Independent School District No. 885
Albertville, Minnesota

Financial Statements

June 30, 2018

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Independent School District No. 885
Board of Education and Administration
June 30, 2018

Board of Education	Position	Term Expires
Drew Scherber	Chairperson	December 31, 2020
Gayle Weber	Vice-Chairperson	December 31, 2018
Jennifer Peyerl	Clerk	December 31, 2018
Kari Dwinnell	Treasurer	December 31, 2020
Hollee Saville	Director	December 31, 2020
Jeffrey Lindquist	Director	December 31, 2018

Administration	
Ann-Marie Foucault, Ph.D.	Superintendent
Robert Driver	High School Principal
Jennifer Kelly	Middle School East Principal
Andrew Merfeld	Middle School West Principal
John McDonald	Albertville Primary Principal
Corey Lahr	St. Michael Elementary Principal
Lee Brown	Big Woods Elementary Principal
Jeanette Aanerud	Fieldstone Elementary Principal
Jolene Herfel	High School Assistant Principal
Steven Scherber	High School Assistant Principal
Charlie Bakker	Middle School East Assistant Principal
Lynn Jennissen	Middle School West Assistant Principal

bergankdv

Independent Auditor's Report

To the School Board
Independent School District No. 885
Albertville, 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. 885, Albertville, Minnesota, as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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.

BerganKDV, Ltd.
bergankdv.com

Opinions
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 885, Albertville, Minnesota, as of June 30, 2018, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 75
As discussed in Note 9 to the financial statements, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Required Supplementary Information 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 GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District′s basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

Other Matters (Continued)

Other Information (Continued)

The accompanying supplementary information identified in the Table of Contents 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 accompanying supplementary information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV Ltd.

Minneapolis, Minnesota
November 26, 2018

Independent School District No. 885
Management's Discussion and Analysis

This section of the District annual financial report presents a discussion and analysis of the District's financial performance during fiscal year ended June 30, 2018. Please read it in conjunction with the financial statements that immediately follow this section.

The MD&A is an element of required supplementary information specified in the GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis-for State and Local Governments*, issued in June 1999. Certain comparative information between the current fiscal year (2017-2018) and the prior fiscal year (2016-2017) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- The District's net position decreased by $14,105,865 compared to the prior year as a result of District operations.
- Overall revenues were $83,819,343 while overall expenses were $97,925,208.
- The general fund increased fund balances approximately $133,966. The food service and community service funds had decreases of approximately $414,156 and $108,071 respectively due to planned fund balance reductions. The debt service fund and capital projects fund decreased by approximately $38,168,726 and $19,330,153 from bond refundings and construction activity.

OVERVIEW OF THE FINANCIAL STATEMENTS

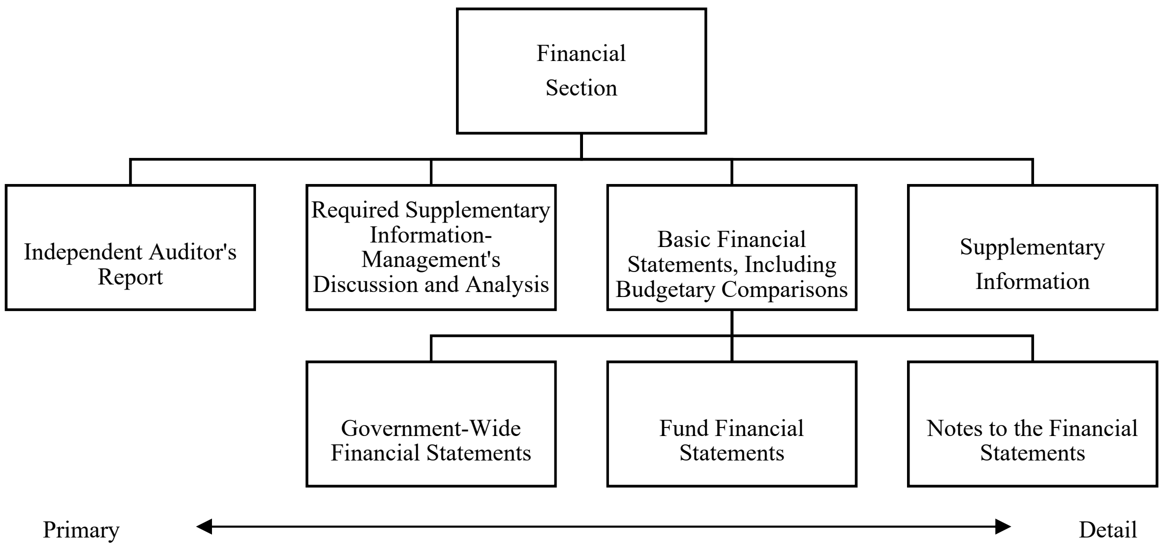
The financial section of the annual report consists of four parts: Independent Auditor's Report, required supplementary information, including the MD&A, the basic financial statements and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Figure A-1
Organization of the District's
Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Major Features of the Government-Wide and Fund Financial Statements

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

Figure A-2
Major Features of the Government-Wide and Fund Financial Statements

	District Wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required Financial Statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balances	• Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of Asset/Deferred Outflows of Resources/Liability/Deferred Inflows of Resources Information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources and both financial and capital, short-term and long-term	Generally, assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities are included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of Inflow/Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when good or services have been received and the related liability is due and payable	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Statements

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

The two government-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, are one way to measure the District's financial health or position.

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

In the government-wide financial statements, the District's activities are divided into two categories:

- Governmental Activities: Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state formula aid finance most of these activities.
- Business-Type Activities: The District charges fees to help it cover the costs of certain services it provides. For fiscal year 2017-2018, none of the District's financial activities were included in this category.

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 (such as repaying its long-term debts) or to show that it is properly using certain revenues (such as federal grants).

FUND FINANCIAL STATEMENTS (CONTINUED)

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 be readily 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, reconciliations are provided between the governmental funds and the government-wide statements, which do present a long-term focus.

- Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others such as the Scholarship fund and the student activities funds. 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 below. The District excludes these activities from the district-wide financial statements.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's total net position as of June 30, 2018 was ($46,358,660) which is summarized in Figure A-3 below. Comparisons are made to the prior year in an effort to quantify and explain changes that took place in the current fiscal year.

Figure A-3
Net Position – Governmental Activities

	2017-2018	2016-2017	Percentage Change
Current and other assets	$ 64,642,851	$ 115,627,495	-44.09%
Capital assets	172,385,389	156,327,679	10.27%
Total assets	$ 237,028,240	$ 271,955,174	-12.84%
Deferred outflows of resources	$ 68,434,957	$ 85,454,340	-19.92%
Long-term liabilities	$ 304,040,847	$ 365,715,152	-16.86%
Other liabilities	15,123,107	9,795,202	54.39%
Total liabilities	$ 319,163,954	$ 375,510,354	-15.01%
Deferred inflows of resources	$ 32,657,903	$ 14,177,987	130.34%
Net Position			
Invested in capital assets, Net of related debt	$ 1,307,681	$ (913,926)	243.08%
Restricted	6,869,408	6,886,912	-0.25%
Unrestricted	(54,535,749)	(38,251,813)	-42.57%
Total net position	$ (46,358,660)	$ (32,278,827)	-43.62%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Net Position (Continued)

The change in net position for 2017-2018 was $14,105,865. The net change is based on total revenue of $83,819,343 and total expenses of $97,925,208. Figure A-4 on the next page shows the breakdown into the various revenue and expense categories. Comparisons are made to the prior year in an effort to quantify and explain changes that took place in the current fiscal year.

Figure A-4

Change in Net Position

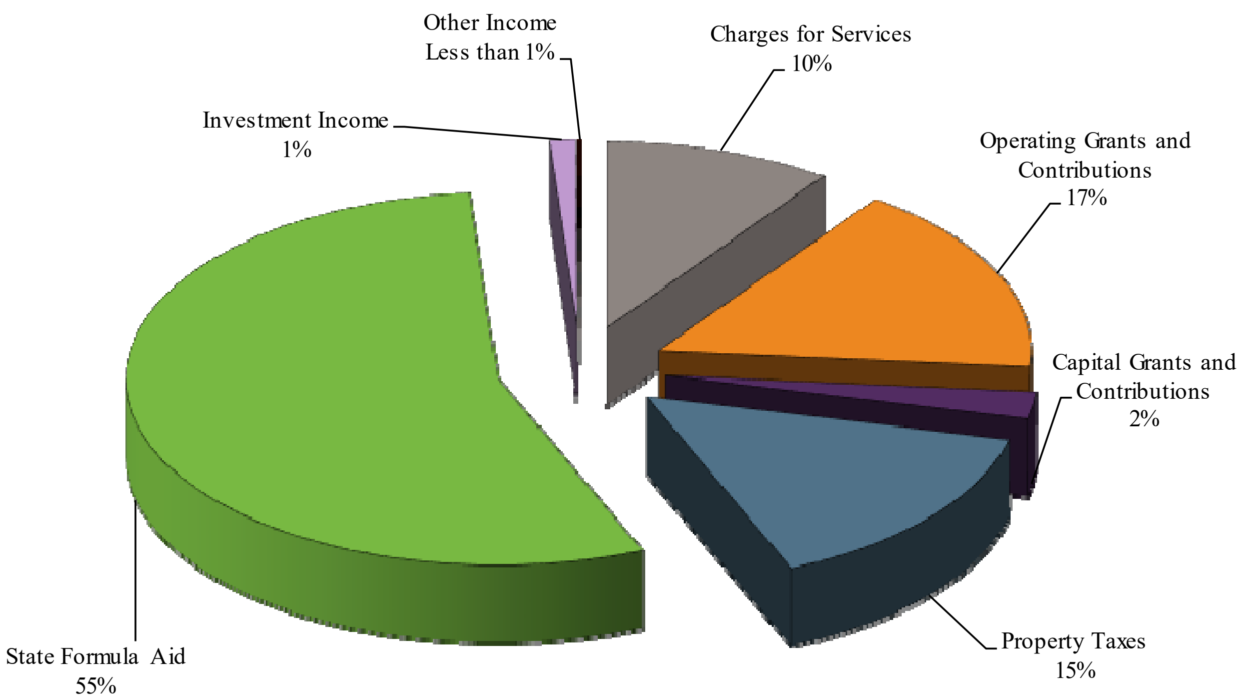
Revenues	2017-2018	2016-2017	Percentage Change
Program revenues			
Charges for services	$ 8,270,614	$ 7,943,968	4.11%
Operating grants and contributions	13,849,570	4,538,585	205.15%
Capital grants and contributions	1,980,464	1,146,300	72.77%
General revenues			
Property taxes	12,495,665	11,940,688	4.65%
State formula aid	46,197,269	54,877,299	-15.82%
Investment income	980,272	161,755	506.02%
Other	45,489	227,622	-80.02%
Total revenues	83,819,343	80,836,217	3.69%
Expenses			
District and school administration	2,376,622	2,444,507	-2.78%
District support services	1,370,132	1,219,347	12.37%
Regular instruction	43,823,930	42,759,928	2.49%
Vocational instruction	1,094,788	1,362,647	-19.66%
Special education instruction	8,985,258	8,386,222	7.14%
Instructional support services	7,233,642	6,861,365	5.43%
Pupil support services	5,113,650	4,777,519	7.04%
Sites, buildings, and equipment	8,616,554	6,771,151	27.25%
Fiscal and other fixed cost programs	246,006	243,159	1.17%
Food service	3,128,953	2,906,788	7.64%
Community education and services	5,548,872	5,299,842	4.70%
Unallocated depreciation	3,682,560	3,647,772	0.95%
Interest and fiscal charges on long-term debt	6,704,241	6,775,896	-1.06%
Total expenses	97,925,208	93,456,143	4.78%
Change in net position	(14,105,865)	(12,619,926)	11.77%
Net position - beginning, as previously stated	(32,278,827)	(19,658,901)	-64.19%
Change in accounting principle	26,032	-	N/A
Net position - beginning,	(32,252,795)	(19,658,901)	-64.06%
Net position - ending	$ (46,358,660)	$ (32,278,827)	-43.62%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Net Position (Continued)

As you can see in Figure A-5, state aid and operating grants and contributions and property taxes accounted for most of the District's revenue, with state aid representing 55%, operating grants and contributions 17% and property taxes 15%. The remainder comes from fees charged for services and other sources.

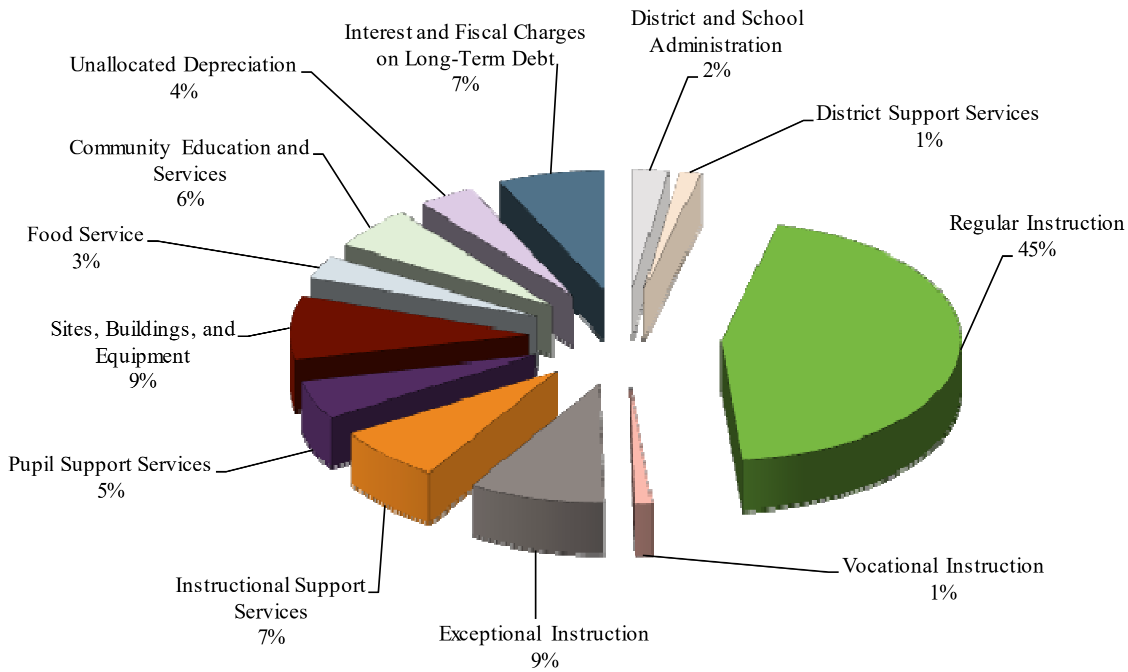
Figure A-5
Revenues



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Net Position (Continued)

Figure A-6
Expenses



The major category of the District's expenses is related to instructing students. Figure A-6 indicates the breakdown of the total expenses on a percentage basis. The direct instruction categories of expense, which include regular instruction, vocational instruction and exceptional instruction represent approximately 55% of the total expenses. The expenses for sites, buildings, and equipment amount to 9% and interest and fiscal charges on long-term debt amount to 7% which reflect costs for a building program designed to meet increasing enrollment each year. The indirect categories of instructional support (which includes student transportation) amount to about 7% and administration and District support services combined represented 3% of the total expenses for the year. Other major categories of expense included food service, community service, and unallocated depreciation.

GOVERNMENTAL ACTIVITIES

The District continues to invest in instructional improvements, while making reductions in those areas that do not directly affect the instructional setting.

The negative net position balance of the District is the result of the net pension liability and the debt service scheduled payments that will become positive as years progress and larger principal payments are made. The payments for the principal will come from future tax levies.

Figure A-7 represents the total cost of the District's functions and programs. The table also shows each function and program's net cost which represents the total cost less fees and intergovernmental aid provided for specific programs. The net cost shows the financial burden placed on the state and local taxpayers by each of these functions and programs. Interest on long-term debt in the prior fiscal year was combined with fiscal and other fixed cost programs.

Figure A-7

Net Cost of Governmental Activities

	Total Cost of Services 2017-2018	Net Cost of Services 2017-2018	Total Cost of Services 2016-2017	Net Cost of Services 2016-2017
Administration	$ 2,376,622	$ 2,035,521	$ 2,444,507	$ 2,128,726
District support services	1,370,132	1,318,541	1,219,347	1,155,548
Elementary and secondary regular instruction	43,823,930	40,326,134	42,759,928	41,118,288
Vocational education instruction	1,094,788	973,833	1,362,647	1,362,647
Special education instruction	8,985,258	5,213,904	8,386,222	5,384,395
Instructional support services	7,233,642	6,357,922	6,861,365	6,854,400
Pupil support services	5,113,650	4,866,339	4,777,519	4,580,391
Sites and buildings	8,616,554	6,634,160	6,771,151	5,584,012
Fiscal and other fixed cost programs	246,006	246,006	243,159	243,159
Food service	3,128,953	242,588	2,906,788	73,237
Community education and services	5,548,872	908,642	5,299,842	918,819
Unallocated depreciation	3,682,560	3,682,560	3,647,772	3,647,772
Interest and fiscal charges on long-term debt	6,704,241	1,018,410	6,775,896	6,775,896
Total	$ 97,925,208	$ 73,824,560	$ 93,456,143	$ 79,827,290

The cost of all governmental activities this year was $97,925,208.

- The users of the District's programs through fees and other charges financed $8,270,614, or 8%, of the cost.
- The federal and state governments subsidized specific programs with grants and contributions totaling $15,830,034, or 16%, of the cost.
- State and local taxpayers, however, financed the majority of the costs. State aid and local property taxes as determined by the State Legislature through the state-wide funding formulas, amounted to $46,197,269 and $12,495,665, respectively, for a total of $58,692,934, or 60.0%, of the District's total costs.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The General Fund operations of the District show a fund balance increase of $133,966. The increase in the District's financial position is mainly attributable to a larger than expected increase in student enrollment.

The food service fund operations show a decrease of $414,156 and the community service fund operations show a decrease of $108,072. The debt service fund operations show a fund balance decrease of $38,168,726 with the retirement of a refunding bond. The capital project fund decreased $19,330,153 as the payments for the building projects near completion.

GENERAL FUND BUDGETARY HIGHLIGHTS

The District did revise the budget once in February of 2018. This was to adjust the budget for staffing changes. The District was conservative with the increased revenue for the student enrollment changes.

Revenue – Actual General Fund revenue was $906,422 over the projected budget. Most of this amount is due to general education and special education aid and the pension recognition.

Expenditures – Actual General Fund expenditures were $1,415,882 more than projected spent on various salaries, benefits, and technology needs.

The District also had $444,459 of other financing sources from a capital lease issuance and sale of assets that were not budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2018, the District had invested $172,385,389 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices (see Figure A-8 on the following page). Depreciation expense for the year was $4,292,637 with total accumulated depreciation amounting to $62,410,297. More detailed information for capital assets can be found in Note 3 to the financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

Figure A-8

Capital Assets (Net of Depreciation)

	Governmental Activities		Percentage
	2017-2018	2016-2017	Change
Land	$ 13,682,902	$ 13,682,902	0.00%
Construction in progress	17,712,257	-	0.00%
Buildings	133,780,638	136,321,697	-1.86%
Improvements other than buildings	1,550,611	1,604,530	-3.36%
Equipment and furnishing	5,658,981	4,718,550	19.93%
Total	$ 172,385,389	$ 156,327,679	10.27%

LONG-TERM DEBT

At year-end, the District had $187,923,377 in net bonds and other long-term liabilities outstanding, a change of $44,453,770 from last year, as shown in Figure A-9. More detailed information about the District's long-term liabilities is presented in Note 4 to the financial statements.

Figure A-9

Outstanding Long-Term Liabilities

	Total School District		Percentage
	2017-2018	2016-2017	Change
Net bond principal payable, net premiums	$ 187,191,664	$ 232,109,287	-19.35%
Capital lease payable	444,424	-	N/A
Compensated absences	287,289	267,860	7.25%
Amount due within one year	(8,804,725)	(43,992,860)	-79.99%
Total	$ 179,118,652	$ 188,384,287	-4.92%

FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District would like to note existing circumstances that could affect its financial health in the future:

- Budgeting for special education is still unpredictable. Our special education student population continues to grow and the district has hires a Manager of Special Services. The District is still participating in the Sherburne and Norther Wright Special Education Cooperative #6090-52. All this plays into the budget.
- The District has seen the retention of non-residents who live in Albertville but are a part of the Elk River School District #728 by offering them fee based transportation. The District will continue this program.
- The District is in contract negotiations with the support staff and custodial unions which expires on 6/30/2018. The Kids Play Supervisor contract also expires on 6/30/2018.
- The District is finishing the construction projects of additional classroom space at the Albertville Primary and High Schools as well as a sheet of ice and an all-purpose domed facility. The staffing and operations of these new facilities will come from the General Fund.
- There has been a local scholarship foundation formed so the district will phase out the use of the trust fund for scholarships.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's 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 Finance Director (phone number 763-497-6506) at the District Office for St. Michael-Albertville Public Schools located at 11343 50th St NE, Albertville, Minnesota 55301.

BASIC FINANCIAL STATEMENTS

Independent School District No. 885
Statement of Net Position
June 30, 2018

	Governmental Activities
Assets	
Cash and investments	$ 50,962,309
Cash with fiscal agent	192,952
Current property taxes receivable	6,444,254
Delinquent property taxes receivable	45,847
Accounts receivable	43,814
Interest receivable	72,464
Due from Department of Education	6,066,244
Due from federal government through Department of Education	78,945
Due from other Minnesota school districts	208,114
Inventory	46,811
Prepaid items	83,903
Equity interest in joint ventures	397,194
Capital assets not being depreciated	
Land	13,682,902
Construction in progress	17,712,257
Capital assets net of depreciation	
Land improvements	1,550,611
Buildings and building improvements	133,780,638
Furniture and equipment	5,658,981
Total assets	237,028,240
Deferred Outflows of Resources	
Deferred outflows of resources related to bond refundings	3,118,723
Deferred outflows of resources related to OPEB	71,563
Deferred outflows of resources related to pensions	65,244,671
Total deferred outflows of resources	68,434,957
Total assets and deferred outflows of resources	$ 305,463,197
Liabilities	
Accounts payable	$ 6,036,588
Salaries and benefits payable	5,988,569
Interest payable	2,668,408
Due to other Minnesota school districts	39,848
Due to other governmental units	106,375
Unearned revenue	283,319
Net bond principal payable	
Due within one year	8,440,000
Due in more than one year	178,751,664
Capital lease payable:	
Payable within one year	77,436
Payable after one year	366,988
Compensated absences payable	
Due within one year	287,289
Total OPEB liability	2,959,236
Net pension liability	113,158,234
Total liabilities	319,163,954
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	13,359,785
Deferred inflows of resources related to bond refundings	755,717
Deferred inflows of resources related to OPEB	115,433
Deferred inflows of resources related to pensions	18,426,968
Total deferred inflows of resources	32,657,903
Net Position	
Net investment in capital assets	1,307,681
Restricted for	
Debt service	1,118,125
Capital projects	475,435
Other purposes	5,275,848
Unrestricted	(54,535,749)
Total net position	(46,358,660)
Total liabilities, deferred inflows of resources, and net position	$ 305,463,197

See notes to financial statements.

Independent School District No. 885
Statement of Activities
Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Position: Governmental Activities
Governmental activities					
Administration	$ 2,376,622	$ 341,101	$ -	$ -	$ (2,035,521)
District support services	1,370,132	49,943	1,648	-	(1,318,541)
Elementary and secondary regular instruction	43,823,930	1,543,557	1,954,239	-	(40,326,134)
Vocational education instruction	1,094,788	-	120,955	-	(973,833)
Special education instruction	8,985,258	-	3,771,354	-	(5,213,904)
Instructional support services	7,233,642	9,899	865,821	-	(6,357,922)
Pupil support services	5,113,650	114,716	132,595	-	(4,866,339)
Sites and buildings	8,616,554	121	1,809	1,980,464	(6,634,160)
Fiscal and other fixed cost programs	246,006	-	-	-	(246,006)
Food service	3,128,953	2,041,822	844,543	-	(242,588)
Community education and services	5,548,872	4,169,455	470,775	-	(908,642)
Unallocated depreciation	3,682,560	-	-	-	(3,682,560)
Interest and fiscal charges on long-term debt	6,704,241	-	5,685,831	-	(1,018,410)
Total governmental activities	$ 97,925,208	$ 8,270,614	$ 13,849,570	$ 1,980,464	(73,824,560)

General revenues	
Taxes	
Property taxes, levied for general purposes	4,412,877
Property taxes, levied for debt service	7,778,167
Property taxes, levied for community service	304,621
State aid-formula grants	46,197,269
Other general revenues	45,454
Investment income	980,272
Gain of sale of assets	35
Total general revenues	59,718,695
Change in net position	(14,105,865)
Net position - beginning	(32,278,827)
Change in accounting principle (see Note 9)	26,032
Net position - beginning, restated	(32,252,795)
Net position - ending	$ (46,358,660)

See notes to financial statements.

Independent School District No. 885
Balance Sheet - Governmental Funds
June 30, 2018

	General	Debt Service	Capital Projects	Other Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	$ 20,269,870	$ 7,661,478	$ 19,437,420	$ 3,593,541	$ 50,962,309
Cash with fiscal agent	192,952	-	-	-	192,952
Current property taxes receivable	2,223,326	4,067,476	-	153,452	6,444,254
Delinquent property taxes receivable	15,139	29,592	-	1,116	45,847
Accounts receivable	41,248	-	-	2,566	43,814
Interest receivable	72,464	-	-	-	72,464
Due from Department of Education	5,449,228	570,926	-	46,090	6,066,244
Due from federal government through Department of Education	78,945	-	-	-	78,945
Due from other Minnesota school districts	188,164	-	-	19,950	208,114
Inventory	-	-	-	46,811	46,811
Prepaid items	83,903	-	-	-	83,903
Total assets	$ 28,615,239	$ 12,329,472	$ 19,437,420	$ 3,863,526	$ 64,245,657
Liabilities					
Accounts payable	$ 1,121,269	$ -	$ 4,766,611	$ 148,708	$ 6,036,588
Salaries and benefits payable	5,786,790	-	-	201,779	5,988,569
Due to other Minnesota school districts	39,848	-	-	-	39,848
Due to other governmental units	106,104	-	-	271	106,375
Unearned revenue	29,050	-	-	254,269	283,319
Total liabilities	7,083,061	-	4,766,611	605,027	12,454,699
Deferred Inflows of Resources					
Property taxes levied for subsequent year's expenditures	4,490,167	8,542,939	-	326,679	13,359,785
Unavailable revenue - delinquent property taxes	15,139	29,592	-	1,116	45,847
Total deferred inflows of resources	4,505,306	8,572,531	-	327,795	13,405,632
Fund Balances					
Nonspendable	83,903	-	-	46,811	130,714
Restricted	2,262,010	3,756,941	14,670,809	2,883,893	23,573,653
Committed	41,000	-	-	-	41,000
Assigned	642,355	-	-	-	642,355
Unassigned	13,997,604	-	-	-	13,997,604
Total fund balances	17,026,872	3,756,941	14,670,809	2,930,704	38,385,326
Total liabilities, deferred inflows of resources, and fund balances	$ 28,615,239	$ 12,329,472	$ 19,437,420	$ 3,863,526	$ 64,245,657

See notes to financial statements.

Independent School District No. 885
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2018

Total fund balances - governmental funds	$ 38,385,326
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Governmental funds do not report an asset for equity interest in joint ventures.	397,194
Capital assets used in governmental activities are not current financial resources	
Cost of capital assets	234,795,686
Less accumulated depreciation	(62,410,297)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable	(175,610,000)
Capital lease payable	(444,424)
Bond premiums/discounts, net	(11,581,664)
Deferred outflows of resources related to bond refundings	3,118,723
Deferred inflows of resources related to bond refundings	(755,717)
Compensated absences payable	(287,289)
Total OPEB liability	(2,959,236)
Net pension liability	(113,158,234)
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.	
Deferred outflows of resources related to OPEB	71,563
Deferred inflows of resources related to OPEB	(115,433)
Deferred outflows of resources related to pensions	65,244,671
Deferred inflows of resources related to pensions	(18,426,968)
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	45,847
Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.	(2,668,408)
Total net position - governmental activities	$ (46,358,660)

See notes to financial statements.

Independent School District No. 885
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2018

	General	Debt Service	Capital Projects	Other Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	$ 4,414,103	$ 7,782,378	$ -	$ 304,814	$ 12,501,295
Revenue from state sources	54,437,662	5,709,259	-	580,522	60,727,443
Revenue from federal sources	382,133	-	-	733,668	1,115,801
Other local and county revenues	2,137,166	404,512	399,854	4,198,266	7,139,798
Sales and other conversion of assets	310,593	-	-	2,045,759	2,356,352
Total revenues	61,681,657	13,896,149	399,854	7,863,029	83,840,689
Expenditures					
Current					
Administration	1,766,036	-	-	-	1,766,036
District support services	1,206,850	-	-	-	1,206,850
Elementary and secondary regular instruction	31,808,528	-	-	-	31,808,528
Vocational education instruction	757,897	-	-	-	757,897
Special education instruction	6,944,305	-	-	-	6,944,305
Instructional support services	5,581,283	-	-	-	5,581,283
Pupil support services	4,527,162	-	-	-	4,527,162
Sites and buildings	6,324,637	-	2,857,182	-	9,181,819
Fiscal and other fixed cost programs	246,006	-	-	-	246,006
Food service	-	-	-	2,960,847	2,960,847
Community education and services	-	-	-	5,055,325	5,055,325
Capital outlay					
Administration	26,294	-	-	-	26,294
District support services	36,749	-	-	-	36,749
Elementary and secondary regular instruction	864,449	-	-	-	864,449
Special education instruction	11,144	-	-	-	11,144
Instructional support services	348,469	-	-	-	348,469
Pupil support services	55,157	-	-	-	55,157
Sites and buildings	1,487,184	-	16,864,919	-	18,352,103
Food service	-	-	-	349,067	349,067
Community education and services	-	-	-	20,018	20,018
Debt service					
Principal	-	43,725,000	-	-	43,725,000
Interest and fiscal charges	-	8,339,875	7,906	-	8,347,781
Total expenditures	61,992,150	52,064,875	19,730,007	8,385,257	142,172,289
Excess of revenues under expenditures	(310,493)	(38,168,726)	(19,330,153)	(522,228)	(58,331,600)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	35	-	-	-	35
Capital lease issuance	444,424	-	-	-	444,424
Total other financing sources (uses)	444,459	-	-	-	444,459
Net change in fund balances	133,966	(38,168,726)	(19,330,153)	(522,228)	(57,887,141)
Fund Balances					
Beginning of year	16,892,906	41,925,667	34,000,962	3,452,932	96,272,467
End of year	$ 17,026,872	$ 3,756,941	$ 14,670,809	$ 2,930,704	$ 38,385,326

See notes to financial statements.

Independent School District No. 885
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the
Statement of Activities - Governmental Funds
Year Ended June 30, 2018

Net change in fund balances - total governmental funds	$ (57,887,141)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds do not report income or loss in a joint venture.	(209,916)
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the useful lives as depreciation expense.	
Capital outlays	20,350,347
Depreciation expense	(4,292,637)
Compensated absences and severance are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(19,429)
Net OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(257,480)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	43,725,000
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	709,828
Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	1,192,623
Governmental funds report the effect of bond refundings when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	(258,911)
Governmental funds recognize pension contributions as expenditures at the time of payment in the funds whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	(16,708,095)
Proceeds from long-term debt are recognized as an other financing source, increasing fund balance in the governmental fund statements, but have no effect on net position in the Statement of Activities.	(444,424)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(5,630)
Change in net position - governmental activities	$ (14,105,865)

See notes to financial statements.

Independent School District No. 885
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 4,444,381	$ 4,444,381	$ 4,414,103	$ (30,278)
Revenue from state sources	52,455,673	53,767,692	54,437,662	669,970
Revenue from federal sources	391,336	442,198	382,133	(60,065)
Other local and county revenues	1,701,614	1,800,399	2,137,166	336,767
Sales and other conversion of assets	319,765	320,565	310,593	(9,972)
Total revenues	59,312,769	60,775,235	61,681,657	906,422
Expenditures				
Current				
Administration	1,736,556	1,790,084	1,766,036	(24,048)
District support services	1,084,086	1,216,382	1,206,850	(9,532)
Elementary and secondary regular instruction	31,116,389	31,847,863	31,808,528	(39,335)
Vocational education instruction	800,610	779,514	757,897	(21,617)
Special education instruction	6,642,767	6,840,366	6,944,305	103,939
Instructional support services	5,616,678	5,597,502	5,581,283	(16,219)
Pupil support services	4,517,778	4,371,475	4,527,162	155,687
Sites and buildings	5,753,226	5,960,510	6,324,637	364,127
Fiscal and other fixed cost programs	275,000	250,000	246,006	(3,994)
Capital outlay				
Administration	12,322	15,833	26,294	10,461
District support services	30,509	33,505	36,749	3,244
Elementary and secondary regular instruction	132,826	166,345	864,449	698,104
Special education instruction	-	-	11,144	11,144
Instructional support services	399,506	409,932	348,469	(61,463)
Pupil support services	-	-	55,157	55,157
Sites and buildings	948,591	1,296,957	1,487,184	190,227
Total expenditures	59,066,844	60,576,268	61,992,150	1,415,882
Excess of revenues over (over) expenditures	245,925	198,967	(310,493)	(509,460)
Other financing sources (uses)				
Proceeds from sale of capital assets	-	-	35	35
Capital lease issuance	-	-	444,424	444,424
Total other financing sources (uses)	-	-	444,459	444,459
Net change in fund balance	$ 245,925	$ 198,967	133,966	$ (65,001)
Fund Balance				
Beginning of year			16,892,906	
End of year			$ 17,026,872	

Independent School District No. 885
Statement of Fiduciary Net Position
Year Ended June 30, 2018

	Agency Fund	Private Purpose Trust Fund
Assets		
Current		
Cash and investments	$ 14,160	$ 41,107
Due from other governments	(14,160)	-
Total assets	$ -	$ 41,107
Net Position		
Held in trust	$ -	$ 41,107

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2018

	Private Purpose Trust Fund
Additions	
Tuition, fees, and admissions	$ 258
Other local revenue	26,054
Total additions	26,312
Deductions	
Scholarships	24,450
Change in net position	1,862
Net Position	
Beginning of year	39,245
End of year	$ 41,107

See notes to financial statements.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a six member board elected by the voters of the District to serve four-year terms.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization′s governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

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

Extracurricular student activities are carried on primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with *Minnesota Statutes*, the District's School Board has elected to account for student activities in the General Fund.

1. Joint Ventures

A joint venture is a legal District or other organization that results from a contracted agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in two joint ventures.

a. Wright Technical Center

The District entered in to a joint powers agreement in February 1998 with Wright Technical Center No. 966 (WTC), a cooperative center for vocational education, between and among eight other independent school districts to finance the acquisition and betterment of the addition to the existing WTC facilities.

The addition was financed through capital lease agreements. Each participating district annually authorizes a leading levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts will also be apportioned operating costs and continuing costs for the addition based on the current cost.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Reporting Entity (Continued)

1. Joint Ventures (Continued)

a. Wright Technical Center (Continued)
Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North Buffalo, Minnesota 55313-1936.

b. St. Michael – Albertville Ice Arena
In 1996-1997, the City or Albertville entered into a Joint Powers Agreement with the City of St. Michael and the District. The Agreement was for the construction and maintenance of a qualified ice arena. During 2006, the City of Albertville was notified as being selected as Mighty Ducks Grant recipient to help fund the cost of the ice arena. The arena was constructed with the grant reward and contributions and donations from the City of Albertville, the City of St. Michael, and the District.

Separate financial statements can be obtained by contacting the City of Albertville.

B. Basic Financial Statement Information

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

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

Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

Separate fund financial statements are provided for governmental funds and the fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

The Agency Fund and Private Purpose Trust Fund are presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements.

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures in the Debt Service Fund, compensated absences, and claims and judgments are recognized when payment is due. The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the District applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned, and unassigned.

Description of Funds:

Major Funds:

General Fund – This fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bond principal, interest, and related costs.

Building Construction Fund – Capital Projects – This fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

Description of Funds: (Continued)

Nonmajor Funds:

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

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education, or other similar services.

Fiduciary Funds:

Agency Fund – This fund is used to account for assets held by the District for Family Youth Community Connections.

Private Purpose Trust Fund – This fund is used to account for assets held by the District to be used for scholarships.

D. Deposits and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The Hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments held by investment pools are measured at amortized cost.

Cash and investments at June 30, 2018, were comprised of deposits, shares in the Minnesota School District Liquid Asset Fund (MSDLAF), certificates of deposit, government securities, municipal bonds and brokered money markets. MSDLAF securities are valued at amortized cost, which approximates fair value

Minnesota Statutes requires all deposits be protected by federal deposit insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

Minnesota Statutes authorizes the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers′ acceptances, future contracts, repurchase and reverse repurchase agreements, and commercial paper of the highest quality with a maturity of no longer than 270 days.

In accordance with GASB Statement No. 79, the various MSDLAF securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF. Investments in the MSDLAF MAX must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions. MSDLAF+ Term investments have a maturity of 60 days to one year and early withdrawal may result in substantial early redemption penalties. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption penalties.

E. Property Tax Receivable

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represent uncollected taxes for the past six years and are deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2017, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2018. The remaining portion of the levy will be recognized when measurable and available.

G. Inventories

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

H. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as expenditures at the time of consumption.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Wright County is the collecting agency for the levy and remits the collections to the District three times a year. The Tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

J. Due from Other Governments

Amounts due from the Minnesota Department of Education (MDE) from the federal government through the Department of Education and from other governmental units for General Education Aids and reimbursements under various specific program are reported at the estimated amounts to be received based on available information at the date of this report. In some instances, adjustments, and proration by these agencies, which are dependent upon the amount of funds available for distribution, and may result in differing amount actually being received. Any such differences will be absorbed into operations as of the subsequent period.

K. Capital Assets

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 or computer related items with an initial individual cost of more than $1,000 and an estimated useful life in excess of one year. Such 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 its acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

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 purpose. Useful lives vary from 20 to 50 years for buildings and land and building improvements and 5 to 15 years for furniture and equipment.

Capital assets not being depreciated include land and construction in progress, if any. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has three items that qualify for reporting in this category. A deferred charge on refunding and deferred outflows of resources related to OPEB and pensions are reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred outflows of resources related to OPEB and pensions are recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has five types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred inflows of resources related to OPEB and pensions are recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

M. Long-Term Obligations

In the government-wide financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Compensated Absences

Under the terms of union contracts, certain employees accrue vacation at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation, and related benefits upon termination. Vacation pay is accrued when incurred in the government-wide and all fiduciary fund financial statements. Unused vacation pay is accrued in governmental fund financial statements only when it has matured due to employee termination or similar circumstances. Since teachers are not eligible for vacation pay and amounts accrued to other employees are insignificant, no long-term portion of vacation liabilities is recorded in the financial statements.

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.

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

P. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2018.

Q. Fund Equity

1. Classification

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are either not in spendable form as they are legally or contractually required to be maintained intact. They include items that are inherently unspendable, such as, but not limited to, inventories, prepaid items, long-term receivables, non-financial assets held for resale, or the permanent principal of endowment funds.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Fund Equity (Continued)

1. Classification (Continued)

- Restricted Fund Balances – These amounts are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

- Committed Fund Balances – These amounts are comprised of unrestricted funds used for specific purposes pursuant to constraints imposed by formal action of the School Board and that remain binding unless removed by the School Board by subsequent formal action. The formal action to commit a fund balance must occur prior to year-end; however, the specific amounts actually committed can be determined in the subsequent year.

- Assigned Fund Balances – These amounts are comprised of unrestricted funds constrained by the District's intent that they will be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. In funds other than the General Fund, the assigned fund balance represents the remaining amount that is not restricted or committed. The assigned fund balance category will cover the portion of a fund balance that reflects the District's intended use of those resources. Assignments are made by the School Board or the Superintendent. The action to assign fund balance may be taken after the end of the year.

- Unassigned Fund Balances – Residual amount in the General Fund not reported in any other classification, available for expenditure of any purpose. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance.

- Minimum Fund Balance – The District will strive to maintain a minimum unassigned General Fund balance equal to approximately 1.5 months of operating expenditures.

R. Net Position

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Use of Estimates

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

T. Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
4. Budgets for the funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: For a deposit, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a policy in place to address custodial credit risk for deposits, stating all deposits be collateralized as required by *Minnesota Statutes* for any amount exceeding FDIC. At year-end, the District's bank balance was $6,136,043, not including certificates of deposit held in brokerage account. At June 30, 2018, district deposits of $23,132 were exposed to custodial credit risk as they were not fully insured through FDIC or collateralized by securities held by the District's agent in the District's name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

At June 30, 2018, the District had the following deposits:

Checking	$ 2,099,073
Certificates of deposit	6,244,282
Money market deposit account	305,018
Total	$ 8,648,373

B. Investments

As of June 30, 2018, the District had the following investments:

Pooled Investments		Investment Maturities		
Investment	Fair Value	Less than 1 Year	1-5 Years	Credit Rating
Brokered Money Market Funds	$ 2,069,430	$ 2,069,430	$ -	N/A
Brokered CD	16,632,455	9,398,331	7,234,124	N/A
Municipal Bonds	239,928	-	239,928	N/A
U.S. Government Agencies	7,092,190	4,676,377	2,415,813	AA+
MSDLAF - Max Class	3,523,832	3,523,832	-	AAAm
MSDLAF - Liquid Class	4,575,870	4,575,870	-	AAAm
MSDLAF Managed Account	1,478,450	1,478,450	-	A-1
MSDLAF Term Series	6,950,000	6,950,000	-	AAAm
Total Investments	$ 42,562,155	$ 32,672,290	$ 9,889,865	

The District had a formal deposit and investment policy in place as of June 30, 2018 to address the following risks:

Custodial Credit Risk – Deposits: For a deposit, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a policy in place to address custodial credit risk for deposits, stating all deposits be collateralized as required by *Minnesota Statutes* for any amount exceeding FDIC.

Interest Rate Risk: This is the risk that market value of securities will fall due to the changes in market interest rates. The District's policy states investment maturities should be scheduled to coincide with projected District cash flow needs, taking into account large routine or scheduled expenditures, as well as anticipated receipt dates of anticipated revenues. The policy also indicates investments shall be managed to attain a market rate of return through various economic and budgetary cycles, while preserving and protection the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments to the top two rating issued by nationally recognized statistical rating organizations. The District's investment policy limits investments to those specified in the above statutes.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states investments shall be diversified by limiting investments to avoid over concentration in specific instruments, individual finance institutions or maturities. The policy does not state the maximum percentage of the District's investment portfolio that may be invested in any of those categories.

Custodial Credit Risk – Investments: This is the risk in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy requires all investments be held in third party safekeeping by an institution designated as a custodial agent and all investments shall be fully collateralized.

The District has the following recurring fair value measurements for pooled investments as of June 30, 2018:

- $7,092,191 of investments are valued using a quoted market prices (Level 1 inputs)
- $18,941,813 of investments are valued using a matrix pricing model (Level 2 inputs)

Summary of cash, deposits, and investments as of June 30, 2018:

Deposits (Note 3.A.)	$ 8,648,373
Pooled investments	42,562,155
Total deposits and investments	$ 51,210,528

Cash, deposits, and investments are presented in the June 30, 2018, basic financial statements as follows:

Statement of Net Position	
Cash and investments	$ 50,962,309
Cash with fiscal agent	192,952
Statement of Fiduciary Net Position	
Agency fund	14,160
Private purpose trust fund	41,107
Total	$ 51,210,528

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 13,682,902	$ -	$ -	$ 13,682,902
Construction in progress	-	17,712,257	-	17,712,257
Total capital assets Not being depreciated	13,682,902	17,712,257	-	31,395,159
Capital assets being depreciated				
Land improvements	3,999,274	107,058	-	4,106,332
Building and building improvements	182,826,949	1,134,657	-	183,961,606
Furniture and equipment	13,936,214	1,396,375	-	15,332,589
Total capital assets being depreciated	200,762,437	2,638,090	-	203,400,527
Less accumulated depreciation for				
Land improvements	2,394,744	160,977	-	2,555,721
Building and building improvements	46,505,252	3,675,716	-	50,180,968
Furniture and equipment	9,217,664	455,944	-	9,673,608
Total accumulated depreciation	58,117,660	4,292,637	-	62,410,297
Total capital assets being depreciated, net	142,644,777	(1,654,547)	-	140,990,230
Governmental activities, capital assets, net	$ 156,327,679	$ 16,057,710	$ -	$ 172,385,389

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation for the year ended June 30, 2018, was charged to the following governmental functions:

Administration	$ 2,462
District support services	2,491
Elementary and secondary regular instruction	40,684
Special education instruction	4,410
Instructional support services	93,883
Pupil support services	18,829
Sites, buildings, and equipment	402,340
Food service	39,275
Community education and services	5,703
Unallocated	3,682,560
Total depreciation expense	$ 4,292,637

NOTE 4 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds including						
Refunding bonds						
2011A	11/09/11	4.25%	$ 10,295,000	02/01/32	$ 10,295,000	$ -
2014A	09/23/14	2.00%-4.00%	59,275,000	02/01/30	54,055,000	2,725,000
2015A	05/07/15	3.0%-4.0%	17,750,000	02/01/25	13,280,000	1,630,000
2015B	11/24/15	2.0%-3.0%	36,110,000	02/01/27	30,940,000	2,850,000
2016A	10/27/16	3.0%-5.0%	31,335,000	02/01/30	31,335,000	1,235,000
2017A	04/13/17	3.2%-5.0%	35,705,000	02/01/32	35,705,000	-
Total G.O. bonds					175,610,000	8,440,000
Net premium and discount					11,581,664	-
Total net G.O. bonds					187,191,664	8,440,000
Other long-term liabilities						
Capital leases payable	06/18/18		444,424	09/15/23	444,424	77,436
Compensated absences payable					287,289	287,289
Total long-term liabilities					$ 187,923,377	$ 8,804,725

The long-term bond liabilities listed above were issued to finance the acquisition, construction and refurbishing of capital facilities, purchase capital assets, or to refinance (refund) previous bond issues.

Bonds will be retired with assets from the Debt Service Fund while the capital lease, compensated absences and severance liabilities will be liquidated by the General Fund.

NOTE 4 – LONG-TERM DEBT (CONTINUED)

A. Components of Long-Term Liabilities (Continued)

In October 2016, the District issued G.O. School Building Refunding Bonds, Series 2016A in the amount of $31,335,000. The bonds were issued to refund the G.O. School Building Bonds, Series 2008A. The proceeds were placed in escrow and the escrow will be used to pay interest payments on the 2016A bonds while the District continues to make payments on the 2008A bonds. On February 1, 2018, the District used the remaining amount in escrow to redeem the 2019 through 2030 maturities of the 2008A bonds. As a result of the refunding, the total cash savings to the District was $5,444,486 with a net present value benefit of $4,747,310.

B. Minimum Debt Payments for Bonds and Loans

Minimum annual principal and interest payments required to retire bond and loan liabilities:

Year Ending	G.O. Bonds		
June 30,	Principal	Interest	Total
2019	$ 8,440,000	$ 6,404,177	$ 14,844,177
2020	9,160,000	6,082,728	15,242,728
2021	9,925,000	5,731,177	15,656,177
2022	10,645,000	5,377,778	16,022,778
2023	11,440,000	4,962,927	16,402,927
2024-2028	67,605,000	17,730,298	85,335,298
2029-2032	58,395,000	4,867,090	63,262,090
Total	$ 175,610,000	$ 51,156,175	$ 226,766,175

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	$ 219,335,000	$ -	$ 43,725,000	$ 175,610,000
Net bond premium	12,774,287	-	1,192,623	11,581,664
Capital leases payable	-	444,424	-	444,424
Compensated Absences payable	267,860	313,678	294,249	287,289
Total long-term liabilities	$ 232,377,147	$ 758,102	$ 45,211,872	$ 187,923,377

NOTE 4 – LONG-TERM DEBT (CONTINUED)

D. Capital Lease Obligations

On June 18, 2018 the District entered into a lease purchase agreement with Kinetic Leasing for the acquisition of scoreboards. The capital lease obligation and corresponding equipment totaled $444,424. The capital lease agreement includes annual principal and interest payments of $81,282 for each of the six years of the agreement.

The future minimum lease obligation s and the net present value of these minimum lease payments were as follows:

Year Ending June 30,	
2019	$ 81,282
2020	81,282
2021	81,282
2022	81,282
2023	81,282
2024	81,282
Total minimum lease payments	487,692
Less amount representing interest	(43,268)
Present value of minimum lease payments	$ 444,424

The assets purchased with the scoreboard lease totaled $617,437. The associated accumulated depreciations for these assets is $10,291 for a net value of $607,146.

NOTE 5 – FUND BALANCES/NET POSITION

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

A. Fund Balances

Fund equity balances are classified on the following page to reflect the limitations and restrictions of the respective funds.

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

	General	Capital Projects	Debt Service	Other Nonmajor	Total
Nonspendable for					
Inventory	$ -	$ -	$ -	$ 46,811	$ 46,811
Prepaid items	83,903	-	-	-	83,903
Total nonspendable	83,903	-	-	46,811	130,714
Restricted/reserved for					
Staff Development	968,535	-	-	-	968,535
Operating Capital	809,185	-	-	-	809,185
Safe Schools Crime Levy	(24,076)	-	-	-	(24,076)
Long-Term Facilities Maintenance	214,115	-	-	-	214,115
Medical Assistance	294,251	-	-	-	294,251
Capital Projects	-	14,670,809	-	-	14,670,809
Debt Service	-	-	3,756,941	-	3,756,941
Food Service	-	-	-	824,697	824,697
Community Education	-	-	-	1,493,182	1,493,182
Early Childhood Family and Education	-	-	-	362,978	362,978
School Readiness	-	-	-	(57,942)	(57,942)
Community Service	-		-	260,978	260,978
Total restricted/reserved	2,262,010	14,670,809	3,756,941	2,883,893	23,573,653
Committed for					
Separation/retirement benefits	41,000	-	-	-	41,000
Assigned for					
Staff Development	19,327	-	-	-	19,327
Q Comp	250,827		-	-	250,827
Insurance Claims	92,330	-	-	-	92,330
Student Activities	279,871	-	-	-	279,871
Total assigned	642,355	-	-	-	642,355
Unassigned	13,997,604	-	-	-	13,997,604
Total fund balances	$ 17,026,872	$ 14,670,809	$ 3,756,941	$ 2,930,704	$ 38,385,326

Nonspendable for Inventory – This balance represents the portion of fund balance that is not available as amounts have already been spent on inventory.

Nonspendable for Prepaid Items – This balance represents the portion of fund balance that is not available as the amounts have already been spent by the District on items for the next year.

Restricted for Staff Development – This balance represents resources set aside to be used for staff development purposes.

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

Restricted/Reserved for Safe Schools Crime Levy – The unspent resources available from safe school levy must be restricted in this account for future use.

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* 123B.595, subd. 12).

Restricted/Reserved for Medical Assistance – This balance represents available resources to be used for medical assistance expenditures (*Minnesota Statutes* 125A.21, subd. 3).

Restricted for Capital Projects – This balance represents the resources available for building construction and other projects.

Restricted for Debt Service – This balance represents the resources available for the payment of G.O. bond principal, interest, and related costs.

Restricted for Food Service – This balance represents the accumulation of the activity to provide the food service program.

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: non-vocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education, and extended day programs.

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs. Related to Finance Code 344, School Readiness *Minnesota Statutes* 124D.16.

Restricted for Community Service – This balance represents the accumulation of the activity to provide the community service program.

Committed for Separation/Retirement Benefits – This balance represents resources segregated from the unreserved/undesignated fund balance for retirement benefits, including compensated absences, pensions, OPEB, and termination benefits (as defined in GASB Statements Nos. 16, 27, 45, 47 and 50 and *Minnesota Statutes* 123B.79, subd. 7).

Assigned for Staff Development – This balance represents resources set aside to be used for staff development purposes.

Assigned for Q Comp – This balance represents resources set aside for Q Comp purposes.

NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)

A. Fund Balances (Continued)

Assigned for Insurance Claims – This balance represents resources set aside to be used for insurance claims.

Assigned for Student Activities – This balance represents the accumulation of the activity to provide student activities.

B. Net Position

Net position restricted for other purposes are comprised of the positive General Fund restricted fund balances and the total Food Service Fund, Community Service Fund, and Capital Project Fund balances.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2017 was $19,568,224. The components of pension expense are noted in the following plan summaries.

Teachers' Retirement Association

A. Plan Description

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

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

B. Benefits Provided

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

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

Tier 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 if service years are up to July 1, 2006	1.2% per year
	First ten years if service years are July 1, 2006, or after	1.4% per year
	All other years of service if service years are up to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006, or after	1.9% per year

With these provisions:

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

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 is applied. 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 Statute*. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (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.

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

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2016, June 30, 2017 and June 30, 2018, were:

	Employee	Employer
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

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

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	$	367,791
Deduct Employer contributions not related to future contribution efforts		810
Deduct TRA's contributions not included in allocation		(456)
Total employer contributions		368,145
Total non-employer contributions		35,588
Total contributions reported in schedule of employer and non-employer pension allocations	$	403,733

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

D. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Valuation date	July 1, 2017
Experience study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	5.12%, from the single equivalent interest rate calculation
Price inflation	2.50%
Wage growth rate	2.85% for ten years and 3.25% thereafter
Projected salary increase	2.85% to 8.85% for ten years and 3.25% to 9.25% thereafter
Cost of living adjustment	2.00%
Mortality Assumption	
Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

Asset Class	Target	Long-Term Expected Real Rate of Return
Domestic stocks	39 %	5.10 %
International stocks	19	5.30
Bonds	20	0.75
Alternative assets	20	5.90
Unallocated cash	2	0.00
Total	100 %	

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

Changes in actuarial assumptions since the 2016 valuation:

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- 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 ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

E. Discount Rate

The discount rate used to measure the total pension liability was 5.12%. This is an increase from the discount rate at the prior measurement date of 4.66%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 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 projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.5%) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56% was applied to periods on and after 2053, resulting in a SEIR of 5.12%. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01%).

F. Net Pension Liability

On June 30, 2018, the District reported a liability of $104,380,325 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, 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 proportionate share was 0.5229% at the end of the measurement period and 0.5028% for the beginning of the year.

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

District's proportionate share of net pension liability	$ 104,380,325
State's proportionate share of the net pension liability associated with the District	10,089,283

For the year ended June 30, 2018, the District recognized pension expense of $18,577,546. It also recognized $193,505 as an increase to pension expense for the support provided by direct aid.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

On June 30, 2018, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 754,942	$ 732,868
Net difference between projected and actual earnings on plan investment	-	1,052,959
Changes in assumptions	54,536,316	14,622,036
Changes in proportion	4,898,943	-
District's contribution to TRA subsequent to measurement date	2,275,529	-
Total	$ 62,465,730	$ 16,407,863

$2,275,529 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, 2019.

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

2019	$ 11,376,598
2020	13,088,796
2021	11,789,361
2022	9,798,976
2023	(2,271,393)
Total	$ 43,782,338

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

G. Pension Liability Sensitivity
The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 5.12% as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percent lower and 1 percent higher than the current rate.

District proportionate share of NPL		
1% decrease (4.12%)	Current (5.12%)	1% increase (6.12%)
$ 137,761,916	$ 104,380,325	$ 76,235,583

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

H. Pension Plan Fiduciary Net Position
Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That can be obtained at www.MinnesotaTRA.org, or by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, MN, 55103-4000, or by calling (651) 296-2409 or (800) 657-3669.

Public Employees' Retirement Association

A. Plan Description
The District participates in the following cost-sharing multiple-employer defined benefit pension plan administered by PERA. PERA's defined benefit pension plan is established and administered in accordance with *Minnesota Statutes*, Chapters 353 and 356. PERA's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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.

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

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

B. Benefits Provided (Continued)

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. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for each year 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 recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2018. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2018. The District's contributions to the General Employees Fund for the year ended June 30, 2018, were $705,392. The District's contributions were equal to the required contributions as set by state statute.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2018, the District reported a liability of $8,777,909 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $110,368. The net pension liability was measured as of June 30, 2017, 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, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was 0.1375%, which was an increase of 0.0065% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $1,079,967 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $3,188 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, 2018, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 289,293	$ 538,966
Changes in actuarial assumptions	1,388,430	879,986
Difference between projected and actual investments earnings	-	462,432
Changes in proportion and differences between contributions made and district's proportion share of contributions	395,826	137,721
District's contributions to PERA subsequent to the measurement date	705,392	-
	$ 2,778,941	$ 2,019,105

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)
$705,392 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2019	$ (96,277)
2020	576,682
2021	(53,355)
2022	(372,606)
Total	$ 54,444

E. Actuarial Assumptions
The total pension liability in the June 30, 2017, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 %	Per year
Active member payroll growth	3.25 %	Per year
Investment rate of return	7.50 %	

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. Cost of living benefit increases for retirees are assumed to be 1% per year for the General Employees Plan through 2044 and then 2.5% thereafter.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

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

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic stocks	39%	5.10 %
International stocks	19%	5.30
Bonds	20%	0.75
Alternative assets	20%	5.90
Cash	2%	0.00
Total	100%	

F. Discount Rates

The discount rate used to measure the total pension liability in 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	$ 13,615,190	$ 8,777,909	$ 4,817,717

H. Pension Plan Fiduciary Net Position

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

Defined Contribution Plan

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

The Defined Contribution Plan consists of individual accounts paying a lump-sum benefit. Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses, therefore, there is no future liability to the District. *Minnesota Statutes*, Chapter 353D.03, specifies plan provisions, including the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5% of salary which is matched by the elected official's employer. For ambulance service personnel, employer contributions are determined by the employer, and for salaried employees must be a fixed percentage of salary. Employer contributions for volunteer personnel may be a unit value for each call or period of alert duty. Employees who are paid for their services may elect to make member contributions in an amount not to exceed the employer share. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2% of employer contributions and twenty-five hundredths of 1% (.0025) of the assets in each member's account annually.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Defined Contribution Plan (Continued)

Total pension expense and contributions made by the District during fiscal year 2018 were:

Contribution Amount		Percentage of Covered Payroll		
Employee	Employer	Employee	Employer	Required Rate
$ 710	$ 710	5%	5%	5%

NOTE 7– POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees and their spouses through the District's self-insured health insurance plan. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Benefits Provided

At retirement, employees of the District receiving a retirement or disability benefit, or eligible to receive a benefit, from a Minnesota public pension plan may continue to participate in the District's group health insurance plan.

C. Members

As of June 30, 2017, the following were covered by the benefit terms:

Active employees electing coverage	429
Active employees waiving coverage	290
Retirees electing coverage	14
Total	733

D. Contributions

Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with health insurance providers. The required contributions are based on projected pay-as-you-go financing requirements. Certain employees are also eligible for retiree insurance benefits as described in Note 1. O. 2. For 2018, the District contributed $71,563 in District paid premiums for retirees to the plan.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
Investment rate of return	3.5%, used index rate for 20-year, tax exempt municipal bonds (Fideliry 20-Year Municipal G.O. AA Index).
Inflation	2.75%
Healthcare cost trend increases	6.8% initially, decreasing each year to an ultimate rate of 4.4%, in 2075.
Mortality Assumption	RP-2014 mortality tables with projected mortality improvements based in scale MP-2015 and other adjustments.

The actuarial assumptions used in the June 30, 2017, valuation were based on the results of an actuarial experience study for the period July 1, 2016 – June 30, 2017.

The discount rate used to measure the total OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at rates equal to the actuarially determined contribution rates.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Changes in Total OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Total OPEB Liability (a) - (b)
Balances at July 1, 2017	$ 2,850,721	$ -	$ 2,850,721
Changes for the year			
Service cost	254,534	-	254,534
Interest	89,139	-	89,139
Changes of assumptions	(130,063)	-	(130,063)
Employer contributions	-	105,095	(105,095)
Net investment income	-	-	-
Benefit payments	(105,095)	(105,095)	-
Administrative expense	-	-	-
Other charges	-	-	-
Net changes	108,515	-	108,515
Balances at June 30, 2018	$ 2,959,236	$ -	$ 2,959,236

G. OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.56% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease (2.56%)	Current (3.56%)	1% increase (4.56%)
Total OPEB Liability (Asset)	$ 3,162,829	$ 2,959,236	$ 2,759,242

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

G. OPEB Liability Sensitivity (Continued)

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

	1% decrease (8.5% decreasing to 4.5%)	Current (9.5% decreasing to 5.5%)	1% increase (10.5% decreasing to 6.5%)
Total OPEB Liability (Asset)	$ 2,670,937	$ 2,959,236	$ 3,303,176

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $329,043. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ -
Changes of assumptions	-	115,433
Contributions made subsequent to the measurement date	71,563	-
Total	$ 71,563	$ 115,433

$71,563 reported as deferred outflows of resources related to OPEB resulting from District contributions made subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

H. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

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

Year Ending June 30,	Total
2019	$ (14,630)
2020	(14,630)
2021	(14,630)
2022	(14,630)
2023	(14,630)
Thereafter	(42,283)
Total	$ (115,433)

NOTE 8 – COMMITMENTS

The District had various construction commitments as of year-end as follows:

Project/ Contractor	Contract Amount	Work Completed	Committment Remaining
High School Additions			
Breitbach Construction	$ 3,951,156	$ 2,732,340	$ 1,218,816
Rego & Youngquist	237,069	184,855	52,214
St Michael Albertville Ice Arena			
Breitbach Construction	10,953,103	4,088,954	6,864,149
Rego & Youngquist	657,186	493,995	163,191
St Michael Albertville Primary Addition			
Breitbach Construction	3,687,069	3,330,372	356,697
Rego & Youngquist	221,224	171,244	49,980
St Micahel Alberville All Purpose Facility			
Breitbach Construction	11,825,418	5,807,539	6,017,879
Rego & Youngquist	709,525	549,477	160,048
Total			$ 14,882,974

NOTE 9 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2018, the District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This resulted in an adjustment to the beginning net position on the Statement of Activities of $26,032 to add the beginning total OPEB liability.

NOTE 10 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB Statement No. 84, Fiduciary Activities establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This statement will be effective for the year ending June 30, 2020.

GASB Statement No. 87, Leases establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This statement will be effective for the year ending June 30, 2021.

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REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 885
Schedule of Changes in Total OPEB Liability
and Related Ratios

	June 30, 2017
Total OPEB Liability	
Service cost	$ 254,534
Interest	89,139
Changes of assumptions	(130,063)
Benefit payments	(105,095)
Net change in total OPEB liability	108,515
Beginning of year	2,850,721
End of year	$ 2,959,236
Covered payroll	$ 35,685,444
Total OPEB liability as a percentage of covered-employee payroll	8.29%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Independent School District No. 885
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
Last Ten Years General Employees Retirement Fund

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1414%	$ 6,642,264	$ -	$ 6,642,264	$ 7,425,490	89.5%	78.8%
2015	0.1321%	6,846,108	-	6,846,108	7,637,560	89.6%	78.2%
2016	0.1310%	10,636,550	138,906	10,775,456	8,120,427	131.0%	68.9%
2017	0.1375%	8,777,909	110,368	8,888,277	8,857,493	99.1%	75.9%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
Last Ten Years TRA Retirement Fund

For Plan's Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.5026%	$ 23,159,446	$ 1,629,366	$ 24,788,812	$ 22,941,050	101.0%	81.5%
2015	0.4860%	30,063,907	3,687,540	33,751,447	24,666,013	121.9%	76.8%
2016	0.5028%	119,929,797	12,038,519	131,968,316	26,154,600	458.5%	44.9%
2017	0.5229%	104,380,325	10,089,283	114,469,608	28,150,627	370.8%	51.6%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Independent School District No. 885
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 538,348	$ 538,348	$ -	$ 7,425,490	7.25%
2015	572,817	572,817	-	7,637,560	7.50%
2016	609,032	609,032	-	8,120,427	7.50%
2017	664,312	664,312	-	8,857,493	7.50%
2018	705,392	705,392	-	9,405,227	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

Schedule of District Contributions
TRA Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 1,605,874	$ 1,605,874	$ -	$ 22,941,050	7.00%
2015	1,849,951	1,849,951	-	24,666,013	7.50%
2016	1,961,595	1,961,595	-	26,154,600	7.50%
2017	2,111,297	2,111,297	-	28,150,627	7.50%
2018	2,275,529	2,275,529	-	30,340,387	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

See notes to required supplementary information.

Independent School District No. 885
Notes to the Required Supplementary Information

TRA Retirement Fund

2017 Changes
Changes in Actuarial Assumptions
- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5% but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the non-vested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.0% to 7.5%.
- The price inflation assumption was lowered from 2.75% to 2.5%.
- The payroll growth assumption was lowered from 2.5% to 3.0%.
- The general wage growth assumption was lowered from 3.5% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

2016 Changes
Changes in Actuarial Assumptions
- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

TRA Retirement Fund (Continued)

2015 Changes
Changes of Benefit Terms
- The DTRFA was merged into TRA on June 30, 2015.

Changes in Actuarial Assumptions
- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

General Employees Fund

2017 Changes
Changes in Actuarial Assumptions
- The CSA loads were changed from 0.8% for active members and 60% for vested and non-vested deferred members. The revised CSA loads are now 0.0% for active member liability, 15% for vested deferred member liability and 3% for non-vested deferred member liability.
- The assumed post-retirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

2016 Changes
Changes in Actuarial Assumptions
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- 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, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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

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

SUPPLEMENTARY INFORMATION

Independent School District No. 885
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue		
	Food Service	Community Service	Total
Assets			
Cash and investments	$ 957,279	$ 2,636,262	$ 3,593,541
Current property taxes receivable	-	153,452	153,452
Delinquent property taxes receivable	-	1,116	1,116
Accounts receivable	-	2,566	2,566
Due from Department of Education	-	46,090	46,090
Due from other Minnesota school districts	-	19,950	19,950
Inventory	46,811	-	46,811
Total assets	$ 1,004,090	$ 2,859,436	$ 3,863,526
Liabilities			
Accounts payable	$ 35,084	$ 113,624	$ 148,708
Salaries and benefits payable	193	201,586	201,779
Due to other governmental units	-	271	271
Unearned revenue	97,305	156,964	254,269
Total liabilities	132,582	472,445	605,027
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	326,679	326,679
Unavailable revenue - delinquent property taxes	-	1,116	1,116
Total deferred inflows of resources	-	327,795	327,795
Fund Balances			
Nonspendable	46,811	-	46,811
Restricted	824,697	2,059,196	2,883,893
Total fund balances	871,508	2,059,196	2,930,704
Total liabilities, deferred inflows of resources, and fund balances	$ 1,004,090	$ 2,859,436	$ 3,863,526

Independent School District No. 885
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2018

	Special Revenue		
	Food Service	Community Service	Total
Revenues			
Local property taxes	$ -	$ 304,814	$ 304,814
Revenue from state sources	110,875	469,647	580,522
Revenue from federal sources	733,668	-	733,668
Other local and county revenues	16,684	4,181,582	4,198,266
Sales and other conversion of assets	2,034,531	11,228	2,045,759
Total revenues	2,895,758	4,967,271	7,863,029
Expenditures			
Current			
Food service	2,960,847	-	2,960,847
Community education and services	-	5,055,325	5,055,325
Capital outlay			
Food service	349,067	-	349,067
Community education and services	-	20,018	20,018
Total expenditures	3,309,914	5,075,343	8,385,257
Excess of revenues under expenditures	(414,156)	(108,072)	(522,228)
Fund Balances			
Beginning of year	1,285,664	2,167,268	3,452,932
End of year	$ 871,508	$ 2,059,196	$ 2,930,704

Independent School District No. 885
Statement of Changes in Agency Fund
Assets and Liabilities
Year Ended June 30, 2018

	June 30, 2017	Additions	Deductions	June 30, 2018
Assets				
Cash and investments	$ (3,036)	$ 101,775	$ 84,579	$ 14,160
Due from other governments	3,036	84,579	101,775	(14,160)
Total assets	$ -	$ 186,354	$ 186,354	$ -
Liabilities				
Salaries and benefits payable	$ -	$ 18,734	$ 18,734	$ -

Independent School District No. 885
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2018

	Audit	UFARS	Audit-UFARS
01 General Fund			
Total revenue	$ 61,681,657	$ 61,681,657	$ -
Total expenditures	61,992,150	61,992,150	-
Nonspendable:			
460 Nonspendable fund balance	83,903	83,903	-
Restricted/reserved:			
403 Staff Development	968,535	968,535	-
405 Deferred Maintenance	-	-	-
406 Health and Safety	-	-	-
407 Capital Projects Levy	-	-	-
408 Cooperative Programs	-	-	-
409 Alternative Facility Program	-	-	-
413 Building Projects Funded by COP/LP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
424 Operating Capital	809,185	809,185	-
426 $25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alternative Programs	-	-	-
436 State Approved Alternative Program	-	-	-
438 Gifted and Talented	-	-	-
440 Teacher Development and Evaluation	-	-	-
441 Basic Skills Programs	-	-	-
445 Career Technical Programs	-	-	-
448 Achievement and Integration Revenue	-	-	-
449 Safe School Crime	(24,076)	(24,076)	-
450 Transition for Pre-Kindergarten	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-
453 Unfunded Severance and Retirement Levy	-	-	-
459 Basic Skills Extended Time	-	-	-
467 Long-term Facilities Maintenance	214,115	214,115	-
472 Medical Assistance	294,251	294,251	-
475 Title VII - Impact Aid	-	-	-
476 Payments in Lieu of Taxes	-	-	-
Restricted:			
464 Restricted fund balance	-	-	-
Committed:			
418 Committed for separation	41,000	41,000	-
461 Committed	-	-	-
Assigned:			
462 Assigned fund balance	642,355	642,355	-
Unassigned:			
422 Unassigned fund balance	13,997,604	13,997,604	-
02 Food Services Fund			
Total revenue	$ 2,895,758	$ 2,895,759	$ (1)
Total expenditures	3,309,914	3,309,916	(2)
Nonspendable:			
460 Nonspendable fund balance	46,811	46,811	-
Restricted/reserved:			
452 OPEB liabilities not held in trust	-	-	-
Restricted:			
464 Restricted fund balance	824,697	824,696	1
Unassigned:			
463 Unassigned fund balance	-	-	-
04 Community Service Fund			
Total revenue	$ 4,967,271	$ 4,967,271	$ -
Total expenditures	5,075,343	5,075,342	1
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
426 $25 Taconite	-	-	-
431 Community Education	1,493,182	1,493,182	-
432 ECFE	362,978	362,978	-
440 Teacher Development and Evaluation			
444 School Readiness	(57,942)	(57,942)	-
447 Adult Basic Education	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-
Restricted:			
464 Restricted fund balance	260,978	260,980	(2)
Unassigned:			
463 Unassigned fund balance	-	-	-

	Audit	UFARS	Audit-UFARS
06 Building Construction Fund			
Total revenue	$ 399,854	$ 399,855	$ (1)
Total expenditures	19,730,007	19,730,004	3
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
407 Capital Projects Levy	14,670,809	14,670,813	(4)
413 Building Projects Funded by COP/LP	-	-	-
467 Long-term Facilities Maintenance	-	-	-
Restricted:			
464 Restricted fund balance	-	-	-
Unassigned:			
463 Unassigned fund balance	-	-	-
07 Debt Service Fund			
Total revenue	$ 13,896,149	$ 13,896,148	$ 1
Total expenditures	52,064,875	52,064,873	2
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
425 Bond refundings	-	-	-
433 Maximum effort loan aid	-	-	-
451 QZAB payments	-	-	-
Restricted:			
464 Restricted fund balance	3,756,941	3,756,941	-
Unassigned:			
463 Unassigned fund balance	-	-	-
08 Trust Fund			
Total revenue	$ 26,312	$ 26,312	$ -
Total expenditures	24,450	24,450	-
Unassigned:			
422 Net position	41,107	41,106	1
20 Internal Service Fund			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Net position	-	-	-
25 OPEB Revocable Trust			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Net position	-	-	-
45 OPEB Irrevocable Trust			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Net position	-	-	-
47 OPEB Debt Service			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted:	-	-	-
425 Bond refundings			
464 Restricted fund balance	-	-	-
Unassigned:			
463 Unassigned fund balance	-	-	-

Independent School District No. 885
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
Commodities Programs	10.555	$ 156,655
Special Milk	10.556	548
Type A Lunch	10.555	576,465
Total Child Nutrition Cluster and U.S. Department of Agriculture		733,668
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	135,590
Title II, Part A - Improving Teacher Quality	84.367	63,257
Title III, Part A - Language Enhancement	84.365	8,267
Through Sherburne and Northern Wright Special Education Cooperative		
Special Education	84.027	174,814
Total U.S. Department of Education		381,928
Total Federal Expenditures		$ 1,115,596

See notes to the schedule of expenditures of federal awards.

Independent School District No. 885
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this Schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – PASS-THROUGH GRANT NUMBERS

All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 3 – INVENTORY

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

NOTE 4 INDIRECT COST RATE

The District did not elect to use the 10 percent de minimis indirect cost rate.

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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*

Independent Auditor's Report

To the School Board
Independent School District No. 885
Albertville, 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. 885, Albertville, Minnesota, as of and for the year ending June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 26, 2018.

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

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

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Internal Control over Financial Reporting (Continued)
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with Uniform Guidance that we consider to be a material weakness: Audit Finding 2018-001.

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

District's Response to the Findings
The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with Uniform Guidance. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

BerganKDV Ltd.

Minneapolis, Minnesota
November 26, 2018

Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

Independent Auditor's Report

To the School Board
Independent School District No. 885
Albertville, Minnesota

Report on Compliance for Each Major Federal Program
We have audited Independent School District No. 885, Albertville, Minnesota 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, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

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

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

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

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Opinion on Each Major Federal Program
In our opinion, Independent School District No. 885 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, 2018.

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

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.

BerganKDV Ltd.

Minneapolis, Minnesota
November 26, 2018

Independent School District No. 885
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Finding 2018-001
• Significant deficiency(ies) identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

CFDA No.:	10.555 and 10.556
Name of Federal Program or Cluster	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low risk auditee?	No

Independent School District No. 885
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2018-001 – Lack of Segregation of Accounting Duties

Criteria or Specific Requirement:
Internal control that supports the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties relating to the recording of journal entries and access to all functions of the District's accounting system.

Condition:
The District does not have adequate segregation of accounting duties relating to the recording of journal entries and access to all functions of the District's accounting system.

Context:
This finding impacts the internal control for all significant accounting functions.

Effect:
The lack of adequate segregation of accounting duties could adversely affect the District's ability to record, process, summarize, and report financial data.

Cause:
There are a limited number of office employees.

Recommendation:
Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   Administration will review current segregation of accounting duties to determine if further segregation is possible.

3. Official Responsible for Ensuring CAP
   Dr. Ann Marie Foucault, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2018-001 - Lack of Segregation of Accounting Duties (Continued)

Management's Response: (Continued)

CORRECTIVE ACTION PLAN (CAP): (Continued)

4. Planned Completion Date for CAP
   The planned completion date for the CAP is June 30, 2019.

5. Plan to Monitor Completion of CAP
   The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Audit Finding 2008-006 - Inadequate Controls for Preparation of Annual Financial Statements

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying Notes to the Financial Statements.

CORRECTIVE ACTION TAKEN:

District personnel review the financial statements and complete a report disclosure checklist.

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Report on Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 885
Albertville, 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. 885, Albertville, MN, as of and for the year ended June 30, 2018, and the related notes to financial statements, and have issued our report thereon dated November 26, 2018.

The *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, uniform financial accounting, and reporting standards for school districts and miscellaneous provisions. Our audit considered 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 Corrective Action Plans on Legal Compliance. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

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

BerganKDV Ltd.

Minneapolis, Minnesota
November 26, 2018

BerganKDV, Ltd.
bergankdv.com

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Independent School District No. 885
Schedule of Findings and Corrective
Action Plans on Legal Compliance

CURRENT AND PRIOR YEAR LEGAL COMPLIANCE FINDING:

Public Purpose Expenditures

According to Attorney General Publications *59a-3,* May 21, 1948; *59a-22,* November 23, 1966; *and 174E*, a district must refrain from donating money to people, nonprofit organizations, and charities unless allowed by specific authority.

During our audit, we noted the District made numerous purchases, including food and clothing that do not meet the public purpose requirements.

We recommend the District refrain from paying for such activities unless allowed by specific authority.

CORRECTIVE ACTION PLANNED:

1. Explanation of Disagreement with Audit Finding
   There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
   The District will refrain from such purchases in the future.

3. Official Responsible for Ensuring CAP
   Dr. Ann Marie Foucault, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
   The planned completion date for the CAP is June 30, 2019.

5. Plan to Monitor Completion of CAP
   The School Board will be monitoring this CAP.

Independent School District No. 885
Schedule of Findings and Corrective
Action Plans on Legal Compliance

CURRENT AND PRIOR YEAR LEGAL COMPLIANCE FINDING: (CONTINUED)

Insufficient Collateral

The depositories of public funds and public investment laws of *Minnesota Statutes* 118A.01 and 118A.08 requires that all deposits with financial institutions must be collateralized in an amount equal to 110% of deposits in excess of Federal Depository Insurance Corporation (FDIC) insurance.

At June 30, 2018, the District's deposits were under collateralized.

CORRECTIVE ACTION PLANNED:

1. <u>Explanation of Disagreement with Audit Finding</u>
   There is no disagreement with the audit finding.

2. <u>Actions Planned in Response to Finding</u>
   The District will obtain appropriate levels of collateral to secure District assets.

3. <u>Official Responsible for Ensuring CAP</u>
   Dr. Ann Marie Foucault, Superintendent, is the official responsible for ensuring corrective action of the deficiency.

4. <u>Planned Completion Date for CAP</u>
   The planned completion date for the CAP is immediate.

5. <u>Plan to Monitor Completion of CAP</u>
   The School Board will be monitoring this CAP.