				
Current:				
Food Service	<u>801,240</u>	<u>801,240</u>	<u>760,506</u>	<u>(40,734)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 13,058</u>	<u>\$ 13,058</u>	4,614	<u>\$ (8,444)</u>
FUND BALANCE				
Beginning of Year			<u>97,205</u>	
End of Year			<u>\$ 101,819</u>	

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
MAJOR COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Property Taxes	\$ 157,644	\$ 130,085	\$ 127,963	\$ (2,122)
Other - Primarily Tuition and Fees	1,008,015	996,430	1,011,022	14,592
State Sources	<u>159,884</u>	<u>159,746</u>	<u>171,950</u>	<u>12,204</u>
Total Revenues	1,325,543	1,286,261	1,310,935	24,674
EXPENDITURES				
Current:				
Community Service	1,375,656	1,313,173	1,305,557	(7,616)
Capital Outlay	<u>8,775</u>	<u>5,700</u>	<u>5,675</u>	<u>(25)</u>
Total Expenditures	<u>1,384,431</u>	<u>1,318,873</u>	<u>1,311,232</u>	<u>(7,641)</u>
NET CHANGE IN FUND BALANCE	<u><u>\$ (58,888)</u></u>	<u><u>\$ (32,612)</u></u>	(297)	<u><u>\$ 32,315</u></u>
FUND BALANCE				
Beginning of Year			<u>128,551</u>	
End of Year			<u><u>\$ 128,254</u></u>	

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019**

	<u>Postemployment Benefits Irrevocable Trust Fund</u>
ASSETS	
Investments:	
Money Market	\$ 54,003
Negotiable Certificates of Deposit	1,131,000
Total Investments	<u>1,185,003</u>
Interest Receivable	28,495
Total Assets	<u>1,213,498</u>
 LIABILITIES	
Due to Primary Government	<u>40,589</u>
 NET POSITION	
Restricted for Postemployment Benefits other than Pensions	<u><u>\$ 1,172,909</u></u>

See accompanying Notes to Basic Financial Statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2019**

	<u>Postemployment Benefits Irrevocable Trust Fund</u>
ADDITIONS	
Investment Income:	
Interest and Dividends	\$ 29,424
Less Investment Expense	<u>(250)</u>
Net Investment Income	29,174
 DEDUCTIONS	
Benefit Payments	<u>40,589</u>
 CHANGE IN NET POSITION	 (11,415)
Net Position - Beginning of Year	<u>1,184,324</u>
 NET POSITION - END OF YEAR	 <u><u>\$ 1,172,909</u></u>

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 883 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

Independent School District No. 883 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

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

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

Student activities of the District are under the School Board's Control; therefore, activity is included within the General Fund.

C. Basic Financial Statement Presentation

The District-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 is 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.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

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

Separate Fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: Postemployment Benefits Irrevocable Trust Fund. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds would be excluded from the District-wide statements. The District has one trust fund.

D. Measurement Focus and Basis of Accounting

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

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

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and GAAP. 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. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity. A description of the funds included in this report is as follows:

Major Governmental Funds

General Fund

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

Food Service Special Revenue Fund

The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Fund are generated from user fees, federal reimbursements, and state aids.

Community Service Special Revenue Fund

The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs or other similar services. Revenues for the Community Service Fund are generated primarily from user fees, local property taxes and state aids.

Capital Projects – Building Construction Fund

The Building Construction Fund is used to account for financial resources restricted, committed, or assigned to be used for the acquisition or construction of major capital facilities. The Fund was established for building construction activity authorized by specific voter-approved bond issues.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Major Governmental Funds (Continued)

Debt Service Fund

The Debt Service Fund is used to account for and report financial resources restricted, committed, or assigned to pay general long-term obligation bond principal, interest, and related costs. The regular debt service account is used for all general obligation bond debt service except for refunding bond issues, for which a separate refunding bond trust account is established.

Fiduciary Funds

Postemployment Benefits Irrevocable Trust Fund

This trust fund is used for reporting resources set aside and held in an irrevocable trust arrangement for postemployment benefits. District contributions to this fund must be expensed to an operating fund.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with GAAP. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, Building Construction, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

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

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

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

Budgeted amounts include mid-year budget amendments that increased or decreased revenue and expenditure budgets as follows:

<u>Revenues and Other Financing Sources</u>	<u>Original Budget</u>	<u>Amendments</u>	<u>Amended Budget</u>
General Fund	\$ 18,796,809	\$ 440,738	\$ 19,237,547
Special Revenue Funds:			
Community Service Fund	1,325,543	(39,282)	1,286,261
<u>Expenditures</u>			
General Fund	\$ 19,289,384	\$ (21,032)	\$ 19,268,352
Special Revenue Funds:			
Community Service Fund	1,384,431	(65,558)	1,318,873

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

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

F. Cash and Investments

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

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid debt instruments including commercial paper, Bankers' acceptances, and U.S. Treasury and agency obligations.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. 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.

H. Property Taxes

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

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

In accordance with state law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy (frozen at \$108,596) for the District. Certain other portions of the District's 2018 pay 2019 levy, normally revenue for the 2019-20 fiscal year are also advance recognized as of June 30, 2019, as required by state statute to match revenue with the same fiscal year as the related expenditures.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year beginning July 1, 2019 are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Assets

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

Capital assets are recorded in the District-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment.

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

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

J. Deferred Outflows of Resources

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period. The District will not recognize the related outflow until a future event occurs.

K. Long-Term Obligations

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bonds payable are reported net of applicable premiums and discounts which are amortized over the life of the bonds using the effective interest method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

L. Accrued Employee Benefits

Vacation Pay

The District's twelve-month employees are entitled to annual vacations. These benefits are reported as liabilities in the District-wide financial statements and as expenditures when taken in the fund financial statements.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Accrued Employee Benefits (Continued)

Sick Pay

Substantially all district employees are entitled to sick leave at various rates. For certain employees, unused sick leave is a factor in the calculation of an employee's severance pay upon retirement.

Severance and Health Benefits

Severance and health benefits consist of lump sum early retirement incentive payments and postemployment health care benefits. Accounting policies for severance and health benefits are described below.

1. Severance and Convertible Sick Leave

The District maintains various severance payment plans for its employee groups. Each employee group plan contains benefit formulas based on years of service and/or minimum age requirements and unused accumulated sick leave upon termination subject to certain conditions. No employee can receive severance payments exceeding one year's salary. If retirement occurs by year-end, the related benefits are included with salaries and other compensated absences as a current liability. Effective for contracts beginning July 1, 2005, the District provides Health Care Savings Account contributions based upon contract agreements. These amounts, to the extent applicable, are included in the calculation of severance liability.

At June 30, 2019, the long-term portion of the early retirement incentive and convertible sick leave liability is included as part of noncurrent liabilities on the statement of net position.

2. Other Postemployment Benefits Payable

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

M. Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Unearned Revenue

Unearned revenues are those in which resources are received by the District before it has legal claim to them. The District has reported unearned revenues for the unearned grant revenue, charges for services and school lunch deposits.

O. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and 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.

P. Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund. Nonspendable portions of fund balance are related to prepaid items and inventory. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The Board of Education passed a resolution authorizing the Superintendent and Business Manager to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

It is also the District's policy to strive to maintain a minimum unassigned fund balance in the General Fund of 8% of the General Fund annual expenditure budget.

Q. Net Position

Net position represents the difference between assets and deferred outflows of resources, liabilities and deferred inflows of resources in the District-wide and Fiduciary Fund financial statements. Net Investment in Capital Assets consists of capital assets, net of accumulation depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the District-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Comparative Data

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

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Due to/from Other Funds

	Payable Fund
	OPEB Trust
	Fund
Receivable Fund:	
General Fund	\$ 37,181
Community Service Fund	3,408
Total	\$ 40,589

The amount due to the General and Community Service Fund from the OPEB Trust Fund relates to OPEB expenditures paid by the General and Community Service Fund to be reimbursed by the Trust.

B. Transfers

The Building Construction Fund transferred \$12,257 to the Debt Service Fund during the year due to the fund being closed out at year-end. The transfer consisted of left over bond proceeds that is to be used to offset the bond that was issued to cover the project costs.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Investments." The District does have an investment policy which follows Minnesota Statutes. The District maintains deposits at financial institutions which are authorized by the School District's Board.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The District's has deposits of \$322,557 in banks at June 30, 2019 were under-collateralized or covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

B. Investments

The District may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less
- General obligations rated "A" or better; revenue obligations rated "AA" or better
- General obligations of the Minnesota Housing Finance Agency rate "A" or better
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories
- Repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers

At June 30, 2019, the District’s investment balances were as follows:

Type	Amount
Nonnegotiable Certificates of Deposit	\$ 3,581,300
MN Trust Investment Shares	3,424,659
MN Trust Term Series	3,005,573
MN Trust Limited Term Duration Series	520,300
Total	\$ 10,531,832

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the District’s investments to market interest rate risk fluctuations is provided by the following table that shows the distribution of the District’s investments by maturity:

Type	Total	12 Months or Less	13 to 24 Months	24 Months or More
Nonnegotiable Certificates of Deposit	\$ 3,581,300	\$ 3,181,300	\$ 400,000	\$ -
MN Trust Investment Shares	3,424,659	3,424,659	-	-
MN Trust Term Series	3,005,573	3,005,573	-	-
MN Trust Limited Term Duration Series	520,300	520,300	-	-
Total	\$ 10,531,832	\$ 10,131,832	\$ 400,000	\$ -

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following chart summarizes year-end ratings for the District’s investments as rated by Standard & Poor’s:

<u>Type</u>	<u>Credit Quality Rating</u>	<u>Amount</u>
Nonegotiable Certificate of Deposits	NR	\$ 3,581,300
MN Trust Investment Shares	AAA+	3,424,659
MN Trust Term Series	AAA+	3,005,573
MN Trust Limited Term Duration Series	AAA+	520,300
Total		<u>\$ 10,531,832</u>

Custodial Credit Risk – For an investment, custodial risk is the risk that, in the event of failure of the counterparty, the School District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District’s bond documents require insurance of all balances held with each investment account. As of June 30, 2019, the investment balances were fully covered by insurance.

The District’s deposits (\$316,985) and investments (\$10,531,832) are presented in the financial statements as follows:

Cash and Investments - Statement of Net Position	\$ 9,663,814
Cash and Investments - Statement of Fiduciary Net Position	1,185,003
Total Cash and Investments	<u>\$ 10,848,817</u>

C. Fair Value Measurements

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

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

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Fair Value Measurements (Continued)

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

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

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

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

Assets measured at fair value on a recurring basis:

<u>Type</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Negotiable Certificates of Deposit	\$ -	\$ -	\$ -	\$ -

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated:				
Land	\$ 1,224,853	\$ -	\$ -	\$ 1,224,853
Construction in Progress	3,500	10,660	(3,500)	10,660
Total Capital Assets, Not Being Depreciated	1,228,353	10,660	(3,500)	1,235,513
Capital Assets, Being Depreciated:				
Land Improvements	9,181,925	119,775	-	9,301,700
Buildings and Improvements	62,445,747	201,935	-	62,647,682
Equipment	5,726,864	101,331	(83,426)	5,744,769
Total Capital Assets, Being Depreciated	77,354,536	423,041	(83,426)	77,694,151
Accumulated Depreciation for:				
Land Improvements	(3,426,169)	(378,748)	-	(3,804,917)
Buildings and Improvements	(23,540,503)	(1,729,514)	-	(25,270,017)
Equipment	(5,415,915)	(48,319)	83,426	(5,380,808)
Total Accumulated Depreciation	(32,382,587)	(2,156,581)	83,426	(34,455,742)
Total Capital Assets, Being Depreciated, Net	44,971,949	(1,733,540)	-	43,238,409
Governmental Activities Capital Assets, Net	<u>\$ 46,200,302</u>	<u>\$ (1,722,880)</u>	<u>\$ (3,500)</u>	<u>\$ 44,473,922</u>

Depreciation expense was charged to functions of the District as follows:

Governmental Activities	
Regular Instruction	\$ 1,906,895
Pupil Support Services	345
Sites and Buildings	249,057
Community Service	284
Total Depreciation Expense, Governmental Activities	<u>\$ 2,156,581</u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 LONG-TERM LIABILITIES

A. Components of Long-Term Debt

Issue Date	Net Interest Rate	Original Issue	Final Maturity	Principal Outstanding	
				Due Within One Year	Total
2010	2.00% - 3.50%	\$ 1,875,000	2/1/2025	\$ 125,000	\$ 825,000
2013	2.00%	26,890,000	2/1/2029	390,000	25,380,000
2015	5.00%	17,690,000	2/1/2023	2,715,000	11,760,000
Total General Obligation Bonds				3,230,000	37,965,000
Bond Premium - Net				-	1,953,797
Severance Benefits Payable				-	92,687
Compensated Absences Payable				61,214	61,214
Total				<u>\$ 3,291,214</u>	<u>\$ 40,072,698</u>

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt, not including severance, other postemployment benefits payable, or other compensated absences are as follows:

Year Ending June 30,	General Obligation Bonds Payable	
	Principal	Interest
2020	\$ 3,230,000	\$ 1,323,888
2021	3,315,000	1,176,588
2022	3,465,000	1,023,188
2023	3,630,000	861,900
2024	3,990,000	692,300
2025 - 2029	20,335,000	1,813,850
Total	<u>\$ 37,965,000</u>	<u>\$ 6,891,714</u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt

General Obligation School Building Bonds

These bonds were issued to finance acquisition, construction, and/or improvement of capital facilities or to refinance (refund) previous bond issues. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. Total deferred tax levies available to retire bond principal and interest payable at June 30, 2019 are \$47,099,550. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

On January 30, 2013, the District issued \$26,890,000 of General Obligation Building Bonds, Series 2013A. The proceeds of this issue are being used for the maintenance, renovation, and remodeling of the Middle School and High School and to renovate athletic facilities. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds.

In November 2015, the District issued \$17,690,000 General Obligation School Building Refunding Bonds, Series 2015A. The Bonds were issued for a current refunding of: 2006A General Obligation School Building Refunding Bonds of \$21,265,000. The total gross savings to the District attributable to the refunding and defeasance of these bonds is \$2,361,656 with a net present value savings of \$2,221,212.

General Obligation Capital Facilities Bonds

On March 3, 2010, the District issued \$1,875,000 General Obligation Capital Facilities Bonds, Series 2010A. The proceeds are being used to complete capital improvements to enhance the energy efficiency of District school buildings.

Severance Benefits Payable

Severance benefits payable consist of administrator experience benefits and other severance pay. Severance benefits have been paid by the General and Special Revenue Funds. Annual payments to retire the severance benefits liability have not been determined and will depend on actual employee turnover.

During fiscal 2005, the District initiated a Health Reimbursement Plan. The purpose of the Plan is to provide certain Employees with an opportunity to receive reimbursement for certain Health Care Expenses as provided in the Plan. It is the intention of the Adopting Employer that the benefits payable under this Plan be eligible for exclusion from the gross income of Participants as provided by Sections 105(b) and 106 of the Code. In addition, it is the intention of the Adopting Employer that the Plan qualify as a Health Reimbursement Arrangement (HRA) under IRS Revenue Ruling 2002-41 (June 26, 2002) and IRS Notice 2002-45 (June 26, 2002).

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Debt

	June 30, 2018	Net Additions	Retirements	June 30, 2019
Bonds Payable	\$ 41,015,000	\$ -	\$ (3,050,000)	\$ 37,965,000
Bond Premium	2,390,108	-	(436,311)	1,953,797
Severance Benefits Payable	81,154	11,533	-	92,687
Compensated Absences Payable - Net	52,624	14,406	(5,816)	61,214
Total	<u>\$ 43,538,886</u>	<u>\$ 25,939</u>	<u>\$ (3,492,127)</u>	<u>\$ 40,072,698</u>

NOTE 6 RESTRICTED FUND BALANCES

A. Restricted for Staff Development

The fund balance restriction represents accumulated unspent staff development dollars.

B. Restricted for Health and Safety

The District levies taxes and receives state aid to be used for health and safety projects in accordance with a plan approved by the State. The balance in the account represents approved expenditures incurred by the District for which it has future levy authority.

C. Restricted for Operating Capital

The District levies taxes and receives state aid to be used for the purchase of equipment or facilities. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a restriction of fund balance in the General Fund.

D. Restricted for Area Learning Center

This restriction represents amounts restricted for students attending area learning centers.

E. Restricted for Safe Schools

This restriction represents the unspent resources from the crime levy to be used for crime prevention, student and staff safety, and violence prevention measures.

F. Restricted for Long-term Facilities Maintenance (LTFM)

This restriction represents available resources to be used for LTFM projects in accordance with the 10-year capital plan.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 RESTRICTED FUND BALANCES (CONTINUED)

G. Restricted for Community Education Programs

The fund balance restriction represents accumulated resources available to provide general community education programming.

H. Restricted for Early Childhood and Family Education Programs

This fund balance restriction represents accumulated resources available to provide services for early childhood and family education programming.

I. Restricted for School Readiness

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

J. Restricted for Other Purposes

Restricted for other purposes represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. See amounts below:

Other Restricted:	
Food Service	\$ 82,970
Community Service	147,497
Debt Service	939,581
Total Other Restricted	<u>\$ 1,170,048</u>

NOTE 7 ASSIGNED FUND BALANCES

A. Assigned for Q Comp

This represents an amount set aside for Q Comp expenditures of \$266,629.

B. Assigned for Greenhouse

This represents an amount set aside for Greenhouse projects.

C. Assigned for Capital Projects

This represents an amount set aside for District capital projects.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan (General Employees Plan)

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

2. Teachers Retirement Fund (TRA)

The Teacher's 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 schools, 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 University of Minnesota System).

B. Benefits Provided

PERA and TRA provide 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.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. General Employees Plan Benefits

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% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

2. TRA Benefits

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.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier 1 Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First Ten Years of Service	2.2% per Year
	All Years After	2.7% per Year
Coordinated	First Ten Years of Service 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 Services Years are July 1, 206 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) 3.0% per year early retirement reduction factor for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

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

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

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

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

C. Contributions

1. General Employees Plan 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% of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.50% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2019, were \$205,148. The District's contributions were equal to the required contributions as set by state statute.

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 rates for the fiscal year for coordinated were 7.5% for the employee and 7.71% for the employer. Basic rates were 11.00% for the employee and 11.71% for the employer. The District's contributions to TRA for the plan's fiscal year ended June 30, 2019 were \$601,956. The District's contributions were equal to the required contributions for each year as set by state statute.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs

1. General Employees Plan Pension Costs

At June 30, 2019, the District reported a liability of \$2,207,941 for its proportionate share of the General Employees Plan's net pension liability. The District's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$16 million to the fund in 2019. The state of Minnesota is considered a nonemployer contributing District 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 \$72,415, for a total liability of \$2,280,356 associated with the District. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017, through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the District's proportion was .0398% which was a decrease of .0002% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the District recognized pension expense of \$60,582 for its proportionate share of General Employees Plan's pension expense. In addition, the District recognized an additional \$16,887 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of \$16 million to the General Employees Fund.

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

Description	Resources	Resources
Differences Between Expected and Actual		
Economic Experience	\$ 58,441	\$ 64,395
Changes in Actuarial Assumptions	210,914	248,086
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	-	225,617
Changes in Proportion and Differences Between		
District Contributions and Proportionate Share		
of Contributions	-	152,081
District Contributions Subsequent to the		
Measurement Date	205,148	-
Total	<u>\$ 474,503</u>	<u>\$ 690,179</u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Plan Pension Costs (Continued)

\$205,148 reported as deferred outflows of resources related to pensions resulting from District contributions to General Employees Plan 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 General Employees Plan pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Pension Expenses Amount</u>
2020	\$ (10,276)
2021	(182,089)
2022	(182,376)
2023	(46,083)

2. TRA Pension Costs

At June 30, 2019, the District reported a liability of \$8,456,848 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District's proportionate share was .1346% at the end of the measurement period and .1319% for the beginning of the period.

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:

<u>Description</u>	<u>Amount</u>
District's Proportionate Share of the TRA Net Pension Liability	\$ 8,456,848
State's Proportionate Share of TRA's Net Pension Liability Associated with the District	794,544
Total Liability	<u>\$ 9,251,392</u>

For the year ended June 30, 2019, the District recognized negative pension expense of \$2,997,665. It also recognized \$554,541 as a decrease to pension expense and negative grant revenue for the support provided by direct aid.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 90,202	\$ 170,551
Changes in Actuarial Assumptions	10,919,357	14,419,978
Net Difference Between Projected and Actual		
Earnings on Pension Plan Investments	-	655,830
Changes in Proportion and Differences Between		
District Contributions and Proportionate Share		
of Contributions	340,391	499,923
District Contributions Subsequent to the		
Measurement Date	601,956	-
Total	<u>\$ 11,951,906</u>	<u>\$ 15,746,282</u>

\$601,956 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Pension Expenses Amount</u>
2020	\$ 784,891
2021	434,890
2022	(101,447)
2023	(3,284,221)
2024	(2,230,445)

The District's total negative pension expense for all plans for the year ended June 30, 2019 was \$3,474,737.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF	TRA
Inflation	2.50% per Year	2.50%
Salary Growth	11.25% after 1 year of service decreasing to 3.25% per year after 26 years	2.85% for 10 years and 3.25%, thereafter
Investment Rate of Return	7.50% per Year	7.50%

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

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

TRA pre-retirement mortality rates were based on 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. Postretirement mortality rates were based on 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. Post-disability mortality rates were based on the RP-2014 disabled retiree mortality table, without adjustment. TRA cost of living benefit increases 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

TRA assumptions are based on the full experience study dated June 2015 and the study of the economic assumptions presented to the Board in November 2017.

The following changes in actuarial assumptions occurred in 2018 for PERA:

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed postretirement benefit increase was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2018 for TRA:

- 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 4 years, (7.92% in 2019, 8.13% 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 single discount rate was changed from 5.12% to 7.5%.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The State Board of Investment, which manages the investments of PERA and TRA, 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 Equity	36 %	5.10 %
International Equity	17	5.30
Bonds	20	0.75
Alternative Assets	25	5.90
Cash	2	-
Totals	100 %	

F. Discount Rate

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

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

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

G. Pension Liability Sensitivity

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

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
<u>General Employees Plan Discount Rate</u>	6.50%	7.50%	8.50%
District's Proportionate Share of the General Employees Plan Net Pension Liability	\$ 3,588,187	\$ 2,207,941	\$ 1,068,587
 <u>TRA Discount Rate</u>	 6.50%	 7.50%	 8.50%
District's Proportionate Share of the TRA Net Pension Liability	\$ 13,420,984	\$ 8,456,848	\$ 4,361,469

H. Pension Plan Fiduciary Net Position

Detailed information about the General Employees Plan's fiduciary's net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org.

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

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates and administers a single-employer defined benefit other postemployment benefit plan (the Plan) that provides health and dental insurance to retired and active eligible employees and their spouses through the District's health insurance plan. There are 137 active participants and 7 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

B. Funding Policy

The District has assets designated for OPEB. These assets are in a qualified irrevocable trust which are included as a fiduciary fund in these financial statements. The District's investment policy is to follow state statutes as listed in Note 3. The District is assumed to make no future contributions to the trust. Benefit payments equal to the annual direct subsidy plus implicit subsidy are assumed to be made from the trust. Contribution requirements are negotiated between the District and union representatives. For fiscal year 2019, the District made no contribution to the plan; the current year benefits were paid from the District's OPEB Trust Fund.

C. Net OPEB Liability (Asset) of the District

The components of the net OPEB liability (asset) of the District at June 30, 2019, were as follows:

Total OPEB Liability	\$ 548,884
Plan Fiduciary Net Position	1,172,909
District's net OPEB Liability (Asset)	<u>\$ (624,025)</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)	214%

D. Actuarial Methods and Assumptions

The long-term expected rate of return on OPEB plan investments that are expected to be used to finance the payment of benefits, to the extent that (1) the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and (2) OPEB plan assets are expected to be invested using a strategy to achieve that return, and a yield or index rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale), to the extent that the conditions above are not met.

The District's net OPEB liability (asset) was measured as of June 30, 2019, and the total OPEB liability (asset) used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019.

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

Inflation	2.50%
Salary Increases	3.50%
Investment Rate of Return	3.06%
	6.90%
	decreasing to
	4.00% in
Health Care Trend Rates	FY2076

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Actuarial Methods and Assumptions (Continued)

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

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

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (or target allocation, if available) and by adding expected inflation (2.50%). Best estimates of geometric real and nominal rates of return for each major asset class included in the OPEB plan's asset allocation as of the measurement date are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>	<u>Long-Term Expected Nominal Rate of Return</u>
Domestic Equity	4.95 %	7.45 %
International Equity	5.24	7.74
Fixed Income	1.99	4.49
Real Estate and Alternatives	4.19	6.69
Cash and Equivalents	0.58	3.08
Total		3.06
Reduced for Assumed Investment Expense		-
Net Assumed Investment Return (Weighted Avg, Rounded to 1/4%)		<u>3.00 %</u>

The discount rate used to measure the total OPEB liability was 3.06%. The projection of cash flows and OPEB trust assets used to determine the discount rate were based on recent employer contribution history and their stated funding policy. The OPEB trust's long-term assumed investment return was used to discount projected benefit payments for as long as projected trust assets are available to fund OEPB payments. Once projected trust assets are exhausted, the municipal bond index rate was applied to the remaining expected benefit payments.

The expected employer asset return is based on the long-term expected long-term asset class returns and the District's target asset allocation.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Actuarial Methods and Assumptions (Continued)

Since the most recent GASB 75 valuation, the following changes have been made:

- The discount rate was changed from 3.53% to 3.06% based on updated expectations of long-term returns on trust assets and 20-year municipal bond rates.
- The health care trend rates were changed to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience and new plan offerings.
- Mortality and salary increase rates were updated from the rates used in the 7/1/2016 PERA General Employees Retirement Plan and 7/1/2016 Teachers Retirement Association valuations to the rates used in the 7/1/2018 valuations.
- The percent of future Teacher retirees assumed to elect coverage at retirement changed from 60% to 40% to reflect recent plan experience.
- The percent of future retirees other than the Superintendent assumed to elect spouse coverage at retirement changed from 0% to 20% based on recent plan experience.
- The percent of future non-Medicare eligible retirees electing each medical plan changed to reflect recent plan experience.
- The inflation assumption was changed from 2.75% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.

E. Changes in the Net OPEB Liability (Asset)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2018	\$ 582,434	\$ 1,184,324	\$ (601,890)
Changes for the Year:			
Service Cost	61,718	-	61,718
Interest	22,022	-	22,022
Differences Between Expected and Actual Experience	(51,454)	-	(51,454)
Net Investment Income	-	29,424	(29,424)
Changes of Assumptions	(25,247)	-	(25,247)
Benefit Payments	(40,589)	(40,589)	-
Administrative Expense	-	(250)	250
Net Changes	<u>(33,550)</u>	<u>(11,415)</u>	<u>(22,135)</u>
Balances at June 30, 2019	<u>\$ 548,884</u>	<u>\$ 1,172,909</u>	<u>\$ (624,025)</u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. Changes in the Net OPEB Liability (Asset) (Continued)

The following presents the net OPEB liability (asset) of the District, as well as what the District's net OPEB liability (asset) would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

	1% Decrease (2.06%)	Discount Rate (3.06%)	1% Increase (4.06%)
Net OPEB Liability (Asset)	\$ (588,366)	\$ (624,025)	\$ (658,568)

The following presents the net OPEB liability (asset) of the District, as well as what the District's net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1% point lower (5.9% decreasing to 3.0%) or 1% point higher (7.9% decreasing to 5.0%) than the current healthcare cost trend rates:

	1% Decrease (5.9% Decreasing to 3.0%)	Current Trend Rates (6.9% Decreasing to 4.0%)	1% Increase (7.9% Decreasing to 5.0%)
Net OPEB Liability (Asset)	\$ (685,084)	\$ (624,025)	\$ (551,711)

For the year ended June 30, 2019, the District recognized OPEB expense of \$48,777. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Liability	\$ -	\$ 45,553
Change of Assumptions	7,043	22,352
Net Difference Between Projected and Actual Investment Earnings	36,981	-
Contributions Between Measurement Date and Reporting Date	N/A	N/A
Total	<u>\$ 44,024</u>	<u>\$ 67,905</u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. Changes in the Net OPEB Liability (Asset) (Continued)

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

<u>Year Ended June 30.</u>	<u>Future Recognition</u>
2020	\$ 6,238
2021	6,237
2022	(647)
2023	(5,175)
2024	(7,582)
Thereafter	(22,952)
Total	<u>\$ (23,881)</u>

At June 30, 2019, the District's trust reported a payable, which is due to the General and Community Service Fund, of \$40,589 for the outstanding amount of contributions paid by the General and Community Service Fund for the year ended June 30, 2019.

NOTE 10 FLEXIBLE BENEFIT PLAN

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

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

Payments of insurance premiums (health and dental) are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund.

All assets of the plan are administered by a third-party administrator. Payments are made by the third-party administrator to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the participant. Payments of insurance premiums (health, dental, life, and disability) are made by the District directly to the designated insurance companies.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10 FLEXIBLE BENEFIT PLAN (CONTINUED)

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

NOTE 11 DEFINED CONTRIBUTION PLAN

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the Plan). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax-deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2019, 2018, and 2017 were \$105,104, \$94,444, \$122,105, respectively. The related employee contributions were \$283,509, \$257,806, and \$237,056 for the years ended June 30, 2019, 2018, and 2017, respectively.

NOTE 12 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; and natural disasters. The District purchases commercial insurance coverage for such risks.

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

NOTE 13 COMMITMENTS AND CONTINGENCIES

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.

REQUIRED SUPPLEMENTARY INFORMATION

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY (ASSET) AND
RELATED RATIOS (CONTINUED)
JUNE 30, 2019**

	FY 2019	FY 2018	FY 2017
Total OPEB Liability			
Service Cost	\$ 61,718	\$ 57,124	\$ 53,517
Interest	22,022	19,886	18,459
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	(51,454)	-	-
Changes of Assumptions	(25,247)	9,471	-
Benefit Payments	(40,589)	(30,210)	(39,376)
Net Change in Total OPEB Liability	(33,550)	56,271	32,600
Total OPEB Liability - Beginning	582,434	526,163	493,563
Total OPEB Liability - Ending (a)	<u>\$ 548,884</u>	<u>\$ 582,434</u>	<u>\$ 526,163</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ -	\$ -	\$ -
Net Investment Income	29,424	18,304	8,124
Benefit Payments	(40,589)	(30,210)	(39,376)
Administrative Expense	(250)	(250)	(250)
Net Change in Plan Fiduciary Net Position	(11,415)	(12,156)	(31,502)
Plan Fiduciary Net Position - Beginning	1,184,324	1,196,480	1,227,982
Plan Fiduciary Net Position - Ending (b)	<u>\$ 1,172,909</u>	<u>\$ 1,184,324</u>	<u>\$ 1,196,480</u>
District's Net OPEB Liability (Asset) - Ending (a) - (b)	\$ (624,025)	\$ (601,890)	\$ (670,317)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	213.69 %	203.34 %	227.40 %
Covered-employee Payroll	\$ 11,140,377	\$ 10,495,521	\$ 9,958,587
District's Net OPEB Liability (Asset) as a Percentage of Covered Payroll	(5.60)%	(5.73)%	(6.73)%

Note 1: The District implemented GASB Statement Nos. 74 and 75 in fiscal year 2017, and the above table will be expanded to ten years of information as the information becomes available.

Note 2: Changes in significant OPEB plan provisions, actuarial methods, and assumptions:

Since the most recent GASB 75 valuation, the following changes have been made:

- The discount rate was changed from 3.53% to 3.06% based on updated expectations of long-term returns on trust assets and 20-year municipal bond rates.
- The health care trend rates were changed to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect recent experience and new plan offerings.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY (ASSET) AND
RELATED RATIOS (CONTINUED)
JUNE 30, 2019**

Note 2: Changes in significant OPEB plan provisions, actuarial methods, and assumptions (Continued):

- Mortality and salary increase rates were updated from the rates used in the 7/1/2016 PERA General Employees Retirement Plan and 7/1/2016 Teachers Retirement Association valuations to the rates used in the 7/1/2018 valuations.
- The percent of future Teacher retirees assumed to elect coverage at retirement changed from 60% to 40% to reflect recent plan experience.
- The percent of future retirees other than the Superintendent assumed to elect spouse coverage at retirement changed from 0% to 20% based on recent plan experience.
- The percent of future non-Medicare eligible retirees electing each medical plan changed to reflect recent plan experience.
- The inflation assumption was changed from 2.75% to 2.50% based on an updated historical analysis of inflation rates and forward-looking market expectations.

July 1, 2018

- The discount rate was changed from 3.50% to 3.53%.
- The health care trend rates were changed to better anticipate short term and long term medical increases.

July 1, 2017

- The actuarial cost method changed from using the Projected Unit Credit cost method of the Entry Age Normal level percentage of pay cost method.
- The discount rate was changed from 3.00% to 3.50%.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- Medical per capita claims costs were updated to reflect the costs method change.
- The percent of future Teacher retirees assumed to elect coverage at retirement changes from 80% to 60% to reflect recent plan experience.
- The percent of future Superintendent retirees assumed to elect coverage at retirement change from 0% to 100% to reflect the addition of the direct subsidy benefits.
- The percent of future non-Medicare eligible retirees electing each medical plan changed to reflect recent plan experience.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF MONEY WEIGHTED RATE OF RETURN ON PLAN ASSETS
JUNE 30, 2019**

Year	Annual Money-Weighted Rate of Return, Net of Investment Expense
2017	0.61%
2018	1.61%
2019	2.48%

The District implemented GASB Statement Nos. 74 and 75 in fiscal year 2017, and the above table will be expanded to ten years of information as the information becomes available.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2019**

	Measurement Date June 30, 2019	Measurement Date June 30, 2018	Measurement Date June 30, 2017	Measurement Date June 30, 2016	Measurement Date June 30, 2015
General Employees Plan					
District's Proportion of the Net Pension Liability	0.04%	0.04%	0.04%	0.05%	0.04%
District's Proportionate Share of the Net Pension Liability	\$ 2,207,941	\$ 2,553,574	\$ 3,564,462	\$ 2,363,229	\$ 2,030,005
State's Proportionate Share of the Net Pension Liability Associated with the District	72,415	32,094	46,581	-	-
Total District's Proportionate Share of the Net Pension Liability and State's Proportionate Share of the Net Pension Liability	<u>\$ 2,280,356</u>	<u>\$ 2,585,668</u>	<u>\$ 3,611,043</u>	<u>\$ 2,363,229</u>	<u>\$ 2,030,005</u>
District's Covered Payroll	\$ 2,676,693	\$ 2,550,173	\$ 2,724,708	\$ 2,551,634	\$ 2,278,585
District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll+Actuarial Assumptions	85.19%	101.39%	132.53%	92.62%	89.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.50%	75.90%	68.91%	78.20%	78.75%
TRA					
District's Proportion of the Net Pension Liability	0.13%	0.13%	0.14%	0.14%	0.15%
District's Proportionate Share of the Net Pension Liability	\$ 8,456,848	\$ 26,329,632	\$ 33,059,407	\$ 8,685,129	\$ 6,853,290
State's Proportionate Share of the Net Pension Liability Associated with the District	794,544	2,546,075	3,318,302	1,065,169	-
Total District's Proportionate Share of the Net Pension Liability and State's Proportionate Share of the Net Pension Liability	<u>\$ 9,251,392</u>	<u>\$ 28,875,707</u>	<u>\$ 36,377,709</u>	<u>\$ 9,750,298</u>	<u>\$ 6,853,290</u>
District's Covered Payroll	\$ 7,483,213	\$ 7,113,973	\$ 7,178,669	\$ 7,177,021	\$ 6,892,344
District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	113.01%	370.11%	460.52%	121.01%	99.43%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.07%	51.57%	44.88%	76.77%	81.50%

Note: Information is presented prospectively and an accumulation of ten years will be provided.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST FIVE FISCAL YEARS**

	2019	2018	2017	2016	2015	2014
General Employees Plan						
Contractually Required Contribution	\$ 205,148	\$ 200,752	\$ 191,263	\$ 204,438	\$ 188,695	\$ 165,198
Contributions in Relation to the Contractually Required Contribution	(205,148)	(200,752)	(191,263)	(204,438)	(188,695)	(165,198)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 2,735,307	\$ 2,676,693	\$ 2,550,173	\$ 2,724,708	\$ 2,551,634	\$ 2,278,585
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.40%	7.25%
TRA						
Contractually Required Contribution	\$ 601,956	\$ 561,241	\$ 533,548	\$ 538,361	\$ 538,422	\$ 484,692
Contributions in Relation to the Contractually Required Contribution	(601,956)	(561,241)	(533,548)	(538,361)	(538,422)	(484,692)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 7,807,471	\$ 7,483,213	\$ 7,113,973	\$ 7,178,669	\$ 7,177,021	\$ 6,892,344
Contributions as a Percentage of Covered Payroll	7.71%	7.50%	7.50%	7.50%	7.50%	7.03%

Note: Information is presented prospectively and an accumulation of ten years will be provided.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019**

NOTE 1 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS, AND ASSUMPTIONS

The following changes were reflected in the valuation performed on behalf of the Public Employees Retirement Association for the year ended June 30:

2018

- The mortality projection scale was changed from MP-2015 to MP-2017.
- The assumed postretirement benefit increase was changed from 1.0% per year through 2044 and 2.5% per year thereafter to 1.25% per year.

2017

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and nonvested 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 nonvested deferred member liability.
- The assumed postretirement 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

- The assumed postretirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- 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.

The following changes were reflected in the valuation performed on behalf of the Teachers Retirement Association for the year ended June 30:

2018

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2019**

**NOTE 1 CHANGES IN SIGNIFICANT PENSION PLAN PROVISIONS, ACTUARIAL METHODS,
AND ASSUMPTIONS (CONTINUED)**

2018 (Continued)

- 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 4 years, (7.92% in 2019, 8.13% 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 single discount rate was changed from 5.12% to 7.5%.

2017

- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 3.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for 10 years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate was changed from 4.66% to 5.12%.

2016

- Postretirement benefit adjustments are now assumed to stay level at 2.0% annually
- The single discount rate was changed from 8.0% to 4.66%
- The price inflation assumption was lowered from 3.0% to 2.75%
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%

SUPPLEMENTARY INFORMATION

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
GENERAL FUND
BALANCE SHEET
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and Investments	\$ 6,310,592	\$ 5,641,983
Receivables:		
Current Taxes	1,655,292	967,961
Delinquent Taxes	69,533	35,393
Accounts and Interest Receivable	33,169	45,434
Due from Other Minnesota School Districts	130,990	25,754
Due from Minnesota Department of Education	1,905,068	1,765,466
Due from Federal Government through the Minnesota Department of Education	77,396	82,898
Due from Other Funds	37,181	29,497
Prepaid Items	216	-
Total Assets	<u>\$ 10,219,437</u>	<u>\$ 8,594,386</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE		
Liabilities:		
Salaries and Compensated Absences Payable	\$ 683,103	\$ 662,215
Payroll Deductions and Employer Contributions Payable	640,676	630,848
Accounts and Contracts Payable	207,739	204,980
Due to Other Minnesota School Districts	63,626	56,740
Due to Other Governmental Units	340	506
Total Liabilities	<u>1,595,484</u>	<u>1,555,289</u>
Deferred Inflows of Resources:		
Property Taxes Levied for Subsequent Year	3,237,259	1,971,879
Unavailable Revenue - Delinquent Taxes	69,533	37,150
Total Deferred Inflows of Resources	<u>3,306,792</u>	<u>2,009,029</u>
Fund Balance:		
Prepaid Items	216	-
Restricted:		
Staff Development	37,736	27,130
Health and Safety	-	(57,517)
Operating Capital	1,229,339	1,615,729
Area Learning Center	12,696	12,971
Safe Schools - Crime	96,204	78,319
Long-Term Facilities Maintenance	375,541	116,216
Assigned:		
Q Comp	266,629	197,158
Greenhouse	50,000	50,000
Capital Projects	204,354	152,451
Unassigned	3,044,446	2,837,611
Total Fund Balance	<u>5,317,161</u>	<u>5,030,068</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 10,219,437</u>	<u>\$ 8,594,386</u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
GENERAL FUND
BALANCE SHEET
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019		Over (Under) Final Budget	2018
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources:				
Property Taxes	\$ 2,183,636	\$ 2,175,617	\$ (8,019)	\$ 2,015,855
Earnings on Investments	127,000	106,204	(20,796)	50,469
Other	724,651	776,274	51,623	917,116
State Sources	15,567,394	15,503,916	(63,478)	15,343,274
Federal Sources	603,556	451,958	(151,598)	235,278
Total Revenues	19,206,237	19,013,969	(192,268)	18,561,992
EXPENDITURES				
Current:				
Administration:				
Salaries	746,305	733,558	(12,747)	698,316
Employee Benefits	240,812	228,699	(12,113)	215,758
Purchased Services	32,850	30,079	(2,771)	23,322
Supplies and Materials	8,685	11,949	3,264	12,890
Other Expenditures	39,865	35,557	(4,308)	45,195
Total Administration	1,068,517	1,039,842	(28,675)	995,481
District Support Services:				
Salaries	388,122	397,239	9,117	179,581
Employee Benefits	115,936	113,026	(2,910)	54,297
Purchased Services	193,365	179,907	(13,458)	146,302
Supplies and Materials	87,800	94,446	6,646	7,219
Capital Expenditures	95,000	349	(94,651)	-
Other Expenditures	300	-	(300)	2,531
Total District Support Services	880,523	784,967	(95,556)	389,930
Elementary and Secondary				
Regular Instruction:				
Salaries	5,011,822	5,148,118	136,296	5,216,190
Employee Benefits	1,695,861	1,685,482	(10,379)	1,636,060
Purchased Services	614,778	581,989	(32,789)	516,192
Supplies and Materials	588,138	544,417	(43,721)	581,114
Capital Expenditures	25,633	23,814	(1,819)	180,519
Other Expenditures	63,300	49,020	(14,280)	42,344
Total Elementary and Secondary Regular Instruction	7,999,532	8,032,840	33,308	8,172,419

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

	2019		Over (Under) Final Budget	2018
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES (Continued)				
Current (Continued):				
Vocational Education Instruction:				
Salaries	\$ 133,652	\$ 173,222	\$ 39,570	\$ 179,407
Employee Benefits	38,471	35,234	(3,237)	29,428
Purchased Services	215	215	-	-
Supplies and Materials	3,265	3,535	270	2,745
Other Expenditures	1,000	797	(203)	877
Total Vocational Education Instruction	176,603	213,003	36,400	212,457
Special Education Instruction:				
Salaries	1,737,970	1,731,250	(6,720)	1,652,320
Employee Benefits	575,083	451,623	(123,460)	434,740
Purchased Services	251,629	261,268	9,639	248,676
Supplies and Materials	5,402	10,673	5,271	5,177
Capital Expenditures	1,642	1,642	-	-
Other Expenditures	479	478	(1)	714
Total Special Education Instruction	2,572,205	2,456,934	(115,271)	2,341,627
Instructional Support Services:				
Salaries	961,533	754,985	(206,548)	702,555
Employee Benefits	185,330	173,850	(11,480)	170,839
Purchased Services	114,572	98,059	(16,513)	96,494
Supplies and Materials	86,500	99,787	13,287	64,777
Capital Expenditures	-	-	-	4,104
Other Expenditures	3,000	8,192	5,192	8,296
Total Instructional Support Services	1,350,935	1,134,873	(216,062)	1,047,065
Pupil Support Services:				
Salaries	316,935	320,488	3,553	311,885
Employee Benefits	63,677	62,419	(1,258)	57,051
Purchased Services	2,050,050	2,209,615	159,565	1,923,541
Supplies and Materials	14,910	16,555	1,645	10,690
Other Expenditures	3,200	1,548	(1,652)	1,451
Total Pupil Support Services	2,448,772	2,610,625	161,853	2,304,618

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

	2019		Over (Under) Final Budget	2018
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES (Continued)				
Current (Continued):				
Sites and Buildings:				
Salaries	\$ 629,600	\$ 631,604	\$ 2,004	\$ 608,741
Employee Benefits	216,070	209,264	(6,806)	196,781
Purchased Services	1,292,220	1,030,515	(261,705)	965,026
Supplies and Materials	185,725	150,604	(35,121)	140,177
Capital Expenditures	317,650	341,515	23,865	87,845
Total Sites and Buildings	<u>2,641,265</u>	<u>2,363,502</u>	<u>(277,763)</u>	<u>1,998,570</u>
Fiscal and Other Fixed Cost Programs:				
Purchased Services	<u>130,000</u>	<u>125,855</u>	<u>(4,145)</u>	<u>129,166</u>
Total Expenditures	<u>19,268,352</u>	<u>18,762,441</u>	<u>(505,911)</u>	<u>17,591,333</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(62,115)	251,528	313,643	970,659
OTHER FINANCING SOURCES				
Proceeds from Sale of Equipment	31,310	31,310	-	-
Sale of Real Property Proceeds	-	-	-	1,424,008
Insurance Recovery Proceeds	-	4,255	4,255	-
Total Other Financing Sources	<u>31,310</u>	<u>35,565</u>	<u>4,255</u>	<u>1,424,008</u>
NET CHANGE IN FUND BALANCE	<u>\$ (30,805)</u>	287,093	<u>\$ 317,898</u>	2,394,667
FUND BALANCE				
Beginning of Year		<u>5,030,068</u>		<u>2,635,401</u>
End of Year		<u>\$ 5,317,161</u>		<u>\$ 5,030,068</u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
FOOD SERVICE SPECIAL REVENUE FUND
BALANCE SHEET
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019	2018
ASSETS		
Cash and Investments	\$ 45,134	\$ 98,763
Receivables:		
Accounts and Interest Receivable	-	450
Due from Minnesota Department of Education	5,867	1,040
Due from Federal Government through the Minnesota Department of Education	40,818	6,959
Prepaid Items	18,849	18,840
Total Assets	\$ 110,668	\$ 126,052
 LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts and Contracts Payable	\$ -	\$ 20,700
Unearned Revenue	8,849	8,147
Total Liabilities	8,849	28,847
Fund Balance:		
Prepaid Items	18,849	18,840
Restricted:		
Other Restricted	82,970	78,365
Total Fund Balance	101,819	97,205
Total Liabilities and Fund Balance	\$ 110,668	\$ 126,052

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
FOOD SERVICE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

	2019		Over (Under) Final Budget	2018
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources:				
Earnings on Investments	\$ -	\$ 661	\$ 661	\$ 843
Other - Primarily Meal Sales	491,298	419,630	(71,668)	496,636
State Sources	36,623	34,724	(1,899)	35,834
Federal Sources	<u>286,377</u>	<u>310,105</u>	<u>23,728</u>	<u>310,330</u>
Total Revenues	814,298	765,120	(49,178)	843,643
EXPENDITURES				
Current:				
Salaries	384,217	335,928	(48,289)	330,168
Purchased Services	40,642	67,114	26,472	70,059
Supplies and Materials	376,381	357,464	(18,917)	372,263
Capital Outlay	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,730</u>
Total Expenditures	<u>801,240</u>	<u>760,506</u>	<u>(40,734)</u>	<u>777,220</u>
NET CHANGE IN FUND BALANCE	<u>\$ 13,058</u>	4,614	<u>\$ (8,444)</u>	66,423
FUND BALANCE				
Beginning of Year		<u>97,205</u>		<u>30,782</u>
End of Year		<u>\$ 101,819</u>		<u>\$ 97,205</u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
COMMUNITY SERVICE SPECIAL REVENUE FUND
BALANCE SHEET
JUNE 30, 2019**

(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)

	2019	2018
ASSETS		
Cash and Investments	\$ 284,386	\$ 239,565
Receivables:		
Current Taxes	63,376	60,575
Delinquent Taxes	4,640	2,546
Accounts and Interest Receivable	4,952	349
Due from Other Minnesota School Districts	7,570	7,570
Due from Minnesota Department of Education	17,575	14,174
Due from Other Funds	3,408	713
Total Assets	\$ 385,907	\$ 325,492
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE		
Liabilities:		
Salaries and Compensated Absences Payable	\$ 27,961	\$ 11,003
Accounts and Contracts Payable	6,401	1,966
Unearned Revenue	88,677	50,750
Total Liabilities	123,039	63,719
Deferred Inflows of Resources:		
Property Taxes Levied for Subsequent Year	129,974	130,676
Unavailable Revenue - Delinquent Taxes	4,640	2,546
Total Deferred Inflows of Resources	134,614	133,222
Fund Balance:		
Restricted:		
Community Education Programs	(76,563)	(25,879)
Early Childhood and Family Education Programs	32,096	26,323
School Readiness	25,224	28,690
Other Restricted	147,497	99,417
Total Fund Balance	128,254	128,551
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	\$ 385,907	\$ 325,492

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
COMMUNITY SERVICE SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

	2019		Over (Under) Final Budget	2018
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources:				
Property Taxes	\$ 130,085	\$ 127,963	\$ (2,122)	\$ 127,228
Earnings on Investments	-	-	-	2,023
Other - Primarily Tuition and Fees	996,430	1,011,022	14,592	930,413
State Sources	159,746	171,950	12,204	151,517
Total Revenues	1,286,261	1,310,935	24,674	1,211,181
EXPENDITURES				
Current:				
Salaries	915,144	913,991	(1,153)	921,243
Employee Benefits	209,363	192,353	(17,010)	190,667
Purchased Services	125,363	134,471	9,108	114,847
Supplies and Materials	62,559	64,010	1,451	66,808
Other Expenditures	744	732	(12)	1,126
Capital Outlay	5,700	5,675	(25)	2,818
Total Expenditures	1,318,873	1,311,232	(7,641)	1,297,509
NET CHANGE IN FUND BALANCE	\$ (32,612)	(297)	\$ 32,315	(86,328)
FUND BALANCE				
Beginning of Year		128,551		214,879
End of Year		\$ 128,254		\$ 128,551

**ROCKFORD AREA SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 883
 BUILDING CONSTRUCTION FUND
 BALANCE SHEET
 JUNE 30, 2019
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019	2018
ASSETS		
Cash and Investments	\$ -	\$ 127,737
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts and Contracts Payable	\$ -	\$ 115,480
Fund Balance:		
Restricted:		
Capital Projects	-	12,257
Total Liabilities and Fund Balance	\$ -	\$ 127,737

ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
BUILDING CONSTRUCTION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)

	2019			2018
	Final Budget	Actual Amounts	Over (Under) Final Budget	Actual Amounts
REVENUES				
Local Sources:				
Other	\$ -	\$ -	\$ -	\$ 11,333
OTHER FINANCING USES				
Transfer Out	-	(12,257)	(12,257)	-
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	(12,257)	<u>\$ (12,257)</u>	11,333
FUND BALANCE				
Beginning of Year		12,257		924
End of Year		<u>\$ -</u>		<u>\$ 12,257</u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
DEBT SERVICE FUND
BALANCE SHEET
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and Investments	\$ 3,023,702	\$ 3,074,846
Receivables:		
Current Taxes	2,114,965	1,960,733
Delinquent Taxes	150,891	83,309
Accounts and Interest Receivable	7,191	1,193
Due from Minnesota Department of Education	<u>41,307</u>	<u>33,717</u>
Total Assets	<u><u>\$ 5,338,056</u></u>	<u><u>\$ 5,153,798</u></u>
 DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Deferred Inflows of Resources:		
Property Taxes Levied for Subsequent Year	\$ 4,247,584	\$ 4,229,830
Unavailable Revenue - Delinquent Taxes	<u>150,891</u>	<u>83,309</u>
Total Deferred Inflows of Resources	4,398,475	4,313,139
 Fund Balance:		
Restricted	<u>939,581</u>	<u>840,659</u>
Total Deferred Inflows of Resources and Fund Balance	<u><u>\$ 5,338,056</u></u>	<u><u>\$ 5,153,798</u></u>

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2018)**

	2019		Over (Under) Final Budget	2018
	Final Budgeted Amounts	Actual Amounts		Actual Amounts
REVENUES				
Local Sources:				
Property Tax	\$ 4,121,032	\$ 4,142,375	\$ 21,343	\$ 4,078,334
Earnings on Investments	-	45,322	45,322	24,674
State Sources	413,060	413,431	371	337,179
Total Revenues	4,534,092	4,601,128	67,036	4,440,187
EXPENDITURES				
Debt Service:				
Bond Principal	3,050,000	3,050,000	-	2,860,000
Bond Interest	1,463,038	1,463,038	-	1,594,488
Paying Agent Fees and Other	1,450	1,425	(25)	1,350
Total Expenditures	4,514,488	4,514,463	(25)	4,455,838
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	19,604	86,665	67,061	(15,651)
OTHER FINANCING SOURCES				
Transfers In	-	12,257	12,257	-
NET CHANGE IN FUND BALANCE	\$ 19,604	98,922	\$ 79,318	(15,651)
Fund Balance - Beginning of Year		840,659		856,310
FUND BALANCE - END OF YEAR		\$ 939,581		\$ 840,659

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2019**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenues	\$ 19,018,224	\$ 19,018,226	\$ (2)	Total Revenues	\$ -	\$ -	\$ -
Total Expenditures	18,762,441	18,762,439	2	Total Expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	216	216	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	37,736	37,736	-	407 Capital Projects Levy	-	-	-
405 Deferred Maintenance	-	-	-	409 Alternative Fac. Program	-	-	-
406 Health & Safety	-	-	-	413 Projects Funded by COP/LP	-	-	-
407 Capital Project Levy	-	-	-	<i>Restricted:</i>			
408 Cooperative Programs	-	-	-	464 Restricted Fund Balance	-	-	-
409 Alternative Facilities	-	-	-	<i>Unassigned:</i>			
413 Projects Funded by COP/LP	-	-	-	463 Unassigned Fund Balance	-	-	-
414 Operating Debt	-	-	-				
416 Levy Reduction	-	-	-	07 DEBT SERVICE			
417 Excess Taconite Building Maint. Funds	-	-	-	Total Revenues	4,577,023	4,577,021	2
423 Certain Teacher Programs	-	-	-	Total Expenditures	4,514,463	4,514,463	-
424 Operating Capital	1,229,339	1,229,340	(1)	<i>Nonspendable:</i>			
426 \$25 Taconite	-	-	-	460 Nonspendable Fund Balance	-	-	-
427 Disabled Accessibility	-	-	-	<i>Restricted/Reserved:</i>			
428 Learning & Development	-	-	-	425 Bond Refundings	-	-	-
434 Area Learning Center	12,696	12,696	-	451 QZAB and QSCB Payments	-	-	-
435 Contracted Alt. Programs	-	-	-	<i>Restricted:</i>			
436 St. Approved Alt. Prog.	-	-	-	464 Restricted	837,208	837,208	-
438 Gifted & Talented	-	-	-	<i>Unassigned</i>			
441 Basic Skills	-	-	-	463 Unassigned Fund Balance	-	-	-
445 Career and Technical Programs	-	-	-				
449 Safe Schools Levy	96,204	96,204	-	08 TRUST			
450 Pre-Kindergarten	-	-	-	Total Revenues	-	-	-
451 QZAB and QSCB Payments	-	-	-	Total Expenditures	-	-	-
452 OPEB Liab. Not in Trust	-	-	-	422 Net Assets	-	-	-
453 Unfunded Sev & Retirement Levy	-	-	-				
467 Long Term Facilities Maintenance	375,541	375,541	-	09 AGENCY			
<i>Restricted:</i>				<i>Unrestricted: Should Always Be 0-</i>			
464 Restricted Fund Balance	-	-	-	422 Unassigned	-	-	-
<i>Committed:</i>							
418 Committed for Separation	-	-	-	20 INTERNAL SERVICE			
461 Committed Fund Balance	-	-	-	Total Revenues	-	-	-
<i>Assigned:</i>				Total Expenditures	-	-	-
462 Assigned Fund Balance	520,983	520,982	1	422 Net Assets	-	-	-
<i>Unassigned:</i>							
422 Unassigned	3,044,446	3,044,445	1	25 OPEB REVOCABLE TRUST			
				Total Revenues	-	-	-
02 FOOD SERVICE				Total Expenditures	-	-	-
Total Revenues	765,120	765,118	2	422 Net Assets	-	-	-
Total Expenditures	760,506	760,504	2				
<i>Nonspendable:</i>				45 OPEB IRREVOCABLE TRUST			
460 Nonspendable Fund Balance	18,849	18,849	-	Total Revenues	29,424	29,423	1
<i>Restricted/Reserved:</i>				Total Expenditures	40,839	40,839	-
452 OPEB Liab. Not in Trust	-	-	-	422 Net Assets	1,172,909	1,172,908	1
464 Restricted Fund Balance	82,970	82,970	-				
<i>Unassigned:</i>				47 OPEB DEBT SERVICE			
463 Unassigned Fund Balance	-	-	-	Total Revenues	24,105	24,105	-
				Total Expenditures	-	-	-
04 COMMUNITY SERVICE				<i>Nonspendable:</i>			
Total Revenues	1,310,935	1,310,934	1	460 Nonspendable Fund Balance	-	-	-
Total Expenditures	1,311,232	1,311,231	1	<i>Restricted:</i>			
<i>Nonspendable:</i>				425 Bond Refundings	-	-	-
460 Nonspendable Fund Balance	-	-	-	464 Restricted Fund Balance	102,373	102,373	-
<i>Restricted/Reserved:</i>				<i>Unassigned</i>			
426 \$25 Taconite	-	-	-	463 Unassigned Fund Balance	-	-	-
431 Community Education	(76,563)	(76,565)	2				
432 E.C.F.E.	32,096	32,096	-				
444 School Readiness	25,224	25,223	1				
447 Adult Basic Education	-	-	-				
452 OPEB Liab. Not in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	147,497	147,500	(3)				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				

**REPORTS RELATED TO *GOVERNMENT AUDITING STANDARDS*
AND SINGLE AUDIT**



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

School Board
Independent School District No. 883
Rockford Area Schools
Rockford, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 883 (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 31, 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-001 to be a material weakness.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2019-002 to be a significant deficiency.

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*.

The District's Response to Findings

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 31, 2019



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

School Board
Independent School District No. 883
Rockford Area Schools
Rockford, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the Independent School District No. 883's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditors' 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.

Auditors' 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 major federal programs. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a 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.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 31, 2019

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

Federal Agency/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Federal Expenditures	Passed Through to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through Minnesota Department of Education:				
Child Nutrition Cluster:				
Non-Cash Assistance (Commodities):				
National School Lunch Program	10.555	1-2174-000	\$ 57,871	\$ -
Cash Assistance:				
School Breakfast Program	10.553	1-2174-000	39,278	-
National School Lunch Program	10.555	1-2174-000	212,914	-
Cash Rebate Program (Commodities)	10.555	1-2174-000	42	-
Total Child Nutrition Cluster			<u>310,105</u>	<u>-</u>
Total U.S. Department of Agriculture			310,105	-
U.S. DEPARTMENT OF EDUCATION				
Passed Through Northwest Suburban Integration School District:				
Magney Schools Assistance	84.165	U165A180040	163,854	-
Passed Through Great River Perkins Consortium:				
Carl Perkins Vocational and Applied Technology	84.048	N/A	2,430	-
Passed Through Minnesota Department of Education:				
Title I Grants for Local Educational Agencies	84.010	S010A180023A	153,844	-
Special Education Cluster:				
Special Education Grants to States	84.027	1-6050-061	87,229	-
Special Education Preschool Grants	84.173	H173A180086	10,563	-
Total Special Education Cluster			<u>97,792</u>	<u>-</u>
Title II, Part A - Teacher and Principal Training and Recruiting	84.367	S367A180022	34,038	-
Total U.S. Department of Education			<u>451,958</u>	<u>-</u>
Total Federal Awards			<u>\$ 762,063</u>	<u>\$ -</u>

Notes to Schedule of Expenditures of Federal Awards:

Note 1:

The Schedule of Expenditures of Federal Awards presents the activity of federal award programs expended by Rockford Area Schools.

Note 2:

The expenditures on this schedule are on the modified accrual basis of accounting, which is described in Note 1 to the basic financial statements of the District. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10% de minimis indirect costs rate as allowed under Uniform Guidance.

Note 3:

The total of CFDA #10.555 is \$270,827.



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

School Board
Independent School District No. 883
Rockford Area Schools
Rockford, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 883 (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements which collectively comprise the District's basic financial statements and have issued our report thereon dated October 31, 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. Our study included all of the listed categories.

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*, except as described in the schedule of findings and questioned costs as items 2019-003 to 2019-005. 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, insofar as they relate to accounting matters.

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

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 31, 2019

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? X yes none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? yes X none reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major programs:

<u>CFDA Numbers</u> 10.553 and 10.555	<u>Name of Federal Program or Cluster</u> Child Nutrition Cluster
--	--

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

B. FINDINGS – FINANCIAL STATEMENT AUDIT – MATERIAL WEAKNESS

Finding 2019-001 - Financial Statement Preparation

Criteria: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements in accordance with Governmental Accounting Standards Board Statement No. 34.

Condition: The District does not have an internal control policy in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures are complete and presented in accordance with GAAP.

Cause: The District relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, they have reviewed and approved the annual financial statements and related footnote disclosures.

Effect: The design of controls over the financial reporting process would affect the ability of the District to report financial data consistently with the assertions of management in the financial statements.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy over the annual financial reporting is beneficial.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Sherlyn Tischner, Business Manager

Corrective Action Plan: A corrective action plan is in place.

Anticipated Completion Date: June 30, 2020.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

B. FINDINGS – FINANCIAL STATEMENT AUDIT – SIGNIFICANT DEFICIENCY

Finding 2019-002 – Journal Entry Review

Criteria: Management is responsible for reviewing and signing off on journal entries in a timely manner each month.

Condition: During our testing of journal entries, it was noted that 5 out of 5 journal entries were not signed as approved in a timely manner.

Cause: Past Practice.

Effect: By not approving journal entries in a timely manner, improper journal entries could be posted throughout the year.

Recommendation: Management should sign off on journal entries in a timely manner, usually within the following month of the journal entry date.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Sherlyn Tischner, Business Manager

Corrective Action Plan: A corrective action plan is in place.

Anticipated Completion Date: June 30, 2020.

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL PROGRAMS

None noted

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2019**

D. FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

Finding 2019-003 – Collateralization

Criteria: Minnesota Statutes §118A.03 requires entities to have collateral coverage of 110% of total deposits on hand that are in excess of FDIC coverage.

Condition and Context: The District was under-collateralized as of June 30, 2019.

Cause: Unknown.

Effect: The District was not in compliance with state statutes and is at an increased risk of loss of deposit accounts in case of a bank failure.

Recommendation: We recommend that the District obtain enough collateral coverage of 110% of total deposits on hand to be in compliance with state statute.

Views of Responsible Officials and Planned Corrective Action: There is no disagreement with the finding.

Finding 2019-004 – Payment Within 35 Days

Criteria: Minnesota Statutes §471.425 subd. 2 requires all disbursements to be paid within 35 days of receiving the invoice.

Condition and Context: 1 of 25 invoices selected for testing was not paid within the 35 days.

Cause: District management was unaware that the work had been completed and invoice was emailed to an incorrect email address.

Effect: The District was not in compliance with state statutes.

Recommendation: We recommend that the District pay all invoices within 35 days of receipt.

Views of Responsible Officials and Planned Corrective Action: There is no disagreement with the finding.

**ROCKFORD AREA SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 883
SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)
YEAR ENDED JUNE 30, 2019**

D. FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE (CONTINUED)

Finding 2019-005 – Claims and Disbursements

Criteria: Minnesota Statutes §123B.02 subsection 23 requires that board may authorize the use of a credit card by any officer or employee otherwise authorized to make a purchase on behalf of the district. If a district officer or employee makes or directs a purchase by credit card that is not approved by the school board, the officer or employee is personally liable for the amount of the purchase. A purchase by credit card must otherwise comply with all statutes, rules, or district policy applicable to school district purchases.

Condition and Context: It was noted that in the current and prior year, a credit card was used to make purchases that did not meet the public purpose requirements outlined by state statutes. The amount for both years was approximately \$4,491 and of that, \$380 was paid back to the District.

Cause: Past practice.

Effect: The District is not in compliance with Minnesota State Statutes and has funds that do not meet the definition of public purpose.

Recommendation: CLA recommends that the Board thoroughly review all expenditures that were purchased with this credit card in the past to determine the amount of expenditures. We then recommend that the Board determine a plan to best address these expenditures. We also recommend going forward that any items purchased by credit cards be reviewed in detail before payment is made.

Views of Responsible Officials and Planned Corrective Action: There is no disagreement with the finding.