INDEPENDENT SCHOOL DISTRICT NO. 2180
CLARA CITY, MINNESOTA

AUDITED FINANCIAL STATEMENTS
JUNE 30, 2018

SCHLENNER WENNER & CO.
Certified Public Accountants
& Business Consultants

INDEPENDENT SCHOOL DISTRICT NO. 2180
CLARA CITY, MINNESOTA
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INTRODUCTORY SECTION

INDEPENDENT SCHOOL DISTRICT NO. 2180
BOARD OF EDUCATION AND ADMINISTRATION
FOR THE YEAR ENDED JUNE 30, 2018

BOARD OF EDUCATION

Name	Title	Term Expires
Lane Schwitters	Chairperson	December 31, 2018
Tate Mueller	Vice-Chairperson	December 31, 2018
Scott Ruiter	Treasurer	December 31, 2020
Julie Alsum	Clerk	December 31, 2020
Debra Brandt	Director	December 31, 2018
Carmel Thein	Director	December 31, 2020

ADMINISTRATION

Name	Title
Sherri Broderius	Interim Superintendent
Kim Sandry	Business Manager

FINANCIAL
SECTION

INDEPENDENT AUDITORS' REPORT

December 5, 2018

Members of the School Board
Independent School District No. 2180
Clara City, 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. 2180, Clara City, Minnesota (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

St. Cloud 320.251.0286 | Little Falls 320.632.6311 | Albany 320.845.2940 | Maple Lake 320.963.5414 | Monticello 763.295.5070

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 2180, Clara City, Minnesota as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principle
As discussed in Note 6.D. to the financial statements, Independent School District No. 2180, Clara City, Minnesota has adopted Governmental Accounting Standards Board Statement No. 75*, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinions are 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, Budgetary Comparison Schedule, Schedule of Changes in District's Net OPEB Liability, Schedule of District OPEB Contributions, Schedule of District's Proportionate Share of Net Pension Liability and Schedule of District Pension Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining nonmajor governmental funds financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The combining nonmajor governmental funds financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 combining nonmajor funds financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2018 on our consideration of Independent School District No. 2180'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 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 Independent School District No. 2180's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with Minnesota Statutes, we have also issued our report dated December 5, 2018, on our consideration of Independent School District No. 2180's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the District has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

Schlenner Wenner & Co.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 2180
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2018

As management of Independent School District No. 2180 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $3,487,554 (net position). The unrestricted net position is negative $5,997,177.

- The District recorded a change in accounting principle in the current year for the implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The implementation of this standard reduced beginning net position in the government-wide statements by $712,303.

- The District's total net position decreased $2,353,534 as a result of current year operations.

- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $3,562,992, a decrease of $189,937 in comparison with the prior year. Approximately 89 percent of this amount, $3,165,602, is available for spending at the District's discretion.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $3,431,015, or 36 percent of total General Fund expenditures.

- The District's total debt decreased by $634,181 (10 percent) in the current fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements themselves.

The major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain are summarized in the following table. The remainder of the overview section of the Management Discussion and Analysis highlights the structure and contents of each of the statements.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

	Government-Wide	Fund Financial Statements
		Governmental Funds
Scope	Entire District	All of the activities of the District, such as regular instruction, special education, support services, building maintenance, food service and community education
Required financial statements	Statement of Net Position Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus
Type of asset/deferred outflows/liability/deferred inflows information	All assets, deferred outflows, liabilities, and deferred inflows of resources 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 there after; deferred inflows of resources recorded to defer unavailable assets; no capital assets or long-term liabilities included
Type of outflow/inflow information	All revenue and expenses during the year, regardless of when cash is received or paid	Revenue for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable

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

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

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and accrued but unpaid interest).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include administration, district support services, regular instruction, vocational instruction, exceptional instruction, community education and services, instructional support services, pupil support services, sites and buildings, fiscal and other fixed cost programs, and interest and other fiscal charges. The District currently does not report any business-type activities.

The government-wide financial statements start on page 15 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Although governments often report multiple types of funds, all of the funds of the District are classified as governmental funds.

Governmental Funds

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

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

The District maintains two individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund and Debt Service Fund, both of which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements start on page 17 of this report.

Notes to the Financial Statements

The notes provide additional information essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements start on page 21 of this report.

Other Information

The combining statements referred to earlier in connection with nonmajor governmental funds are presented as supplementary information. Combining fund statements start on page 57 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, for a net balance of \$3,487,554 at the close of the most recent fiscal year.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Net Position (Continued)
A significant portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although, the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Position
Table 1

	Governmental Activities		
	2018	2017	Increase (Decrease)
Assets			
Current and Other Assets	$ 6,493,412	$ 6,440,045	$ 53,367
Capital Assets	14,859,103	15,792,352	(933,249)
Total Assets	21,352,515	22,232,397	(879,882)
Deferred Outflows of Resources	7,560,010	10,226,573	(2,666,563)
Liabilities			
Current and Other Liabilities	988,291	560,182	428,109
Noncurrrent Liabilities	20,253,755	22,954,101	(2,700,346)
Total Liabilities	21,242,046	23,514,283	(2,272,237)
Deferred Inflows of Resources	4,331,365	2,391,296	1,940,069
Net Position			
Net Investment in Capital Assets	9,129,829	9,438,458	(308,629)
Restricted	354,902	428,326	(73,424)
Unrestricted	(5,997,177)	(3,313,393)	(2,683,784)
Total Net Position	$ 3,487,554	$ 6,553,391	$ (3,065,837)

An additional portion of the District's net position ($354,902) represents resources that are subject to external restrictions on how they may be used. The remaining balance (unrestricted net position) is negative $5,997,177 at year end.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Changes in Net Position
The District's net position decreased $2,353,534 during the most recent fiscal year. Key elements of this decrease are as follows:

Changes in Net Position
Table 2

	Governmental Activities		
	2018	2017	Increase (Decrease)
Revenues			
Program Revenues:			
Charges for Services	$ 475,812	$ 456,707	$ 19,105
Operating Grants and Contributions	1,302,159	1,413,284	(111,125)
Capital Grants and Contributions	-	37,520	(37,520)
General Revenues:			
Property Taxes	2,302,950	2,289,733	13,217
State Aid Not Restricted to Specific Programs	6,382,142	6,193,763	188,379
Local Aid Not Restricted to Specific Programs	68,372	74,036	(5,664)
Earnings on Investments	11,157	5,876	5,281
Gain on Disposal of Assets	4,061	-	4,061
Miscellaneous	278,390	349,176	(70,786)
Total Revenues	10,825,043	10,820,095	4,948
Expenses			
Administration	873,234	834,047	39,187
District Support Services	308,796	261,875	46,921
Regular Instruction	5,092,678	5,244,854	(152,176)
Vocational Instruction	105,025	179,098	(74,073)
Exceptional Instruction	1,686,762	1,674,981	11,781
Community Education and Services	584,713	353,767	230,946
Instructional Support Services	682,934	604,551	78,383
Pupil Support Services	1,362,536	1,271,789	90,747
Sites and Buildings	2,323,466	1,969,147	354,319
Fiscal and Other Fixed Costs Programs	43,352	51,442	(8,090)
Interest and Other Fiscal Charges	115,081	123,437	(8,356)
Total Expenses	13,178,577	12,568,988	609,589
Change in Net Position	(2,353,534)	(1,748,893)	(604,641)
Net Position - Beginning of Year	6,553,391	8,302,284	(1,748,893)
Change in Accounting Principle	(712,303)	-	(712,303)
Net Position - End of Year	$ 3,487,554	$ 6,553,391	$ (2,353,534)

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

Changes in Net Position (Continued)

- The current year change in net position is a decrease of $604,641 compared to that of the prior year. This is a result of a 0.05 percent increase in revenues and a 4.8 percent increase in expenses during fiscal year 2018.

- State aid not restricted to specific programs increased $188,379, due to changes in general education aid funding formulas and an increase in the number of students served. Operating grants and contributions, on the other hand, decreased $111,125, primarily due to decreases in special education and Title 1 Federal aid.

- Expenses related to Sites and Buildings and Community Education and Services increased $354,319 and $230,946, respectively, from the prior year primarily due to repairs and maintenance costs, along with increases in wages and pension expense.

Total and Net Cost of Governmental Activities
The net cost of governmental activities is their total costs less program revenues applicable to each category. The following table presents these total and net costs.

Total and Net Costs of Services

Table 3

	Total Cost of Services			Net Cost of Services		
	2018	2017	Increase (Decrease)	2018	2017	Increase (Decrease)
Administration	$ 873,234	$ 834,047	$ 39,187	$ 873,234	$ 834,047	$ 39,187
District Support Services	308,796	261,875	46,921	307,176	261,006	46,170
Regular Instruction	5,092,678	5,244,854	(152,176)	4,752,243	4,844,214	(91,971)
Vocational Instruction	105,025	179,098	(74,073)	105,025	179,098	(74,073)
Exceptional Instruction	1,686,762	1,674,981	11,781	1,001,969	923,094	78,875
Community Education and Services	584,713	353,767	230,946	343,618	175,775	167,843
Instructional Support Services	682,934	604,551	78,383	682,437	541,503	140,934
Pupil Support Services	1,362,536	1,271,789	90,747	853,005	758,714	94,291
Sites and Buildings	2,323,466	1,969,147	354,319	2,323,466	1,969,147	354,319
Fiscal and Other Fixed Costs Program:	43,352	51,442	(8,090)	43,352	51,442	(8,090)
Interest and Other Fiscal Charges	115,081	123,437	(8,356)	115,081	123,437	(8,356)
Totals	$13,178,577	$12,568,988	$ 609,589	$11,400,606	$10,661,477	$ 739,129

Some significant items to note include the following:

- The net cost of services related to Community Education and Services increased by $167,843 (95.5 percent), primarily due to an increase in wages due to additional personnel hired for the preschool program.

- The net cost of services related to Sites and Buildings increased by $354,319 (18.0 percent), primarily due to various building repairs and updates done in the current year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

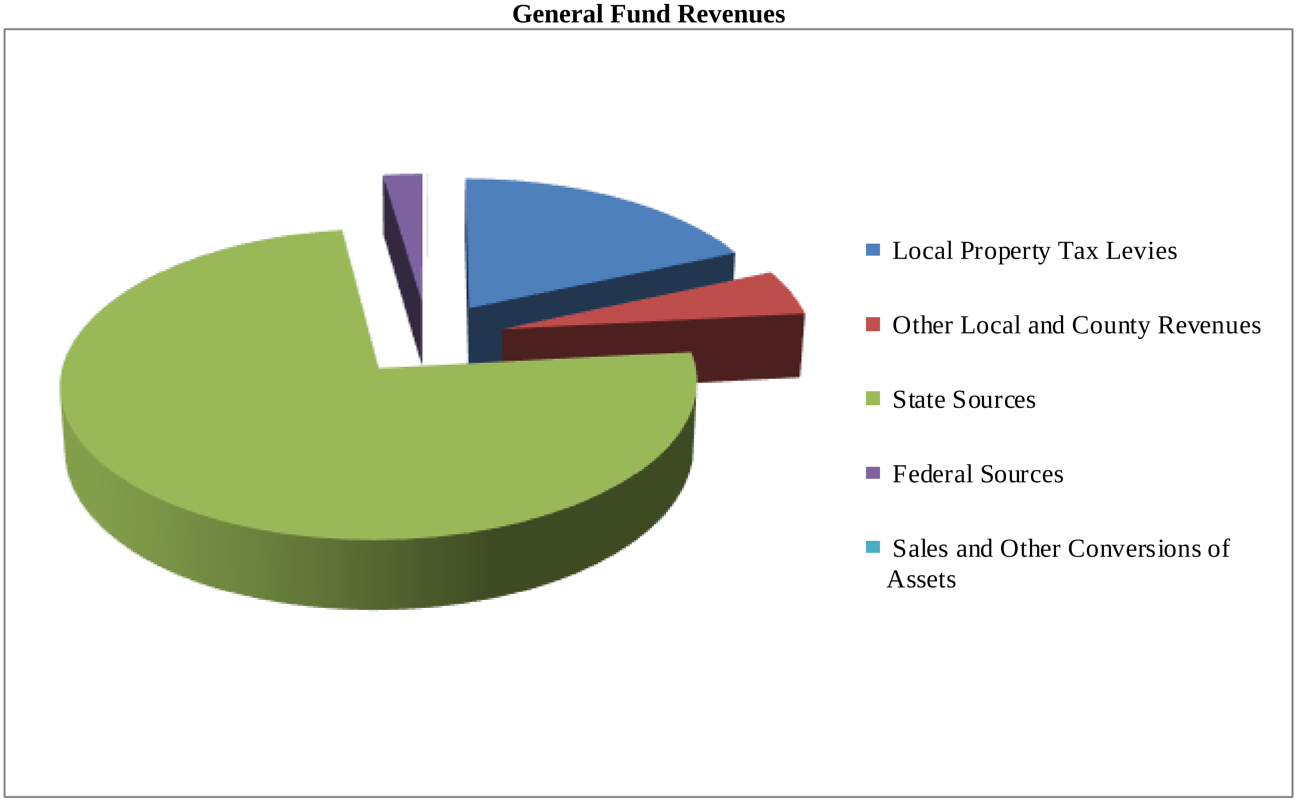
The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $3,562,992, a decrease of $189,937 in comparison with prior year. The following is a summary of the District's major funds:

Major Funds	Fund Balance June 30, 2018	Fund Balance June 30, 2017	Increase (Decrease)
General	$ 3,564,788	$ 3,557,845	$ 6,943

The fund balance of the General Fund increased by $6,943. Revenues increased approximately 2.4 percent from the prior year and expenditures increased approximately 9.5 percent.

General Fund Revenues

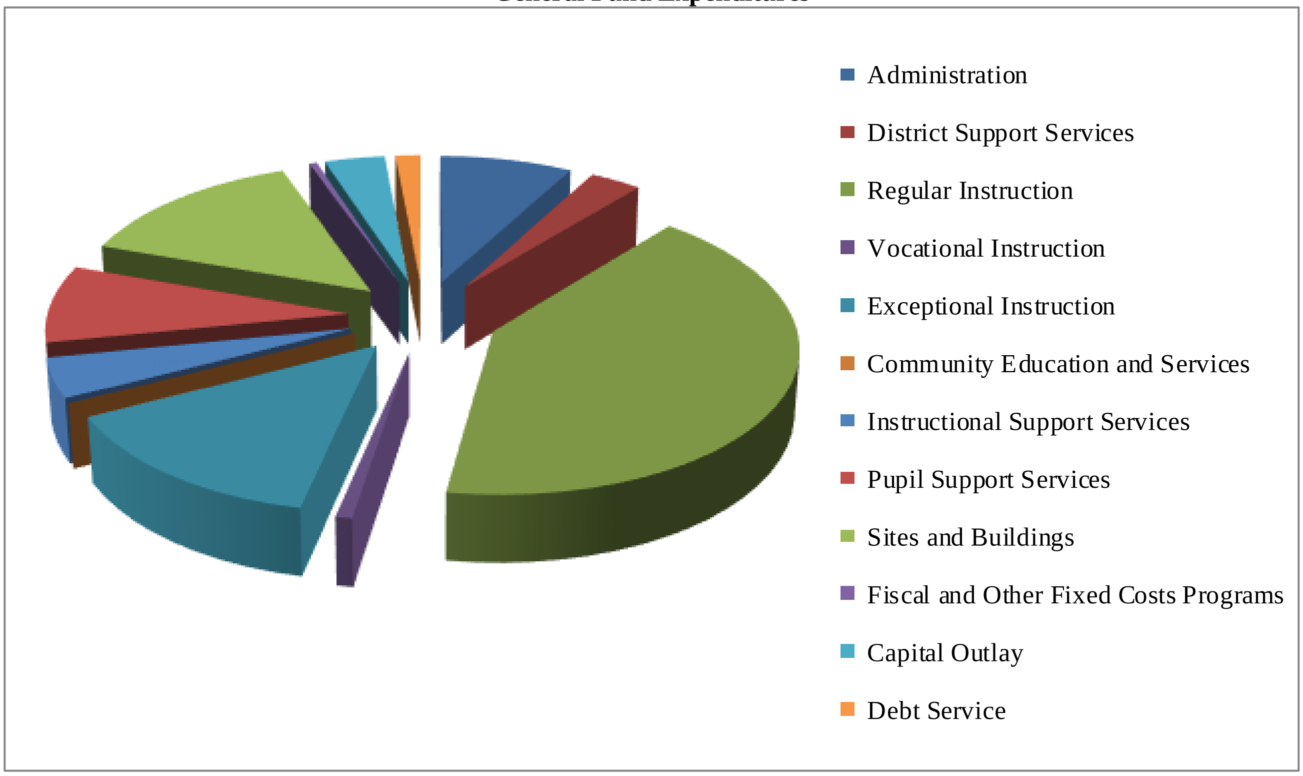


The District receives the vast majority of its funding in the General Fund from the State of Minnesota (74 percent), which is subject to fluctuation based on the number of pupils served by the District and changes in State legislation. In addition, the District receives approximately 18 percent of its General Fund revenues from local property tax levies.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

Governmental Funds (Continued)

General Fund Expenditures



A significant portion of the District's General Fund expenditures are used for regular, vocational and exceptional instruction (56 percent). Expenditures for various support services total 16 percent and the remaining 28 percent consists of expenditures for administration, sites and buildings and other items.

Major Funds	Fund Balance June 30, 2018	Fund Balance June 30, 2017	Increase (Decrease)
Debt Service	$ 40,492	$ 79,507	$ (39,015)

The Debt Service fund balance decreased $39,015 during the year. Operations were comparable to that of the prior year.

General Fund Budgetary Highlights
The District's General Fund budget was amended during the year. The revenues budget was increased by $529,751, and the expenditures budget was changed in several functions for an overall increase of $738,613 from original to final. The final budget called for expenditures of $9,336,764 and a decrease in fund balance of $250,101. Actual expenditures of $9,485,581 exceeded budgeted expenditures by $148,817.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets for its governmental activities as of June 30, 2018 amounts to $14,859,103 (net of accumulated depreciation). This investment in capital assets includes site improvements, buildings and improvements, equipment and vehicles. The total decrease in the District's investment in capital assets for the current fiscal year was approximately 6 percent.

Capital asset events during the current fiscal year included the purchase of a bull sled and two vehicles. The District disposed of a tractor and other items that have become obsolete during the year.

Capital Assets Net of Depreciation

Table 4

	Governmental Activities		
	2018	2017	Increase (Decrease)
Buildings and Improvements	$ 14,620,098	$ 15,529,632	$ (909,534)
Equipment and Vehicles	239,005	262,720	(23,715)
Total	$ 14,859,103	$ 15,792,352	$ (933,249)

Additional information on the District's capital assets can be found in Note 3.B. on page 30 of this report.

Noncurrent Liabilities

At the end of the current fiscal year, the District had total long-term debt outstanding of $5,729,274, excluding the District long-term net OPEB liability and net pension liability of $796,025 and $13,728,456, respectively. A summary of long-term debt activity for the year ended June 30, 2018 follows:

Noncurrent Liabilities

Table 5

	Governmental Activities		
	2018	2017	Increase (Decrease)
G.O. Alternative and Capital Facilities Bonds	$ 4,502,027	$ 5,031,030	$ (529,003)
Capital Leases	1,227,247	1,322,864	(95,617)
Severance Liability	-	9,561	(9,561)
Total	$ 5,729,274	$ 6,363,455	$ (634,181)

The District's total debt decreased by $634,181 (10 percent) during the current fiscal year. Additional information on the District's long-term debt can be found in Note 3.C. on page 31 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The District's appointed and elected officials considered many factors when setting the fiscal year 2019 budget. These factors included the following:

- The District's enrollment has increased in the past few years.
- Budgets include normal inflationary increases in expenditures, with more significant increases expected in payroll, utility and food costs.
- The District faces challenges when it comes to maintaining multiple sites and looks to consider how to reduce expenditures related to this challenge.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with 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, please contact the Business Manager, Kim Sandry, Independent School District No. 2180, P.O. Box 690, 711 Wolverine Drive, Clara City, MN 56222.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 2180
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Cash and Temporary Investments	$ 4,360,739
Property Tax Receivable	1,090,239
Accounts Receivable	41,985
Due from Other Minnesota School Districts	56,000
Due from Government Agencies	936,253
Inventory	8,196
Capital Assets Being Depreciated (Net)	14,859,103
TOTAL ASSETS	21,352,515
DEFERRED OUTFLOWS OF RESOURCES	
OPEB	148,440
Pensions	7,560,010
TOTAL DEFERRED OUTFLOWS OF RESOURCES	7,708,450
LIABILITIES	
Accounts Payable	56,517
Salaries Payable	311,422
Accrued Interest	50,077
Unearned Revenue	370,000
Payroll Deductions and Employer Contributions	200,275
Noncurrent Liabilities:	
Debt Due Within One Year	618,925
Debt Due After One Year	5,110,349
Net OPEB Liability Due After One Year	796,025
Net Pension Liability Due After One Year	13,728,456
TOTAL LIABILITIES	21,242,046
DEFERRED INFLOWS OF RESOURCES	
Property Taxes Levied for Subsequent Years	1,953,747
Pensions	2,377,618
TOTAL DEFERRED INFLOWS OF RESOURCES	4,331,365
NET POSITION	
Net Investment in Capital Assets	9,129,829
Restricted:	
General Fund State-Mandated Restrictions	133,773
Debt Service	6,200
Food Service	130,531
Community Service	84,398
Unrestricted	(5,997,177)
TOTAL NET POSITION	$ 3,487,554

See Accompanying Notes.

INDEPENDENT SCHOOL DISTRICT NO. 2180
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense)/ Revenue
Governmental Activities:				
Administration	$ 873,234	$ -	$ -	$ (873,234)
District Support Services	308,796	1,620	-	(307,176)
Regular Instruction	5,092,678	112,579	227,856	(4,752,243)
Vocational Instruction	105,025	-	-	(105,025)
Exceptional Instruction	1,686,762	9,318	675,475	(1,001,969)
Community Education and Services	584,713	199,999	41,096	(343,618)
Instructional Support Services	682,934	-	497	(682,437)
Pupil Support Services	1,362,536	152,296	357,235	(853,005)
Sites and Buildings	2,323,466	-	-	(2,323,466)
Fiscal and Other Fixed Costs Programs	43,352	-	-	(43,352)
Interest and Other Fiscal Charges	115,081	-	-	(115,081)
Total Governmental Activities	$ 13,178,577	$ 475,812	$ 1,302,159	(11,400,606)
General Revenues:				
Property Taxes				2,302,950
State Aid not Restricted to Specific Programs				6,382,142
Local Aid not Restricted to Specific Programs				68,372
Earnings on Investments				11,157
Gain on Disposal of Assets				4,061
Miscellaneous				278,390
Total General Revenues				9,047,072
CHANGE IN NET POSITION				(2,353,534)
NET POSITION - BEGINNING OF YEAR				6,553,391
CHANGE IN ACCOUNTING PRINCIPLE (See Note 6.D.)				(712,303)
NET POSITION - END OF YEAR				$ 3,487,554

INDEPENDENT SCHOOL DISTRICT NO. 2180
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Temporary Investments	$ 3,880,823	$ 346,290	$ 133,626	$ 4,360,739
Property Taxes Receivable:				
Current	733,352	292,180	26,248	1,051,780
Delinquent	26,955	10,536	968	38,459
Accounts Receivable	30,350	-	11,635	41,985
Due from Other Funds	122,713	-	-	122,713
Due from Other Minnesota School Districts	56,000	-	-	56,000
Due from Government Agencies	930,660	2,058	3,535	936,253
Inventory	-	-	8,196	8,196
TOTAL ASSETS	$ 5,780,853	$ 651,064	$ 184,208	$ 6,616,125
LIABILITIES				
Accounts Payable	$ 52,466	$ -	$ 4,051	$ 56,517
Salaries Payable	266,562	-	44,860	311,422
Due to Other Funds	-	-	122,713	122,713
Payroll Deductions and Employer Contributions	200,275	-	-	200,275
Unearned Revenue	370,000	-	-	370,000
Total Liabilities	889,303	-	171,624	1,060,927
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue:				
Delinquent Property Taxes	26,955	10,536	968	38,459
Property Taxes Levied for Subsequent Years	1,299,807	600,036	53,904	1,953,747
Total Deferred Inflows of Resources	1,326,762	610,572	54,872	1,992,206
FUND BALANCES				
Nonspendable	-	-	8,196	8,196
Restricted	133,773	40,492	214,929	389,194
Unassigned	3,431,015	-	(265,413)	3,165,602
Total Fund Balances	3,564,788	40,492	(42,288)	3,562,992
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 5,780,853	$ 651,064	$ 184,208	$ 6,616,125

See Accompanying Notes.

INDEPENDENT SCHOOL DISTRICT NO. 2180
RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Total Fund Balances - Governmental Funds		$ 3,562,992
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds:		
Capital Assets	$ 29,024,786	
Accumulated Depreciation	(14,165,683)	
Capital Assets (Net)		14,859,103
Long-term liabilities, including bonds and capital leases, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds:		
Bond Principal Payable	(4,390,000)	
Bond Premium, Net of Accumulated Amortization	(112,027)	
Capital Lease Payable	(1,227,247)	
		(5,729,274)
The net pension liability and related outflows/inflows represent the allocation of the pension obligations of the statewide plans to the District. Such balances are not reported in the funds:		
Net Pension Liability	(13,728,456)	
Deferred Outflows - Pensions	7,560,010	
Deferred Inflows - Pensions	(2,377,618)	
		(8,546,064)
The net OPEB liability represents the present value of projected unfunded future postemployment benefits other than pensions, as determined by an actuary as of the most recent measurement date. Such liability and related balances do not represent the impending use of current financial resources and therefore are not reported in the funds:		
Net OPEB Liability	(796,025)	
Deferred Outflows - OPEB	148,440	
		(647,585)
Interest on long-term debt is recognized as an expenditure when due and payable in the governmental funds. Therefore, interest is not accrued in the governmental funds Balance Sheet, but is accrued in the Statement of Net Position:		(50,077)
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred inflows of resources in the funds:		38,459
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 3,487,554

See Accompanying Notes.

INDEPENDENT SCHOOL DISTRICT NO. 2180
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local Property Tax Levies	$ 1,741,574	$ 505,854	$ 61,417	$ 2,308,845
Other Local and County Revenues	463,364	1,016	220,562	684,942
State Sources	7,050,667	20,578	89,479	7,160,724
Federal Sources	215,102	-	273,108	488,210
Sales and Other Conversions of Assets	721	-	152,296	153,017
TOTAL REVENUES	9,471,428	527,448	796,862	10,795,738
EXPENDITURES				
Current:				
Administration	754,685	-	-	754,685
District Support Services	293,019	-	-	293,019
Regular Instruction	3,939,194	-	-	3,939,194
Vocational Instruction	76,033	-	-	76,033
Exceptional Instruction	1,335,858	-	-	1,335,858
Community Education and Services	-	-	463,416	463,416
Instructional Support Services	416,975	-	-	416,975
Pupil Support Services	812,232	-	489,311	1,301,543
Sites and Buildings	1,332,480	-	-	1,332,480
Fiscal and Other Fixed Costs Programs	43,352	-	-	43,352
Capital Outlay	341,577	-	2,000	343,577
Debt Service:				
Principal	95,617	515,000	-	610,617
Interest and Other Fiscal Charges	44,559	51,463	-	96,022
TOTAL EXPENDITURES	9,485,581	566,463	954,727	11,006,771
DEFICIENCY OF REVENUES UNDER EXPENDITURES	(14,153)	(39,015)	(157,865)	(211,033)
OTHER FINANCING SOURCES				
Sale of Equipment	21,096	-	-	21,096
NET CHANGE IN FUND BALANCES	6,943	(39,015)	(157,865)	(189,937)
FUND BALANCES - BEGINNING	3,557,845	79,507	115,577	3,752,929
FUND BALANCES - ENDING	$ 3,564,788	$ 40,492	$ (42,288)	$ 3,562,992

INDEPENDENT SCHOOL DISTRICT NO. 2180
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Net Change in Fund Balances - Governmental Funds		$ (189,937)
Amounts reported for governmental activities in the Statement of Activities are different due to the following:		
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense:		
Capital Outlay Capitalized, Net of $13,500 Trade-In Value	$ 31,115	
Depreciation Expense	(968,425)	
Gain on Sale of Assets	4,061	
		(933,249)
The issuance of long-term debt provides current financial resources to governmental funds while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The amounts below are the effects of these differences in the treatment of long-term debt and related items:		
Capital Lease Principal Payments	95,617	
Bond Principal Repayments	515,000	
Amortization of Bond Premium	14,003	
		624,620
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due:		(33,062)
Certain revenues are recognized as soon as they are earned. Under the modified accrual basis of accounting certain revenues cannot be recognized until they are available to liquidate liabilities of the current period. This amount represents the change in deferred revenue for delinquent taxes in the current period:		
Property Taxes		(5,895)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Change in Severance Payable		9,561
Certain liabilities do not represent the impending use of current resources. Therefore, the changes in such liabilities and the related deferrals are not reported in the governmental funds:		
Net Pension Liability and Deferred Outflows/Inflows of Resources	(1,911,870)	
Net OPEB Liability and Deferred Outflows of Resources	86,298	
		(1,825,572)
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		$ (2,353,534)

See Accompanying Notes.

INDEPENDENT SCHOOL DISTRICT NO. 2180
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1.A. FINANCIAL REPORTING ENTITY

Independent School District No. 2180 (the District) is an educational entity established by the State of Minnesota. The government of the District is directed by an elected six-member Board of Education (the Board). The Board exercises legislative authority and determines all matters of policy. The Board appoints personnel responsible for the proper administration of all affairs relating to the District. The accompanying financial statements present the government entities for which the District is considered to be financially accountable.

The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. Based on these criteria, there are currently no entities considered to be component units of the District.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. In accordance with Minnesota State Statutes, the District's Board has elected to control and exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are included in the basic financial statements as part of the General Fund.

1.B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the primary government. For the most part, interfund activities have been removed from these statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

1.C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The financial statements of Independent School District No. 2180 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenses are classified by function for governmental activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (Continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to severance and claims and judgments, are recorded only when payment is due. In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character	Current (further classified by function)
	Capital Outlay
	Debt Service

Property taxes, intergovernmental revenue and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

The District reports the following major governmental funds:

The G*eneral Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the government reports the following nonmajor fund types:

The *Special Revenue Funds* account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

1.D. USE OF ESTIMATES

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND EQUITY

Deposits and Investments

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable participation by each of the funds. Temporary cash investments are stated at cost which approximates fair value. Investments in external investment pools are valued at the pool's share price.

Property Taxes Receivable

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

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

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become an enforceable lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as they are collected. 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.

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

Accounts Receivable

Accounts receivable include amounts billed for services provided before year end. No substantial losses are anticipated from present receivable balances; therefore, no allowance for uncollectible accounts is deemed necessary.

Due from Government Agencies

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

Inventory

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND EQUITY (Continued)

Capital Assets

Capital assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated acquisition value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing equipment and $25,000 or more for buildings and improvements. The system for accumulation of capital asset cost data does not provide the means for determining the percentage of assets valued at actual and those valued at estimated cost.

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

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.

Accrued Payroll Liabilities

Salaries pertaining to the school year ended June 30, 2018, which are payable in July and August 2018, are accrued as of June 30, 2018 and are shown as a liability on the accompanying financial statements. Liabilities for payroll taxes, amounts withheld from payroll checks and benefits accrued are also included.

Unearned Revenue

Unearned revenue consists of local revenue received but not yet earned. Such amounts typically consist of grants and entitlements received before eligibility requirements are met.

Postemployment Benefits Other Than Pensions (OPEB)

Under the provisions of the various employee and union contracts, the District provides health insurance coverage for varying lengths of time if certain age and minimum years of service requirements are met.

Long-Term Obligations

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums and discounts are deferred and are amortized over the life of the bonds using the straight line 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)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND EQUITY (Continued)

Net Pension Liability

The net pension liability represents the District's allocation of their pro-rata share of the Statewide General Employees Retirement Fund and Teachers Retirement Association net pension liabilities.

PERA

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 additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. 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

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

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

Interfund Transactions and Balances

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. If short-term in nature or incurred through goods and service type transactions, such interfund balances are reported as "due to/from other funds." Long-term interfund loans are reported as "advances to/from other funds." Interfund transactions and balances between governmental funds are eliminated in the Statement of Net Position.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The District reports deferred outflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds and OPEB plan in which District employees participate.

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The District reports property taxes levied for subsequent years as deferred inflows of resources in both the government-wide and governmental fund financial statements. The District reports delinquent property tax receivables as deferred inflows of resources in the governmental funds, in accordance with the modified accrual basis of accounting. In addition, the District reports deferred inflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds in which District employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

See Note 5 for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension activities.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES AND EQUITY (Continued)

Fund Balance

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

Nonspendable – Includes amounts that cannot be spent because they are either not in spendable form, or they are legally or contractually required to be maintained intact. The nonspendable fund balance at June 30, 2018 consists of inventory.

Restricted – Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

Committed – Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the Board of Education (the Board), which is the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board modifies or rescinds the commitment by resolution.

Assigned – Amounts that are neither restricted or committed but are constrained by the District's intent to be used for specific purposes. The Board has delegated the authority to assign fund balances to the District's Superintendent and Business Manager.

Unassigned – The residual classification for the General Fund and also negative residual amounts in other funds, if any. The District has formally adopted a policy under which it strives to maintain a minimum unassigned General Fund balance equal to approximately 20% of the annual budget.

When both restricted and unrestricted resources are available for use, it is the District's practice to first use restricted resources, and then use unrestricted resources as they are needed. If resources from more than one fund balance classification could be spent, the District will spend the resources from fund balance classifications in the following order: restricted, committed, assigned and unassigned, in accordance with the District's policy.

See Note 3.D. for additional disclosures.

Net Position

Net position represents the difference between the sum of assets and deferred outflows of resources and the sum of liabilities and deferred inflows of resources. Net position is displayed in three components:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquiring the capital assets.

Restricted Net Position – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

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

It is the District's policy to consider restricted net position to its depletion before unrestricted net position is applied.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1.F. RECENTLY ISSUED ACCOUNTING STANDARD

Effective June 30, 2018, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources and expense/expenditures for the District's Postemployment Benefit Plan.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

By its nature, the District is subject to various Federal, State, and local laws and contractual regulations. The District complies with all State and local laws and regulations requiring the use of separate funds.

2.A. BUDGETARY INFORMATION

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and major special revenue funds. Formal budgetary integration is employed as a management control device. All annual appropriations lapse at fiscal year-end. The School Board must approve revisions to budgeted amounts.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve the portion of the applicable appropriations, is employed by the District to assure effective budgetary control and to facilitate effective cash planning and control. All appropriations lapse at year-end. Encumbrance information, however, has not been incorporated into the financial statements.

The District's General Fund budget was amended during the year The revenues budget was increased by $529,751, and the expenditures budget was increased in several functions for an overall increase of $738,613 from original to final. The final budget called for expenditures of $9,336,764 and a decrease in fund balance of $250,101. Actual expenditures of $9,485,581 exceeded final budgeted amounts by $148,817.

2.B. DEFICIT FUND EQUITY

At June 30, 2018, the Community Service Fund has a deficit fund balance of $181,015. The deficit will be eliminated with future revenues.

NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS

3.A. DEPOSITS AND INVESTMENTS

Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits in financial institutions designated by the School Board. Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). The District complies with such laws.

Authorized collateral in lieu of a corporate surety bond includes:

- United States Government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated "A" or better;
- A revenue obligation of a state or local government, with taxing powers, rated "AA" or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank's public debt is rated "AA" or better by Moody's or Standard and Poor's; or
- Time deposits insured by any federal agency.

Minnesota Statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the District.

At June 30, 2018, the District's deposits were not exposed to custodial credit risk. The District's deposits were sufficiently covered by federal depository insurance or by collateral held by the District's agent in the District's name.

Investments

The District may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The District does not have any investment policies that would further limit investment choices.

NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.A. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool shares. The investment in the Minnesota School District Liquid Asset Fund is not subject to the credit risk classifications as noted in GASB Statement No. 72.

Investment balances at June 30, 2018 are as follows:

Type of Investments	Credit Rating	Segmented Time Distribution	Fair Value
Minnesota District Liquid Asset Fund	N/A	Less than 1 year	$ 3,622

The investments of the District are subject to the following risks:

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes limit the District's investments.

- Custodial credit risk is the risk that in the event of a failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District does not have a formal investment policy to address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.

- Concentration of Credit Risk is the risk associated with the magnitude of the District's investments (considered five percent or more) in the investments of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District has no formal policy limiting the amounts that may be invested in any one issuer. At June 30, 2018, the District does not have a significant concentration of credit risk.

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District has no formal policy to address interest rate risk.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The 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.

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

- Minnesota District Liquid Asset Fund valued at $3,622 is valued using significant other observable inputs (Level 2).

NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.A. DEPOSITS AND INVESTMENTS (Continued)

Deposits and Temporary Investments Summary

The following is a summary of total deposits and temporary investments:

Carrying Amount of Deposits	$ 4,357,117
Investments (see Investments section)	3,622
Total Cash and Temporary Investments	$ 4,360,739

3.B. CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Being Depreciated				
Buildings and Improvements	$ 28,243,421	$ -	$ 4,472	$ 28,238,949
Equipment	829,754	44,615	88,532	785,837
Total Capital Assets Being Depreciated	29,073,175	44,615	93,004	29,024,786
Less Accumulated Depreciation for				
Buildings and Improvements	12,713,789	909,534	4,472	13,618,851
Equipment	567,034	58,891	79,093	546,832
Total Accumulated Depreciation	13,280,823	968,425	83,565	14,165,683
Governmental Activities Capital Assets, Net	$ 15,792,352	$ (923,810)	$ 9,439	$ 14,859,103

NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.B. CAPITAL ASSETS (Continued)

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

Governmental Activities		
Administration	$	9,893
District Support Services		11,980
Regular Instruction		5,337
Instructional Support Services		2,524
Pupil Support Services		12,506
Sites and Buildings		926,185
Total Depreciation Expense - Governmental Activities	$	968,425

3.C. NONCURRENT LIABILITIES

General Obligation (G.O.) Bonds

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. Assets of the Debt Service Fund, together with scheduled future property tax levies, are dedicated for the retirement of these obligations. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

There are a number of limitations and restrictions contained in the general obligation bond indentures.

The interest rates are fixed rates that increase at a predetermined amount each year. District-wide interest and other fiscal charges for the year ended June 30, 2018 total $129,084 on the Statement of Activities. Fund financial statement interest and other fiscal charges for the year ended June 30, 2018 total $96,022. Interest expenses included in direct program expenses total $0; all bond interest and fees are included in interest and other fiscal charges.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds currently outstanding are as follows:

Description	Original Issue Amount	Interest Rates	Final Maturity Date	Balance Outstanding
Governmental Activities				
G.O. Alternative and Capital Facilities Bonds, Series 2013A	$ 5,960,000	1.00-3.00%	2/1/2026	$ 4,390,000

NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.C. NONCURRENT LIABILITIES (Continued)

Capital Lease

In February 2013, the District signed a lease/purchase agreement to finance energy conservation upgrades. Additional information, including the outstanding balance on the lease/purchase agreement at June 30, 2018, is as follows:

Description	Original Issue Amount	Interest Rate	Final Maturity Date	Balance Outstanding
Governmental Activities				
Equipment Lease	$ 1,605,507	3.43%	8/15/2028	$ 1,227,247

The carrying value of the assets acquired by the Equipment Lease is estimated to approximate the outstanding balance on the lease at June 30, 2018.

Debt Service Requirements

At June 30, 2018, estimated annual debt service requirements to maturity for the general obligation bonds are as follows:

	Governmental Activities		
Years Ending	G.O. Bonds		
June 30,	Principal	Interest	Total
2019	$ 520,000	$ 82,300	$ 602,300
2020	525,000	77,100	602,100
2021	530,000	71,850	601,850
2022	540,000	63,900	603,900
2023	550,000	55,800	605,800
2024-2026	1,725,000	100,200	1,825,200
Total	$ 4,390,000	$ 451,150	$ 4,841,150

At June 30, 2018, estimated annual debt service requirements to maturity for the capital lease are as follows:

	Governmental Activities		
Years Ending	Capital Lease		
June 30,	Principal	Interest	Total
2019	$ 98,925	$ 41,251	$ 140,176
2020	102,347	37,829	140,176
2021	105,887	34,289	140,176
2022	109,550	30,626	140,176
2023	113,340	26,836	140,176
2024-2028	628,292	72,588	700,880
2029	68,906	1,182	70,088
Total	$ 1,227,247	$ 244,601	$ 1,471,848

NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.C. NONCURRENT LIABILITIES (Continued)

Changes in Noncurrent Liabilities

Noncurrent liability activity for the year ended June 30, 2018, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
General Obligation Bonds	$ 4,905,000	$ -	$ (515,000)	$ 4,390,000	$ 520,000
Unamortized Premium	126,030	-	(14,003)	112,027	-
Capital Leases	1,322,864	-	(95,617)	1,227,247	98,925
Severance Payable	9,561	-	(9,561)	-	-
Long-Term Liabilities	$ 6,363,455	$ -	$ (634,181)	$ 5,729,274	$ 618,925

Bonds payable are typically funded through the Debt Service Fund. Capital leases and severance payable are typically funded through the General Fund.

3.D. FUND BALANCE CLASSIFICATIONS

At June 30, 2018, governmental fund equity includes the following:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable				
Inventory	$ -	$ -	$ 8,196	$ 8,196
Restricted for				
Staff Development	$ 75,762	$ -	$ -	$ 75,762
Health and Safety	25,019	-	-	25,019
Disabled Accessibility	2,273	-	-	2,273
Basic Skills Extended Time	7,573	-	-	7,573
Medical Assistance	23,146	-	-	23,146
Debt Service	-	40,492	-	40,492
Food Service	-	-	130,531	130,531
Early Childhood and Family Education	-	-	84,398	84,398
Total Restricted	$ 133,773	$ 40,492	$ 221,091	$ 395,356

NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.D. FUND BALANCE CLASSIFICATIONS (Continued)

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Safe Schools Levy	$ (65,539)	$ -	$ -	$ (65,539)
Long-Term Facility Maintenance	(111,207)	-	-	(111,207)
School Readiness	-	-	(21,888)	(21,888)
Community Education	-	-	(62,805)	(62,805)
Total Deficit UFARS Restrictions	$ (176,746)	$ -	$ (84,693)	$ (261,439)

Restricted for Staff Development - This amount represents available resources restricted for the training and development of District staff.

Restricted for Health and Safety - This amount represents available resources dedicated for capital expenditure health and safety projects. Revenues are derived from state aids and tax levies and expenditures are for necessary improvements for fire safety hazards, life safety hazards, asbestos removal and selected repairs and cleanup, removal, disposal, and repairs related to storing heating fuel or transportation fuel.

Restricted for Disabled Accessibility - This amount represents restricted resources for improving the accessibility of the school for disabled individuals.

Restricted for Basic Skills – Extended Time - This amount represents resources available for basic skills extended time uses.

Restricted for Medical Assistance - This amount represents available resources restricted for medical assistance expenditures.

Restricted for Debt Service - This amount represents restricted resources for debt service stipulated by constitution, external resource providers, or through enabling legislation.

Restricted for Food Service - This amount represents restricted resources for food service stipulated by constitution, external resource providers, or through enabling legislation.

Restricted for Early Childhood Family Education (ECFE) - This amount represents available resources for ECFE classes. Revenues are derived from local tax levies and state aids and expenditures are for salaries, benefits and supplies.

Restricted for Safe Schools Levy - This amount represents restricted resources for funding programs designed to increase school safety and awareness. Amount also represents resources restricted to pay for the salaries of student counselors, security, and other personnel employed for the purpose of providing early responses to problems. This restricted fund balance is allowed to be negative.

Restricted for Long-Term Facility Maintenance - This amount represents restricted resources for long-term facility maintenance stipulated by the District's long-term facility maintenance plan. This restricted fund balance is allowed to be negative.

Restricted for School Readiness - This amount represents the resources available to provide for services for school readiness programs, which includes aids, fees, grants and all other revenues received by the District for the program. This restricted fund balance is allowed to be negative.

Restricted for Community Education - This amount represents available resources for community education programming. Revenues are derived from tax levies and state aids and expenditures are for salaries, benefits and supplies. Any deficits can be eliminated by future tax levies, state aids and program revenues.

NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)

3.E. INTERFUND TRANSACTIONS AND BALANCES

Interfund balances at June 30, 2018 are as follows:

Due To Fund	Due From Fund	Amount	Reason
General	Community Service	$ 122,713	Eliminate negative cash balance
Total Interfund Balances		122,713	
Governmental Fund Elimination		(122,713)	
Government-wide Internal Balances		$ -	

The interfund balances above are to be repaid as cash flows become available in the Community Service Fund.

NOTE 4 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The District operates a single-employer defined benefit healthcare plan (the Plan), through which the District provides postemployment benefits to eligible retirees and their families. As of the most recent actuarial valuation date, there were 121 active employees and 9 retirees participating in the plan. The Plan does not issue a publicly available financial report.

Benefits Provided

The District offers continuing group health insurance coverage after retirement for qualifying District employees. Teachers and Certain other District personnel who retire from active service may continue their single or family coverage, at their expense, through the District plan if they retire after reaching the age of 55 with at least 3 years of uninterrupted service in the District. Benefits and eligibility provisions have been established through negotiations between the District and the union representing the District's teachers and are renegotiated every two-year bargaining period.

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

Contributions

The District has historically funded these liabilities on a pay-as-you-go basis, in amounts contractually required to satisfy the benefit terms discussed above. For the year ended June 30, 2018, the District contributed $148,440, which includes an implicit subsidy of $59,495 resulting from the arrangement described above.

NOTE 4 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Net OPEB Liabilities, OPEB Expense and Deferred Outflows/Inflows of Resources

At June 30, 2018, the District reported a net OPEB liability of $796,025 for the District's plan. The net OPEB liability was measured as of July 1, 2017, as determined by an actuarial valuation as of that date.

For the year ended June 30, 2018, the District recognized OPEB expense of $62,142. At June 30, 2018, the District reported deferred outflows of resources of $148,440 related to OPEB, for District contributions to the Plan paid subsequent to the measurement date. Such contributions will be recognized in OPEB expense during the reporting period ending June 30, 2019.

Changes in the Net OPEB Liability

The following table summarizes changes in the net OPEB liability for the year ended June 30, 2018:

Changes in Total OPEB Liability (TOL)	
Balance at July 1st	$ 796,230
Service Cost	34,934
Interest Cost	27,208
Benefit Payments	(62,347)
Net OPEB Liability - June 30th	$ 796,025

Actuarial Assumptions

The following is a summary of pertinent actuarial assumptions and methods utilized, applied to all periods included in the measurement, unless otherwise specified:

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information:	
Valuation Date	July 1, 2017
Measurement Date	July 1, 2017
Actuarial Cost Method	Entry Age Normal, level percentage of pay
Actuarial Assets	None
Amortization of Deferred Resource Flows	Average of expected remaining service on a closed basis for differences between expected and actual experience and assumption changes.

Actuarial Assumptions:	
Discount Rate	3.40%
20-Year Municipal Bond Yield	3.40%
Inflation Rate	2.50%
Salary Increases	3.00%
Medical Trend Rate	6.50% as of July 1, 2017 grading to 5.00% over 6 years

Mortality rates were based on the RP-2014 mortality tables along with the MP-2016 Generational Improvement Scale.

NOTE 4 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Actuarial Assumptions (Continued)

Significant changes in assumptions, benefit terms, and other inputs since the prior measurement date include:

Changes in Plan Provisions

- A post-employment subsidized retirement benefit for Teachers hired prior to July 1, 1989 was added. The subsidy is a lump sum equal to years of service multiplied by $200 paid to a HCSP.

Changes in Actuarial Assumptions

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from RP-2014 White Collar Mortality Tables with scale MP-2015 General Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.
- The discount rate was changed from 3.50% to 3.40%.

Net OPEB Liability Sensitivity

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

Sensitivity of Net OPEB Liability at Current Single Discount Rate

	Rates	Amounts
1% Increase in Discount Rate	4.40%	$757,681
Current Discount Rate	3.40%	$796,025
1% Decrease in Discount Rate	2.40%	$835,911

The following presents the net OPEB liability, calculated using the healthcare cost trend rates disclosed in the preceding section, as well as what the District's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

Sensitivity of Net OPEB Liability at Current Healthcare Cost Trend Rate

	Amounts
1% Increase in Healthcare Trend Rates	$855,923
Current Healthcare Trend Rates	$796,025
1% Decrease in Healthcare Trend Rates	$744,150

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE

5.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION

Plan Description

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

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.

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 service.

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 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent 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 50.0 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.

Contributions

Minnesota Statutes Chapter 353 sets 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 6.50 percent of their annual covered salary in fiscal year 2018; the District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2018 were $110,928. The District's contributions were equal to the required contributions as set by State Statute.

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

5.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Pension Costs

General Employees Fund Pension Costs

At June 30, 2018 the District reported a liability of $1,277,630 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 $16,044. 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 proportionate share was 0.0200% which was an increase of 0.0003% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $56,033 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional $464 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 the General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 42,106	$ 81,095
Changes in actuarial assumptions	209,125	128,083
Differences between projected and actual investment earnings	-	57,582
Changes in proportion	10,881	15,830
Contributions paid to PERA subsequent to the measurement date	110,928	-
Total Deferred Outflows/Inflows	$ 373,040	$ 282,590

A total of $110,928 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 deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense
2019	$ (19,224)
2020	$ 74,375
2021	$ (21,395)
2022	$ (54,234)

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

5.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions:

Assumptions	Rates
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 the General Employees Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be one percent per year for all future years.

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.

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

- The Combined Service Annuity (CSA) loads were changed from 0.80 percent for active members and 60.00 percent for vested and non-vested deferred members. The revised CSA loads are now 0.00 percent for active member liability, 15.00 percent for vested deferred member liability, and 3.00 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year for all years to 1.00 percent per year through 2044 and 2.50 percent 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%	

Discount Rate

The discount rate used to measure the total pension liability in 2017 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

5.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)

Pension Liability Sensitivity

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

Sensitivity of Net Pension Liability at Current Single Discount Rate		
	Rates	Amounts
1% Increase in Discount Rate	8.50%	$701,222
Current Discount Rate	7.50%	$1,277,630
1% Decrease in Discount Rate	6.50%	$1,981,699

Pension Plan Fiduciary Net Position

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

5.B. TEACHERS RETIREMENT ASSOCIATION

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 schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and 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 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.

Benefits Provided

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

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

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

5.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Benefits Provided (Continued)

Tier 1 Benefits

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

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.

(b) 3.0 percent per year early retirement reduction factor for all years under normal retirement age.

(c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

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

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

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

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

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

5.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

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 District's contributions to TRA for the plan's fiscal year ended June 30, 2018, were $267,015. The District's contributions were equal to the required contributions for each year as set by State Statute.

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.

	In thousands
Employer contributions reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position	$367,791
Add 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 Allocations*	$403,733

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.

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

5.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

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 10 years and 3.25%, thereafter
Projected salary increase	2.85 to 8.85% for 10 years and 3.25 to 9.25%, thereafter
Cost of living adjustment	2.0%
Mortality Assumptions:	
Pre-retirement:	RP - 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP - 2015 scale.
Post-retirement:	RP - 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP - 2015 scale.
Post-disability:	RP - 2014 disabled retiree mortality table, without adjustment.

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

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

Asset Class	Target 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%
Unallocated Cash	2%	0.00%
Total	100%	

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

5.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Actuarial Assumptions (Continued)

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

Changes in Actuarial Assumptions Since the 2016 Valuation:

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

Discount Rate

The discount rate used to measure the total pension liability was 5.12 percent. This is an increase from the discount rate at the prior measurement date of 4.66 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 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 the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50 percent) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56 percent was applied to periods on and after 2053, resulting in a SEIR of 5.12 percent. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01 percent).

Net Pension Liability

On June 30, 2018, the District reported a liability of $12,450,826 for its proportionate share of TRA's 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's proportionate share was 0.0624% at the end of the measurement period and 0.0627% for the beginning of the year.

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

5.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Net Pension Liability (Continued)

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

District's proportionate share of net pension liability	$12,450,826
State's proportionate share of the net pension liability associated with the District	$1,203,314

For the year ended June 30, 2018, the District recognized pension expense of $309,789. It also recognized $23,079 as pension expense for the support provided by direct aid.

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 economic experience	$ 95,753	$ 87,432
Changes in actuarial assumptions	6,814,388	1,744,163
Differences between projected and actual investment earnings	-	94,653
Changes in proportion	9,814	168,780
Contributions paid to TRA subsequent to the measurement date	267,015	-
Total Deferred Outflows/Inflows	$ 7,186,970	$ 2,095,028

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

Year Ended June 30,	Pension Expense
2019	$ 1,264,280
2020	$ 1,490,063
2021	$ 1,351,460
2022	$ 1,100,801
2023	$ (381,677)

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)

5.B. TEACHERS RETIREMENT ASSOCIATION (Continued)

Pension Liability Sensitivity

The following presents the net pension liability of TRA calculated using the discount rate of 5.12 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower (4.12 percent) or one percent higher (6.12 percent) than the current rate.

Sensitivity of Net Pension Liability to Changes in the Discount Rate

	Rates	Amounts
1% Increase in Discount Rate	6.12%	$9,093,629
Current Discount Rate	5.12%	$12,450,826
1% Decrease in Discount Rate	4.12%	$16,432,691

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.

Pension Plan Fiduciary Net Position

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

NOTE 6 OTHER INFORMATION

6.A. COMMITMENTS AND CONTINGENCIES

Federal and State Programs

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

Construction Contracts

During the year ended June 30, 2018, the District contracted for construction services for work to be done in fiscal year 2019. The District's commitment under this contract approximates $501,675.

6.B. RISK MANAGEMENT – CLAIMS AND JUDGMENTS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage these risks, the District purchases commercial insurance. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years. The District is also self-insured for state reemployment compensation insurance.

NOTE 6 OTHER INFORMATION (Continued)

6.C. OTHER EMPLOYEE BENEFITS

Health Insurance

The District has joined together with other school districts in Minnesota in the South Central - West Central Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as common risk management and insurance program for member districts. The District pays an annual premium to this plan for its health insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating districts for future losses sustained is extremely remote.

Defined Contribution Plan

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the Plan). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District's contributions to the plan total $32,914 for the year ended June 30, 2018.

6.D. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2018, the District determined adjustments to beginning government-wide net position were necessary to conform to the financial statement presentation prescribed under the newly adopted standard previously discussed in Note 1.F. Adjustments were made to revise the balance of the of the net OPEB liability and recorded related deferred outflows of resources at the beginning of the year, as determined by an actuary in accordance with the newly applied standards.

The following table depicts the impact of the change in accounting principle on government-wide beginning net position:

Beginning Net Position	$ 6,553,391
Add: Additional Net OPEB Liability at 7/1/17	(774,650)
Add: Deferred Ouflows of Resources at 7/1/17	62,347
Beginning Net Position - Restated	$ 5,841,088

REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 2180
BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Amounts Budgetary	Variance with Final Budget
	Original	Final	Basis	Over (Under)
REVENUES				
Local Property Tax Levies	$ 1,621,256	$ 1,653,718	$ 1,741,574	$ 87,856
Other Local and County Revenues	142,863	502,718	463,364	(39,354)
State Sources	6,580,038	6,690,513	7,050,667	360,154
Federal Sources	205,000	232,259	215,102	(17,157)
Sales and Other Conversions of Assets	400	100	721	621
TOTAL REVENUES	8,549,557	9,079,308	9,471,428	392,120
EXPENDITURES				
Administration	623,285	676,434	754,685	78,251
District Support Services	244,962	282,190	293,019	10,829
Regular Instruction	3,609,651	3,947,592	3,939,194	(8,398)
Vocational Instruction	126,204	74,766	76,033	1,267
Exceptional Instruction	1,376,803	1,334,571	1,335,858	1,287
Instructional Support Services	353,991	400,907	416,975	16,068
Pupil Support Services	740,503	779,676	812,232	32,556
Site and Buildings	857,841	1,235,052	1,332,480	97,428
Fiscal and Other Fixed Costs Programs	105,420	78,200	43,352	(34,848)
Capital Outlay	419,315	387,200	341,577	(45,623)
Debt Service:				
Principal	90,875	95,617	95,617	-
Interest and Other Charges	49,301	44,559	44,559	-
TOTAL EXPENDITURES	8,598,151	9,336,764	9,485,581	148,817
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(48,594)	(257,456)	(14,153)	243,303
OTHER FINANCING SOURCES				
Sale of Equipment	-	7,355	21,096	13,741
NET CHANGE IN FUND BALANCES	$ (48,594)	$ (250,101)	6,943	$ 257,044
FUND BALANCES - BEGINNING			3,557,845	
FUND BALANCES - ENDING			$ 3,564,788	

INDEPENDENT SCHOOL DISTRICT NO. 2180
SCHEDULE OF CHANGES IN DISTRICT'S NET OPEB LIABILITY
LAST TEN YEARS (Presented Prospectively)

		2017
Changes in Total OPEB Liability (TOL)		
Balance at July 1st	$	796,230
Service Cost		34,934
Interest Cost		27,208
Benefit Payments		(62,347)
Balance at June 30th	$	796,025
Covered Payroll	$	4,341,262
Net OPEB Liability (Asset) / Covered Payroll		18.3%

Note: The schedule is provided prospectively beginning with the District's fiscal year ended June 30, 2018 (June 30, 2017 measurement period) and is intended to show a ten year trend. Additional years will be reported as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 2180
SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS
LAST TEN YEARS (Presented Prospectively)

For the Year Ended June 30,	Contractually Required Contribution	Contributions in Relation to the Contractually Required Contribution	Contribution Deficiency (Excess)	District's Covered Payroll	Contribution as a Percentage of Covered Payroll
2018	$ 148,440	$ 148,440	$ -	$ 4,675,175	3.4%

Note: The schedule is provided prospectively beginning with the District's fiscal year ended June 30, 2018 and is intended to show a ten year trend. Additional years will be reported as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 2180
SCHEDULE OF DISTRICT'S PROPORTIONATE
SHARE OF NET PENSION LIABILITY
LAST TEN YEARS (Presented Prospectively)

For the Measurement Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the District (a+b)	District's Covered Payroll (c)	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
General Employees Retirement Fund							
2017	0.0200%	$ 1,277,630	$ 16,044	$ 1,293,674	$ 1,276,880	101.3%	75.9%
2016	0.0197%	$ 1,602,072	$ 20,840	$ 1,622,912	$ 1,182,803	137.2%	68.9%
2015	0.0198%	$ 1,026,139	$ -	$ 1,026,139	$ 1,169,792	87.7%	78.2%
2014	0.0208%	$ 977,080	$ -	$ 977,080	$ 1,097,613	89.0%	78.7%
Teachers Retirement Association							
2017	0.0624%	$ 12,450,826	$ 1,203,314	$ 13,654,140	$ 3,560,200	383.5%	51.6%
2016	0.0627%	$ 14,966,994	$ 1,502,418	$ 16,469,412	$ 3,281,731	501.9%	44.9%
2015	0.0637%	$ 3,940,475	$ 483,746	$ 4,424,221	$ 3,245,051	136.3%	76.8%
2014	0.0652%	$ 3,004,369	$ 211,135	$ 3,215,504	$ 3,053,730	105.3%	81.5%

Note: Schedule is provided prospectively beginning with the District's fiscal year ended June 30, 2015 (June 30, 2014 measurement period) and is intended to show a ten year trend. Additional years will be reported as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 2180
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
LAST TEN YEARS (Presented Prospectively)

For the Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
General Employees Retirement Fund					
2018	$ 110,928	$ 110,928	$ -	$ 1,479,040	7.5%
2017	$ 95,766	$ 95,766	$ -	$ 1,276,880	7.5%
2016	$ 88,624	$ 88,624	$ -	$ 1,182,803	7.5%
2015	$ 86,523	$ 86,523	$ -	$ 1,169,792	7.4%
Teachers Retirement Association					
2018	$ 267,015	$ 267,015	$ -	$ 3,560,200	7.5%
2017	$ 254,895	$ 254,895	$ -	$ 3,398,600	7.5%
2016	$ 245,806	$ 245,806	$ -	$ 3,281,731	7.5%
2015	$ 243,379	$ 243,379	$ -	$ 3,245,051	7.5%

Note: Schedule is provided prospectively beginning with the District's fiscal year ended June 30, 2015 and is intended to show a ten year trend. Additional years will be reported as they become available.

NOTE 1 PUBLIC EMPLOYEES RETIREMENT PLAN – GENERAL EMPLOYEES FUND

2017 Changes

Changes in Actuarial Assumptions

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

NOTE 2 TEACHERS RETIREMENT ASSOCIATION

2017 Changes

<u>Changes in Actuarial Assumptions</u>

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

2016 Changes

<u>Changes in Actuarial Assumptions</u>

- 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 6 years and female rates set back 5 years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989 were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes

<u>Changes in Plan Provisions</u>

- The DTRFA was merged into TRA on June 30, 2015.

<u>Changes in Actuarial Assumptions</u>

- 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%.

NOTE 3 OTHER POSTEMPLOYMENT BENEFIT PLAN

2018 Changes

Changes in Plan Provisions

- A post-employment subsidized retirement benefit for Teachers hired prior to July 1, 1989 was added. The subsidy is a lump sum equal to years of service multiplied by $200 paid to a HCSP.

Changes in Actuarial Assumptions

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.
- The discount rate was changed from 3.50% to 3.40%.

Method Changes

- The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.

SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 2180
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018

	Food Service Fund	Community Service Fund	Total Nonmajor Governmental Funds
ASSETS			
Cash and Temporary Investments	$ 133,626	$ -	$ 133,626
Property Taxes Receivable:			
Current	-	26,248	26,248
Delinquent	-	968	968
Accounts Receivable	-	11,635	11,635
Due from Government Agencies	-	3,535	3,535
Inventory	8,196	-	8,196
TOTAL ASSETS	$ 141,822	$ 42,386	$ 184,208
LIABILITIES			
Accounts Payable	$ 530	$ 3,521	$ 4,051
Salaries Payable	2,565	42,295	44,860
Due to Other Funds	-	122,713	122,713
Total Liabilities	3,095	168,529	171,624
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue:			
Delinquent Property Taxes	-	968	968
Property Taxes Levied for Subsequent Years	-	53,904	53,904
Total Deferred Inflows of Resources	-	54,872	54,872
FUND BALANCES			
Nonspendable Inventory	8,196	-	8,196
Restricted:			
Food Service	130,531	-	130,531
Early Childhood and Family Education	-	84,398	84,398
Unassigned	-	(265,413)	(265,413)
Total Fund Balances	138,727	(181,015)	(42,288)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	$ 141,822	$ 42,386	$ 184,208

INDEPENDENT SCHOOL DISTRICT NO. 2180
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

	Food Service Fund	Community Service Fund	Total Nonmajor Governmental Funds
REVENUES			
Local Property Tax Levies	$ -	$ 61,417	$ 61,417
Other Local and County Revenues	383	220,179	220,562
State Sources	52,045	37,434	89,479
Federal Sources	273,108	-	273,108
Sales and Other Conversions of Assets	152,296	-	152,296
TOTAL REVENUES	477,832	319,030	796,862
EXPENDITURES			
Community Education and Services	-	463,416	463,416
Pupil Support Services	489,311	-	489,311
Capital Outlay	2,000	-	2,000
TOTAL EXPENDITURES	491,311	463,416	954,727
NET CHANGE IN FUND BALANCES	(13,479)	(144,386)	(157,865)
FUND BALANCES - BEGINNING	152,206	(36,629)	115,577
FUND BALANCES - ENDING	$ 138,727	$ (181,015)	$ (42,288)

INDEPENDENT SCHOOL DISTRICT NO. 2180
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
FOR THE YEAR ENDED JUNE 30, 2018

01 GENERAL FUND	Audited	UFARS	Difference
Total Revenue	9,471,428	9,471,431	(3)
Total Expenditures	9,485,581	9,485,580	1
Non Spendable:			
460 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
403 Staff Development	75,762	75,762	-
406 Health & Safety	25,019	25,019	-
407 Capital Projects Levy	-	-	-
408 Cooperative Revenue	-	-	-
413 Project Funded by COP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maint	-	-	-
423 Certain Teacher Programs	-	-	-
424 Operating Capital	-	-	-
426 $25 Taconite	-	-	-
427 Disabled Accessibility	2,273	2,273	-
428 Learning & Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alt. Programs	-	-	-
436 St. Approved Alt. Program	-	-	-
438 Gifted & Talented	-	-	-
440 Teacher Development & Eval	-	-	-
441 Basic Skills Programs	-	-	-
445 Career & Tech Programs	-	-	-
448 Achievement & Integration	-	-	-
449 Safe Schools Levy	(65,539)	(65,539)	-
450 Prekindergarten	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liab Not in Trust	-	-	-
453 Unfunded Sev. & Retirement	-	-	-
459 Basic Skils Ext Time	7,573	7,573	-
467 LTFM	(111,207)	(111,207)	-
472 Medical Assistance	23,146	23,146	-
Restricted:			
464 Restricted Fund Balance	-	-	-
475 Title VII - Impact Aid	-	-	-
476 PILT	-	-	-
Committed:			
418 Committed for Separation	-	-	-
461 Committed Fund Balance	-	-	-
Assigned:			
462 Assigned Fund Balance	-	-	-
Unassigned:			
422 Unassigned Fund Balance	3,607,761	3,607,762	(1)

02 FOOD SERVICE	Audited	UFARS	Difference
Total Revenue	477,832	477,833	(1)
Total Expenditures	491,311	491,311	-
Non Spendable:			
460 Non Spendable Fund Balance	8,196	8,196	-
Restricted/Reserve:			
452 OPEB Liab. Not in Trust	-	-	-
Restricted:			
464 Restricted Fund Balance	130,531	130,532	(1)
Unassigned:			
463 Unassigned Fund Balance	-	-	-

04 COMMUNITY SERVICE	Audited	UFARS	Difference
Total Revenue	319,030	319,031	(1)
Total Expenditures	463,416	463,417	(1)
Non Spendable:			
460 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
426 $25 Taconite	-	-	-
431 Community Education	(62,805)	(62,805)	-
432 E.C.F.E.	84,398	84,398	-
440 Teacher Development and Eval	-	-	-
444 School Readiness	(21,888)	(21,887)	(1)
447 Adult Basic Education	-	-	-
452 OPEB Liab. Not in Trust	-	-	-
Restricted:			
464 Restricted Fund Balance	-	-	-
Unassigned:			
463 Unassigned Fund Balance	(180,720)	(180,721)	1

06 BUILDING CONSTRUCTION	Audited	UFARS	Difference
Total Revenue	-	-	-
Total Expenditures	-	-	-
Non Spendable:			
460 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
407 Capital Projects Levy	-	-	-
413 Projects Funded by COP	-	-	-
467 LTFM	-	-	-
Restricted:			
464 Restricted Fund Balance	-	-	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-

07 DEBT SERVICE	Audited	UFARS	Difference
Total Revenue	527,448	527,449	(1)
Total Expenditures	566,463	566,463	-
Non Spendable:			
460 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:			
425 Bond Refundings	-	-	-
433 Max Effort Loan	-	-	-
451 QZAB Payments	-	-	-
467 LTFM	-	-	-
Restricted:			
464 Restricted Fund Balance	40,492	40,492	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-

08 TRUST	Audited	UFARS	Difference
Total Revenue	-	-	-
Total Expenditures	-	-	-
422 Net Assets	-	-	-

20 INTERNAL SERVICE	Audited	UFARS	Difference
Total Revenue	-	-	-
Total Expenditures	-	-	-
422 Net Assets	-	-	-

25 OPEB REVOCABLE TRUST FUND	Audited	UFARS	Difference
Total Revenue	-	-	-
Total Expenditures	-	-	-
422 Net Assets	-	-	-

45 OPEB IRREVOCABLE TRUST FUND	Audited	UFARS	Difference
Total Revenue	-	-	-
Total Expenditures	-	-	-
422 Net Assets	-	-	-

47 OPEB DEBT SERVICE FUND	Audited	UFARS	Difference
Total Revenue	-	-	-
Total Expenditures	-	-	-
Non Spendable:			
460 Non Spendable Fund Balance	-	-	-
Restricted:			
425 Bond Refundings	-	-	-
464 Restricted Fund Balance	-	-	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-

OTHER REQUIRED
REPORTS

SCHLENNER
WENNER & CO.
CERTIFIED PUBLIC ACCOUNTANTS
& BUSINESS CONSULTANTS

Professional Association

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

December 5, 2018

Members of the Board of Education
Independent School District No. 2180
Clara City, 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. 2180 (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Independent School District No. 2180's basic financial statements and have issued our report thereon dated December 5, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 2180's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying *Schedule of Findings and Responses* to be material weaknesses: 2016-001 and 2016-003.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiency described in the accompanying *Schedule of Findings and Responses* to be a significant deficiency: 2016-002.

St. Cloud 320.251.0286 | Little Falls 320.632.6311 | Albany 320.845.2940 | Maple Lake 320.963.5414 | Monticello 763.295.5070

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 Findings

Independent School District No. 2180's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses* and *Corrective Action Plans*. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Schlenner Wenner & Co.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

INDEPENDENT AUDITORS' REPORT ON
MINNESOTA LEGAL COMPLIANCE

December 5, 2018

Members of the Board of Education
Independent School District No. 2180
Clara City, 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. 2180, Clara City, Minnesota (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2018.

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

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 reported in the accompanying *Schedule of Findings and Responses* as finding 2018-001. 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.

Schlenner Wenner & Co.

SCHLENNER WENNER & CO.
St. Cloud, Minnesota

St. Cloud 320.251.0286
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Albany 320.845.2940
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Monticello 763.295.5070

INDEPENDENT SCHOOL DISTRICT NO. 2180
SCHEDULE OF FINDINGS AND RESPONSES
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENT FINDINGS

Finding 2016-001	**Limited Segregation of Duties**
Condition:	During our audit we reviewed procedures over cash receipts, cash disbursements, payroll and financial reporting and found the District to have limited segregation of duties over those transaction cycles.
Criteria:	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. In other words, no one person may have control over two or more of these responsibilities.
Cause:	Limited number of staff members.
Effect:	The existence of limited segregation of duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.
Recommendation:	Although the number of staff members may not be large enough to eliminate this deficiency, we recommend that the District evaluate current procedures and segregate where possible and implement compensating controls. It is important that the Board is aware of this condition and monitor all financial information.
Views of Responsible Officials and Planned Corrective Actions:	Management agrees with the recommendation. See corresponding Corrective Action Plan.

Finding 2016-002	**Financial Statement Preparation**
Condition:	Schlenner Wenner & Co. drafted the audited financial statements and related footnote disclosures for the District. It is management's responsibility to provide for the preparation of financial statements and the auditors' responsibility to determine the fairness of the presentation.
Criteria:	Internal controls over financial reporting should be in place to provide for the preparation of financial statements on an annual basis.
Cause:	The District's staff does not possess the expertise to prepare financial statements internally. This is not unusual for an organization of your size.
Effect:	The inability to internally prepare the District's financial statements can result in undetected errors in financial reporting.
Recommendation:	We recommend that management review a draft of the financial statements in detail for accuracy. During review we recommend a disclosure checklist be utilized to ensure all required disclosures are presented and the District should agree the financial statement numbers to their accounting software. The District may not have the ability to eliminate this finding.

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2016-002 **Financial Statement Preparation** (Continued)

Views of Responsible Officials and Planned Corrective Actions: The District will continue to have the auditor assist in preparation of the financial statements. The District will continue to document an annual review of the audited financial statements by having the auditor meet with the District personnel to review the financial statements and related footnote disclosures.

Finding 2016-003 **Material Audit Adjustments**

Condition: Audit adjustments were required to correct material misstatements identified in the trial balance presented for the audit.

Criteria: The District is required to report accurate financial information.

Cause: The District failed to record adjustments for various year-end entries.

Effect: The misstatement in the trial balance presented for the audit resulted in the need to record audit adjustments to achieve fair financial statement presentation under accounting principles generally accepted in the United States of America.

Recommendation: We recommend management perform a thorough review of the trial balance prior to the audit and ensure all transactions have been properly recorded.

Views of Responsible Officials and Planned Corrective Action: Management agrees with the recommendation. See corresponding Corrective Action Plan.

LEGAL COMPLIANCE FINDINGS

Finding 2018-001 **Withholding Affidavit for Contractors**

Condition: The District failed to obtain certification from contractors that a *Withholding Affidavit for Contractors* was submitted to the Department of Revenue.

Criteria: Under Minnesota Statute 270C.66, the District is required to obtain certification from contractors that a *Withholding Affidavit for Contractors* was submitted to the Department of Revenue prior to making final payment to each contractor.

Cause: The District failed to obtain certification before making final payments to contractors.

Effect: The failure to obtain such certification resulted in the District’s noncompliance with Minnesota Statutes.

LEGAL COMPLIANCE FINDINGS (Continued)

Finding 2018-001 **Withholding Affidavit for Contractors** (Continued)

Recommendation: We recommend management adopt a policy under which it requires contractors to provide documentation that a *Withholding Affidavit for Contractors* was submitted to the Department of Revenue prior to the District making final payment for new construction.

Views of Responsible Officials and Planned Corrective Actions: Management agrees with the recommendation. See corresponding Corrective Action Plan.

INDEPENDENT SCHOOL DISTRICT NO. 2180
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENT FINDINGS

Finding 2016-001 Limited Segregation of Duties

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

2. Actions Planned in Response to Finding
   The District currently has the following procedures in place:
   - The Board of Education reviews the monthly invoices and approves the expenditures.
   - A Region accountant assists the Business Manager with journal entries and the coding of receipts and disbursements.

   The District will review current procedures and implement additional controls where possible.

3. Official Responsible
   Sherri Broderius, Interim Superintendent, is the official responsible for ensuring corrective action.

4. Planned Completion Date
   The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.

5. Plan to Monitor Completion
   The Board of Education will be monitoring the Corrective Action Plan.

Finding 2016-002 Financial Statement Preparation

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 continue to have the auditor prepare the financial statements; however, the District will document the annual review of the financial statements and related footnote disclosures.

3. Official Responsible
   Sherri Broderius, Interim Superintendent, is the official responsible for ensuring corrective action.

4. Planned Completion Date
   The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.

5. Plan to Monitor Completion
   The Board of Education will be monitoring the Corrective Action Plan.

INDEPENDENT SCHOOL DISTRICT NO. 2180
CORRECTIVE ACTION PLANS
FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENT FINDINGS (Continued)

Finding 2016-003 Material Audit Adjustments

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 thoroughly review the trial balance prior to audit fieldwork and make any adjusting entries before submitting the trial balance to the auditors.

3. Official Responsible
   Sherri Broderius, Interim Superintendent, is the official responsible for ensuring corrective action.

4. Planned Completion Date
   The Corrective Action Plan will be reviewed on an ongoing basis with no anticipated completion date.

5. Plan to Monitor Completion
   The Board of Education will be monitoring the Corrective Action Plan.

LEGAL COMPLIANCE FINDINGS

Finding 2018-001 Withholding Affidavit for Contractors

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

6. Actions Planned in Response to Finding
   The District will adopt a policy under which it requires contractors to provide documentation that a *Withholding Affidavit for Contractors* was submitted to the Department of Revenue prior to the District making final payment on a contract for new construction.

7. Official Responsible
   Sherri Broderius, Interim Superintendent, is the official responsible for ensuring corrective action.

8. Planned Completion Date
   June 30, 2019.

6. Plan to Monitor Completion
   The Board of Education will be monitoring the Corrective Action Plan.