Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota

Financial Statements

June 30, 2018

bergan KDV
CPAS | ADVISORS

Independent School District No. 877
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Independent School District No. 877
Board of Education and Administration
June 30, 2018

Board of Education	Position	Term Expires
Dave Wilson	Chairperson	December 31, 2019
Sue Lee	Vice Chairperson	December 31, 2019
Melissa Brings	Clerk	December 31, 2019
Laurie Raymond	Treasurer	December 31, 2019
Bob Sansevere	Director	December 31, 2021
Amanda Reineck	Director	December 31, 2021
Ken Ogden	Director	December 31, 2021

Administration	
Scott Thielman	Superintendent
Gary Kawlewski	Director of Finance and Operations
Miranda Kramer	Controller

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Independent Auditor's Report

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, 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. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

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

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

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

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

BerganKDV, Ltd.
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Opinions
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota, as of June 30, 2018, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

Other Matters (Continued)

Other Information (Continued)

The accompanying supplementary information identified in the Table of Contents and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects in relation to the basic financial statements as a whole.

Report on Summarized Comparative Information

The financial statements include partial prior year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statement for the year ended June 30, 2017, from which such partial information was derived.

We have previously audited the District's 2017 financial statements and our report, dated October 16, 2017, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BerganKDV Ltd.

Minneapolis, Minnesota
October 8, 2018

Independent School District No. 877
Management's Discussion and Analysis

This section of Independent School District No. 877's (the "District") annual financial report presents a discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

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

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2017-2018 fiscal year include the following:

- The District's total combined net position decreased 69.9% over the course of the year and was a negative $36.8 million at June 30, 2018. This change was directly related to the recognition of the district's portion of the net TRA and PERA pension liability from the State of Minnesota.

- During the year, the District's expenses were $94.0 million and its revenues were $78.9 million. Revenues decreased by $.3 million from the prior year.

- The General Fund reported an unassigned fund balance this year of $8.28 million.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are the district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.

- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide financial statements.

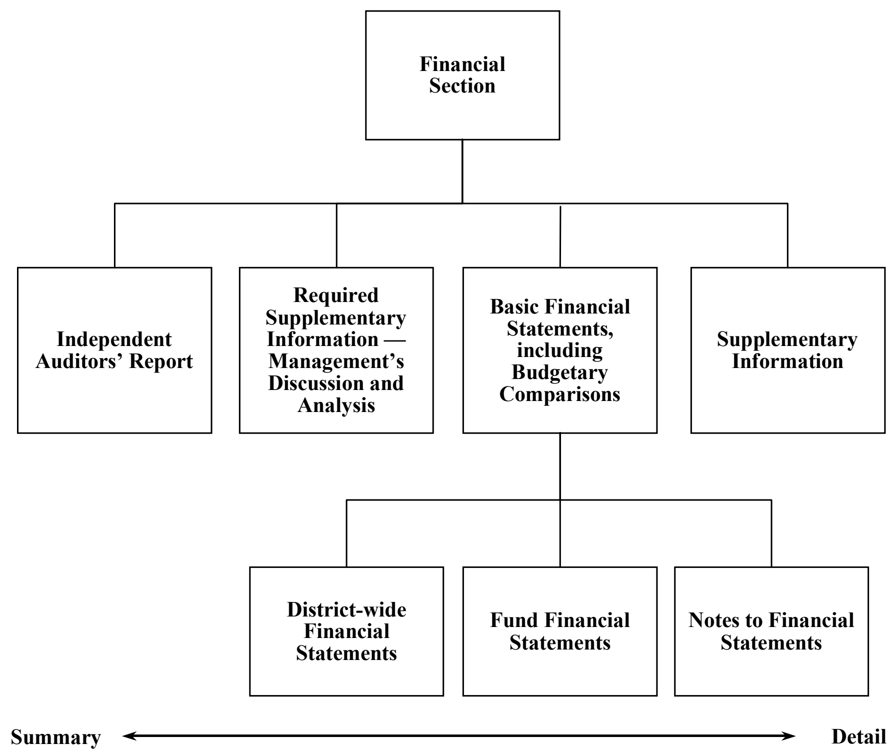
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

Figure A-1

Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

	District-Wide Statements	Fund Financial Statements - Governmental	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the District that are not proprietary, such as special education, building maintenance, food service and community education	Instances in which the District is the trustee or agent for someone else's resources
Required financial statements	• Statement of Net Position • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures and Changes in Fund Balance	• Statement of Fiduciary Net Position • Statement of Changes in Fiduciary Net Position
Accounting basis and measurement focus	Accrual accounting and economic resource focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resource focus
Type of asset/liability information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	Generally assets expected to be consumed and liabilities paid during the year or soon thereafter; no capital assets or long-term liabilities included	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both short-term and long-term
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

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

The two district-wide statements report the District's net position and how they have changed. The term "net position" is defined as the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources and is one way to measure the District's financial health or position.

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

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

District-Wide Statements (Continued)

- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

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

Fund Financial Statements

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

- Some funds are required by state law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has one type of fund:

- **Governmental Funds:** Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view to determine whether the District's working capital will be sufficient to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide reconciliations between the governmental funds statements and the district-wide statements, which do present a long-term focus.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's consolidated net position decreased 69.9% and was a negative $36,781,392 on June 30, 2018 (See Table A-1). The District's total assets and deferred outflows decreased 8.46%. Total liabilities and deferred inflows decreased 1.29% due to changes in the district's net pension liability. More information about the change in pension liability can be found in Note 6 of the financial statements. In addition, accounts payable went down due to the lower construction in progress as of June 30, 2018. Bonds payable went up due to the general obligation bond refunding due to be paid in fiscal year 2019.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Net Position (Continued)

The net investment in capital assets increased as the debt is being paid off at a faster rate than the assets are being depreciated. It also includes the recognition of the additions to several buildings and facilities.

Table A-1
The District's Net Position

	Governmental Activities		Percentage
	2018	2017	Change
Assets			
Current and other assets	$ 43,789,335	$ 42,668,690	2.63%
Capital and non-current assets	87,782,547	86,896,464	1.02%
Total assets	131,571,882	129,565,154	1.55%
Deferred outflows	65,255,005	85,445,023	-23.63%
Total assets and deferred outflows of resources	$ 196,826,887	$ 215,010,177	-8.46%
Liabilities			
Current liabilities	$ 16,455,401	$ 10,820,649	52.07%
Long-term liabilities	183,605,325	210,451,914	-12.76%
Total liabilities	200,060,726	221,272,563	-9.59%
Deferred inflows of resources	33,547,553	15,386,538	118.03%
Total liabilities and deferred inflows of resources	$ 233,608,279	$ 236,659,101	-1.29%
Net Position			
Net investment in capital assets	$ 25,947,850	$ 24,145,856	7.46%
Restricted	1,996,033	1,945,641	2.59%
Unrestricted	(64,725,275)	(47,740,421)	-35.58%
Total net position	$ (36,781,392)	$ (21,648,924)	-69.90%

Change in Net Position

The change in net position for 2017-2018 was a negative $15,132,468 based on total revenues of $78.9 million and total expenses of $94.0 million. Table A-2 on the following page shows the breakdown into the various revenue and expense categories.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Table A-2
Change in Net Position

	Governmental Activities		Percentage
	2018	2017	Change
Revenues			
Program revenues			
Charges for services	$ 5,318,379	$ 5,448,249	-2.38%
Operating grants and contributions	13,533,442	13,033,558	3.84%
Capital grants and contributions	1,715,944	1,749,355	-1.91%
General revenues			
Property taxes	14,140,580	13,560,334	4.28%
Unrestricted state aid	42,935,103	43,976,383	-2.37%
Investment earnings	422,767	330,285	28.00%
Other	821,225	1,039,747	-21.02%
Gain on sale of capital assets	-	441	-100.00%
Total revenues	78,887,440	79,138,352	-0.32%
Expenses			
Administration	2,416,676	2,403,729	0.54%
District support services	1,766,067	1,684,199	4.86%
Regular instruction	43,269,988	43,019,448	0.58%
Vocational education instruction	2,273,180	2,101,005	8.19%
Special education instruction	15,026,773	14,528,085	3.43%
Instructional support services	5,729,433	5,704,907	0.43%
Pupil support services	7,105,995	7,026,589	1.13%
Sites and buildings	6,796,349	8,202,033	-17.14%
Fiscal and other fixed cost programs	244,106	216,178	12.92%
Food service	3,140,747	3,186,069	-1.42%
Community service	4,130,150	4,334,021	-4.70%
Interest and fiscal charges on long-term liabilities	2,120,444	2,313,026	-8.33%
Total expenses	94,019,908	94,719,289	-0.74%
Change in net position	(15,132,468)	(15,580,937)	2.88%
Change in accounting principle	-	(4,507,721)	100.00%
Beginning net position	(21,648,924)	(1,560,266)	-1287.51%
Ending net position	$ (36,781,392)	$ (21,648,924)	-69.90%

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Revenues

The District's total revenues were approximately $78.9 million for the year ended June 30, 2018. Property taxes and state formula aid accounted for 72.3% of total revenue for the year (See Figure A-3). Another 1.6% came from other general revenues combined with investment earnings, and the remaining 26.1% came from program revenues.

Figure A-3
Sources of District's Revenues for Fiscal 2018

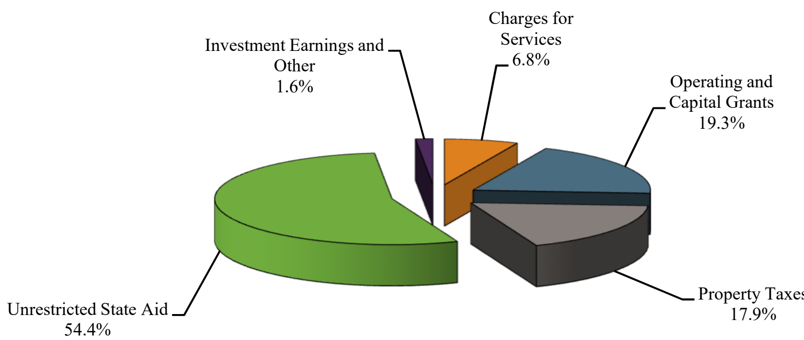
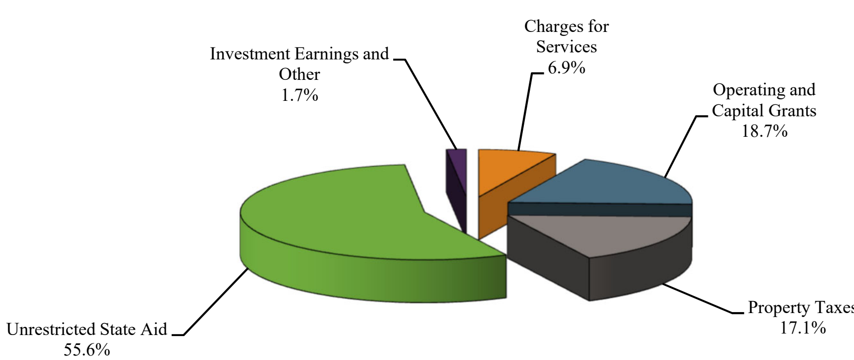


Figure A-3
Sources of District's Revenues for Fiscal 2017



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Expenses

The total cost of all programs and services decreased .74% to $94.0 million. The District's expenses are predominantly related to educating, caring for, and transporting students. The administrative expenses of the District accounted for 4.5% of total costs for 2017-18 and for 4.3% of total costs for 2016-17 (see Figure A-4).

Figure A-4
District Expenses for Fiscal 2018

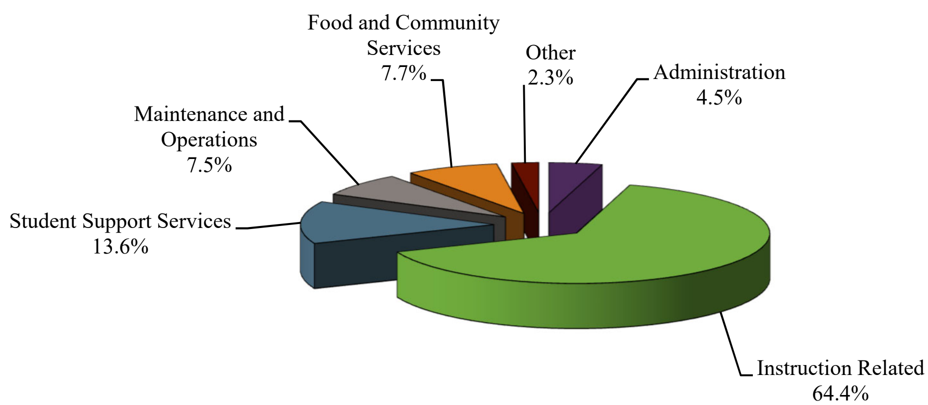
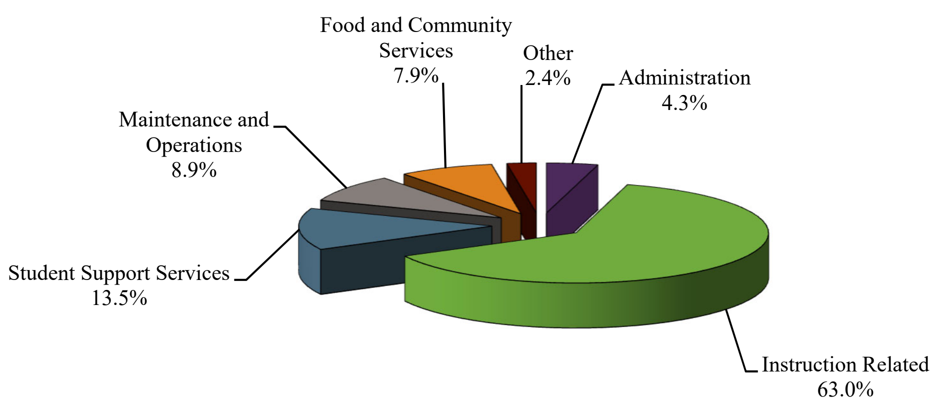


Figure A-4
District Expenses for Fiscal 2017



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Governmental Activities

Typically, the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds of food service and community education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 78% of those resources are spent on instruction and support services associated with instruction.

Table A-3 presents the cost of 12 major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

The users of the District's program revenue of $5,318,379 paid the District's cost partially. The federal and state governments subsidized certain programs with grants and contributions ($13,533,442 for operating purposes and $1,715,944 for capital purposes). District taxpayers and the taxpayers of the State of Minnesota, however, paid for most of the District's costs with general revenue of $58,319,675. Of that remaining amount, a major portion of governmental activities was paid with $14,140,580 in property taxes, $42,935,103 of state aid based on the statewide education aid formula, and $1,243,992 with investment earnings and other general revenues.

Table A-3
Program Expenses and Net Cost of Services

	Total Cost of Services		Percentage	Net Cost of Services		Percentage
	2018	2017	Change	2018	2017	Change
Administration	$ 2,416,676	$ 2,403,729	0.54%	$ 2,416,676	$ 2,403,729	0.54%
District support services	1,766,067	1,684,199	4.86%	1,749,618	1,667,772	4.91%
Regular instruction	43,269,988	43,019,448	0.58%	38,988,181	38,803,529	0.48%
Vocational education Instruction	2,273,180	2,101,005	8.19%	2,181,885	2,045,180	6.68%
Special education Instruction	15,026,773	14,528,085	3.43%	6,474,326	6,548,154	-1.13%
Instructional support Services	5,729,433	5,704,907	0.43%	5,728,788	5,703,995	0.43%
Pupil support services	7,105,995	7,026,589	1.13%	6,873,281	6,796,984	1.12%
Sites and buildings	6,796,349	8,202,033	-17.14%	5,503,919	6,856,334	-19.73%
Fiscal and other fixed Cost programs	244,106	216,178	12.92%	232,159	210,771	10.15%
Food service	3,140,747	3,186,069	-1.42%	155,214	31,261	396.51%
Community service	4,130,150	4,334,021	-4.70%	1,027,652	1,107,382	-7.20%
Interest and fiscal charges On long-term liabilities	2,120,444	2,313,026	-8.33%	2,120,444	2,313,026	-8.33%
Total	$ 94,019,908	$ 94,719,289	-0.74%	$ 73,452,143	$ 74,488,117	-1.39%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of $25,728,214. Of this amount, $10,920,505 is restricted to cover building project costs, future debt obligations, and other purposes.

Revenues for the District's governmental funds were $78,902,878 while total expenditures were $84,476,351. After factoring in Other Financing Sources and Uses, the District completed the year with a net change in fund balance of a positive $459,759, the most significant factor in leading to the increase was the reduced constructions costs as the district nears the end of the construction projects of the recent passage of a bond issue for betterment of facilities.

GENERAL FUND

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

The following schedule presents a summary of General Fund revenues.

Table A-4
General Fund Revenues

	Year Ended		Change	
	June 30, 2018	June 30, 2017	Increase (Decrease)	Percent
Property taxes	$ 6,528,649	$ 6,083,981	$ 444,668	7.31%
Other local and county Revenues	1,865,294	2,088,459	(223,165)	-10.69%
State sources	54,339,704	52,807,294	1,532,410	2.90%
Federal sources	1,599,380	1,445,880	153,500	10.62%
Sales and other conversion of assets	33,929	36,989	(3,060)	-8.27%
Total revenue	$ 64,366,956	$ 62,462,603	$ 1,904,353	3.05%

GENERAL FUND (CONTINUED)

Total General Fund revenue increased from the previous year by $1,904,353, or 3.05%. Property tax revenue increased $444,668 from the 2016-2017 year due to an increase in revenue from the Long-Term Facility Maintenance Program and a greater local share of equalized revenue sources. Revenue from state sources increased $1,532,410 due to an increase in the State's General Education Revenue formula allowance, an increase in special education aid, and an increase in aid in the second year of the Long-Term Facility Maintenance Program. Federal sources went up from an increase in entitlements, use of carryover funds, and a change in classification of Erate revenue previously classified as Other Local and County sources. The revenue from Other Local and County sources decreased primarily due to aforementioned Erate revenue classification, increased interest earnings, and decreases in revenue from third party billing collections and donations.

The following schedule presents a summary of General Fund expenditures.

Table A-5
General Fund Expenditures

	Year Ended		Change	
	June 30, 2018	June 30, 2017	Increase (Decrease)	Percent
Salaries	$ 36,416,491	$ 35,692,543	$ 723,948	2.03%
Employee benefits	13,652,226	12,367,674	1,284,552	10.39%
Purchased services	10,292,282	9,670,815	621,467	6.43%
Supplies and materials	2,622,892	2,222,605	400,287	18.01%
Capital expenditures	2,086,908	2,293,780	(206,872)	-9.02%
Other expenditures	602,084	641,190	(39,106)	-6.10%
Total expenditures	$ 65,672,883	$ 62,888,607	$ 2,784,276	4.43%

Total General Fund expenditures increased $2,784,276 or 4.43%, from the previous year primarily due to the second year increase of the Long-term Facilities Maintenance program, utility cost increases, technology and curriculum purchases, and contract settlements.

In the 2017-2018 school year, General Fund revenues and other sources were lower than expenditures by $1,301,226. As a result, the total fund balance at June 30, 2018, decreased to $16,069,737 of which $7,135,167 is restricted, committed, or assigned. The unassigned fund balance decreased from the prior year, ending at a balance of $8,934,570 at June 30, 2018, or 13.6% of expenditures with the non-spendable fund balance of $504,349 included. The District closely monitors its fund balance.

GENERAL BUDGETARY HIGHLIGHTS

The District revises its annual budget once each year. The budget amendment caused the changes shown between the original budget amount and the final budget amount which primarily fall into the following two categories:

- Change in salaries from projected amounts due to staffing for enrollment and special education needs and contract settlements.

- Changes in revenue entitlements from state aid proration and enrollment changes in weighted pupil units (PUN).

- Changes in revenue from the Special Education program.

While the District's final budget for the General Fund anticipated that expenditures would exceed revenues and other sources by about $2,107,847, the actual results for the year show a $1,305,927 deficit with expenditures exceeding revenue and other financing sources. Revenues were over the District's final budget by .2% whereas expenditures were under budget by 1.02%.

- Actual revenues were higher than expected by $126,579 and due primarily to increased special education aid and an increase in property tax recognition.

- Actual expenditures were under budget by $675,341. The district had lower than anticipated expenditures for teachers, custodians, and ESP staff. The district had lower than anticipated health insurance expenses. The district also saw its portion of TRA, FICA, and PERA coming under budget because these benefits are calculated as a percentage of salary that was also under budget.

DEBT SERVICE FUNDS

The Debt Service Fund balance for Fund 07 increased $5,893,826 and is $7,234,264 in total as of June 30, 2018. Of this balance, $1,266,085 is restricted to meet future debt obligations of the district. The remainder of $5,968,179 is restricted to pay off the general obligation bonds that were refunded in May of 2018 that will be paid in fiscal year 2019.

The Post Employment Debt Service Fund revenues exceeded expenditures by $50,482 and increased its fund balance to $226,027 at June 30, 2018. The balance in this fund will be used for future debt service obligations.

OTHER NONMAJOR FUNDS

The Food Service Fund expenditures exceeded revenues for the year by $85,917. The food service department had lower lunch sales and increased costs from labor and supplies.

OTHER NONMAJOR FUNDS (CONTINUED)

The Community Service Fund revenues and other financing sources exceeded expenditures by $40,573 and increased its fund balance to a negative $276,102 as of June 30, 2018.

The Building Construction fund recorded the revenues and expenditures from the bond issue passed on November 4, 2014. The project started in 2014-2015 and is scheduled to be completed in 2019-2020. Revenues represent the proceeds from donations and interest earned during the year and totaled $75,661. Expenditures for work completed as of the end of the year totaled $4,213,640. The total Building Construction fund balance was $2,002,701 on June 30, 2018.

FIDICUARY FUNDS

The District created a sunset clause in certain contracts for retiree insurance contributions. Individuals hired after the sunset date are no longer eligible for the grandfathered post-retirement insurance benefits. The new provisions require the district to make ongoing contributions to the new employee's HRA account held in an outside irrevocable trust. Each contract has a contribution limit for the individual employee. The value of the irrevocable trust was $1,610,918 as of June 30, 2018.

During the 2009-2010 school year, the District issued $10.845 million in OPEB Bonds and at the same time, created an irrevocable trust to fund the District's post-employment benefits. The District started to use the Trust in the 2012-2013 year to cover post-employment obligations. The amount held in trust for OPEB as of June 30, 2018, was $13,297,904 and decreased in value by $184,285.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2018, the District had invested approximately $151 million in a broad range of capital assets, including school buildings, athletic facilities, computer, and audio-visual equipment and administrative offices, (see Table A-6). This amount represents a net increase of $5,446,505 or 3.73%, from last year. Total depreciation expense for the year was approximately $4.8 million. More detailed information about capital assets can be found in Note 3 to financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Table A-6
The District's Capital Assets

	2018	2017	Percentage Change
Land	$ 4,222,035	$ 4,222,035	0.00%
Construction in progress	2,731,087	11,326,080	-75.89%
Land improvements	11,023,883	10,958,199	0.60%
Buildings and improvements	126,256,674	112,329,009	12.40%
Equipment and transportation vehicles	7,137,684	7,089,535	0.68%
Total historical cost	151,371,363	145,924,858	3.73%
Less accumulated depreciation	(64,996,724)	(60,872,506)	-6.78%
Total	$ 86,374,639	$ 85,052,352	1.55%

Construction – Next Five Years

The District voted on a $33 million bond issue in the fall of 2014 which was successfully passed. Construction from the project occurred starting with the 2014-2015 fiscal year and is scheduled to be completed in 2019-2020.

Long-Term Debt

At year-end, the District had $77,853,887 in general obligation (G.O.) bonds and capital leases, an increase of .25% from last year as shown in Table A-7. The District also had $1,749,958 in future post-employment severance benefits payable at June 30, 2018. The School Board has committed $3,420,225 for payment of future post-employment severance and health benefits. More detailed information about the District's long-term liabilities is presented in Note 4 to the financial statements.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Table A-7
The District's Long-Term Liabilities

	2018	2017	Percentage Change
G.O. bonds	$ 73,965,000	$ 73,700,000	0.36%
Net bond premium and discount	2,930,988	3,007,624	-2.55%
Net G.O. bonds	76,895,988	76,707,624	0.25%
Obligations under capital leases	957,899	1,203,540	-20.41%
Net G.O. bonds and capital leases	77,853,887	77,911,164	-0.07%
Severance payable	1,427,854	1,346,012	6.08%
Compensated absences payable	322,104	297,387	8.31%
Total	$ 79,603,845	$ 79,554,563	0.06%

Bond Ratings
The District's G.O. bonds carry an MSDE enhanced rating of Aa2 according to the most recent Moody's Investor Service Rating.

Limitations on Debt
The state limits the amount of G.O. debt the District can issue to 15% of the market value of all taxable property within the District's corporate limits. The District's outstanding debt is significantly below this limit.

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of the voter-approved and recently added board authorized operating referendum, the District is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

During the 2017 State Legislative session, the basic general education formula increased by $121 for 2017-18 and $124 per pupil unit for 2018-19. Even though the additional funding will help, the District will need to continue its conservative budgeting practices and explore additional sources of revenue.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Independent School District No. 877, 214 1st Avenue NE, Buffalo, Minnesota 55313.

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BASIC FINANCIAL STATEMENTS

Independent School District No. 877
Statement of Net Position
June 30, 2018
(with Comparative Totals as of June 30, 2017)

	Governmental Activities	
	2018	2017
Assets		
Cash and investments	$ 29,306,323	$ 28,677,157
Current property taxes receivable	7,061,458	6,777,573
Delinquent property taxes receivable	147,930	151,705
Accounts receivable	289,886	402,638
Interest receivable	118,053	68,769
Due from Department of Education	5,398,000	5,221,410
Due from Federal Government through Department of Education	709,931	637,764
Due from other Minnesota school districts	42,593	79,824
Due from other governmental units	129,732	36,574
Inventory	157,204	247,720
Prepaid items	428,225	367,556
Equity interest in joint venture	393,375	393,375
Net OPEB asset	1,014,533	1,450,737
Capital assets not being depreciated		
Land	4,222,035	4,222,035
Construction in progress	2,731,087	11,326,080
Capital assets, net of accumulated depreciation		
Land improvements	8,065,358	8,062,941
Buildings	69,594,399	59,471,964
Machinery and equipment	1,761,760	1,969,332
Total assets	131,571,882	129,565,154
Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	64,770,395	85,033,523
Deferred outflows of resources related to OPEB	147,928	-
Deferred outflows related to charge on refunding	336,682	411,500
Total deferred inflows of resources	65,255,005	85,445,023
Total assets and deferred outflows of resources	$ 196,826,887	$ 215,010,177
Liabilities		
Accounts payable	$ 1,302,303	$ 1,558,661
Salaries and benefits payable	1,614,192	1,546,908
Interest payable	911,535	897,425
Due to other Minnesota school districts	286,024	298,511
Due to other governmental units	263,358	283,162
Unearned revenue	169,605	157,862
Bond payable, net		
Payable within one year	11,360,000	5,445,000
Payable after one year	65,535,988	71,262,624
Capital lease payable		
Payable within one year	170,922	245,641
Payable after one year	786,977	957,899
Compensated absences payable		
Payable within one year	322,104	297,387
Severance payable		
Payable within one year	55,358	90,092
Payable after one year	1,400,175	1,314,806
Net pension liability	115,882,185	136,916,585
Total liabilities	200,060,726	221,272,563
Deferred Inflows of Resources		
Property taxes levied for subsequent year's expenditures	14,250,030	13,344,540
Deferred inflows of resources related to pensions	19,173,504	1,762,756
Deferred inflows of resources related to OPEB	124,019	279,242
Total deferred inflows of resources	33,547,553	15,386,538
Net Position		
Net investment in capital assets	25,947,850	24,145,856
Restricted for		
Debt service	833,424	692,705
Other purposes	1,162,609	1,252,936
Unrestricted	(64,725,275)	(47,740,421)
Total net position	(36,781,392)	(21,648,924)
Total liabilities, deferred inflows of resources, and net position	$ 196,826,887	$ 215,010,177

Independent School District No. 877
Statement of Activities
For the Year Ended June 30, 2018
(with Comparative Totals for the Year Ended June 30, 2016)

		Program Revenues			Net (Expense) Revenues and Changes in Net Position — Governmental Activities	
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2018	2017
Governmental activities						
Administration	$ 2,416,676	$ -	$ -	$ -	$ (2,416,676)	$ (2,403,730)
District support services	1,766,067	16,449	-	-	(1,749,618)	(1,667,772)
Elementary and secondary regular instruction	43,269,988	771,975	3,045,802	464,030	(38,988,181)	(38,803,539)
Vocational education instruction	2,273,180	-	91,295	-	(2,181,885)	(2,045,180)
Special education instruction	15,026,773	55,508	8,496,939	-	(6,474,326)	(6,548,154)
Instructional support services	5,729,433	645	-	-	(5,728,788)	(5,703,995)
Pupil support services	7,105,995	106,600	126,114	-	(6,873,281)	(6,796,984)
Sites and buildings	6,796,349	40,516	-	1,251,914	(5,503,919)	(6,856,334)
Fiscal and other fixed cost programs	244,106	11,947	-	-	(232,159)	(210,771)
Food service	3,140,747	1,683,801	1,301,732	-	(155,214)	(31,261)
Community education and services	4,130,150	2,630,938	471,560	-	(1,027,652)	(1,107,381)
Interest and fiscal charges on long-term debt	2,120,444	-	-	-	(2,120,444)	(2,313,026)
Total governmental activities	$ 94,019,908	$ 5,318,379	$ 13,533,442	$ 1,715,944	(73,452,143)	(74,488,127)

	2018	2017
General revenues		
Taxes		
Property taxes, levied for general purposes	6,528,293	6,080,144
Property taxes, levied for community service	484,166	459,404
Property taxes, levied for debt service	7,128,121	7,020,786
State aid-formula grants	42,935,103	43,976,383
Other general revenues	821,225	1,039,747
Investment income	422,767	330,285
Gain on sale of capital assets	-	441
Total general revenues	58,319,675	58,907,190
Change in net position	(15,132,468)	(15,580,937)
Net position - beginning	(21,648,924)	(1,560,266)
Change in accounting principle (Note 11)	-	(4,507,721)
Net position - beginning, restated	(21,648,924)	(6,067,987)
Net position - ending	$ (36,781,392)	$ (21,648,924)

See notes to financial statements.

Independent School District No. 877
Balance Sheet - Governmental Funds
June 30, 2018
(with Comparative Totals as of June 30, 2017)

	General	Debt Service	Post Employment Benefits Debt Service Fund	Other Nonmajor Funds	Total Governmental Funds 2018	Total Governmental Funds 2017
Assets						
Cash and investments	$ 15,193,046	$ 9,931,122	$ 1,319,080	$ 2,863,075	$ 29,306,323	$ 28,677,157
Current property taxes receivable	3,267,989	2,584,944	975,875	232,650	7,061,458	6,777,573
Delinquent property taxes receivable	63,752	68,697	10,156	5,325	147,930	151,705
Accounts receivable	248,778	-	-	41,108	289,886	402,638
Interest receivable	118,053	-	-	-	118,053	68,769
Due from Department of Education	5,265,040	53,073	974	78,913	5,398,000	5,221,410
Due from Federal Government through Department of Education	673,932	-	-	35,999	709,931	637,764
Due from other Minnesota school districts	14,553	-	-	28,040	42,593	79,824
Due from other governmental units	119,466	-	-	10,266	129,732	36,574
Inventory	82,093	-	-	75,111	157,204	247,720
Prepaid items	422,256	-	-	5,969	428,225	367,556
Total assets	$ 25,468,958	$ 12,637,836	$ 2,306,085	$ 3,376,456	$ 43,789,335	$ 42,668,690
Liabilities						
Accounts payable	$ 939,659	$ -	$ -	$ 362,644	$ 1,302,303	$ 1,558,661
Salaries and benefits payable	1,465,372	-	-	148,820	1,614,192	1,546,908
Due to other Minnesota school districts	286,024	-	-	-	286,024	298,511
Due to other governmental units	235,298	-	-	28,060	263,358	283,162
Unearned revenue	29,651	-	-	139,954	169,605	157,862
Severance payable	27,679	-	-	-	27,679	58,886
Total liabilities	2,983,683	-	-	679,478	3,663,161	3,903,990
Deferred Inflows of Resources						
Unavailable revenue - property taxes levied for subsequent year's expenditures	6,351,786	5,334,875	2,069,902	493,467	14,250,030	13,344,540
Unavailable revenue - delinquent property taxes	63,752	68,697	10,156	5,325	147,930	151,705
Total deferred inflows of resources	6,415,538	5,403,572	2,080,058	498,792	14,397,960	13,496,245
Fund Balances						
Nonspendable	504,349	-	-	81,080	585,429	615,276
Restricted	961,799	7,234,264	226,027	2,498,415	10,920,505	9,014,128
Committed	3,420,225	-	-	-	3,420,225	3,495,768
Assigned	2,904,055	-	-	-	2,904,055	2,542,163
Unassigned	8,279,309	-	-	(381,309)	7,898,000	9,601,120
Total fund balances	16,069,737	7,234,264	226,027	2,198,186	25,728,214	25,268,455
Total liabilities, deferred inflows of resources, and fund balances	$ 25,468,958	$ 12,637,836	$ 2,306,085	$ 3,376,456	$ 43,789,335	$ 42,668,690

Independent School District No. 877
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2018
(with Comparative Totals as of June 30, 2017)

	2018	2017
Total fund balances - governmental funds	$ 25,728,214	$ 25,268,455
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.		
Cost of capital assets	151,371,363	145,924,858
Less accumulated depreciation	(64,996,724)	(60,872,506)
Equity interests in underlying capital assets of joint ventures are not reported in the funds because they do not represent current financial assets.		
Equity interest in joint venture - Wright Technical Center	393,375	393,375
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bond principal payable	(73,965,000)	(73,700,000)
Net premium on bonds payable	(2,930,988)	(3,007,624)
Capital lease payable	(957,899)	(1,203,540)
Compensated absences payable	(322,104)	(297,387)
Severance payable	(1,427,854)	(1,346,012)
Net pension liability	(115,882,185)	(136,916,585)
Net OPEB asset created through treatment of general obligation (G.O.) taxable OPEB bonds as employer contribution to defined benefit OPEB plan is not recognized in the governmental funds.	1,014,533	1,450,737
Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions, OPEB and a bond refunding that are not recognized in the governmental funds.		
Deferred outflows of resources related to pensions	64,770,395	85,033,523
Deferred inflows of resources related to pensions	(19,173,504)	(1,762,756)
Deferred outflows of resources related to OPEB	147,928	-
Deferred inflows of resources related to OPEB	(124,019)	(279,242)
Deferred outflows of resources related to bond refunding	336,682	411,500
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	147,930	151,705
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	(911,535)	(897,425)
Total net position - governmental activities	$ (36,781,392)	$ (21,648,924)

See notes to financial statements.

Independent School District No. 877
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2018
(with Comparative Totals for the Year Ended June 30, 2017)

	General	Debt Service	Post Employment Benefits Debt Service Fund	Other Nonmajor Funds	Total Governmental Funds 2018	Total Governmental Funds 2017
Revenues						
Local property taxes	$ 6,528,649	$ 5,870,607	$ 1,260,618	$ 484,481	$ 14,144,355	$ 13,576,164
Other local and county revenues	1,865,294	65,744	9,880	2,814,089	4,755,007	5,440,414
Revenue from state sources	54,339,704	530,744	9,749	663,585	55,543,782	54,074,632
Revenue from federal sources	1,599,380	-	-	1,142,624	2,742,004	2,715,439
Sales and other conversion of assets	33,929	-	-	1,683,801	1,717,730	1,764,106
Total revenues	64,366,956	6,467,095	1,280,247	6,788,580	78,902,878	77,570,755
Expenditures						
Current						
Administration	1,782,399	-	-	-	1,782,399	1,694,791
District support services	1,725,969	-	-	-	1,725,969	1,670,296
Elementary and secondary regular instruction	30,276,791	-	-	-	30,276,791	29,098,533
Vocational education instruction	1,842,650	-	-	-	1,842,650	1,547,550
Special education instruction	11,471,824	-	-	-	11,471,824	10,935,511
Instructional support services	4,446,423	-	-	-	4,446,423	4,023,096
Pupil support services	6,718,100	-	-	-	6,718,100	6,585,683
Sites and buildings	5,077,709	-	-	760,303	5,838,012	5,911,645
Fiscal and other fixed cost programs	244,106	-	-	-	244,106	216,178
Food service	-	-	-	3,074,132	3,074,132	2,851,804
Community education and services	-	-	-	3,666,061	3,666,061	3,942,586
Capital outlay						
Administration	512	-	-	-	512	947
District support services	1,614	-	-	-	1,614	9,844
Elementary and secondary regular instruction	62,755	-	-	-	62,755	111,367
Vocational education instruction	4,457	-	-	-	4,457	3,230
Special education instruction	5,772	-	-	-	5,772	2,211
Instructional support services	7,011	-	-	-	7,011	247,023
Pupil support services	660	-	-	-	660	502
Sites and buildings	1,718,372	-	-	3,453,337	5,171,709	12,415,428
Food service	-	-	-	4,773	4,773	8,395
Community education and services	-	-	-	13,297	13,297	13,020
Debt service						
Principal	245,641	4,375,000	1,070,000	-	5,690,641	6,023,973
Interest and fiscal charges	40,118	2,226,800	159,765	-	2,426,683	2,960,924
Total expenditures	65,672,883	6,601,800	1,229,765	10,971,903	84,476,351	90,274,537
Excess of revenues over (under) expenditures	(1,305,927)	(134,705)	50,482	(4,183,323)	(5,573,473)	(12,703,782)
Other Financing Sources						
Proceeds from sale of capital assets	4,701	-	-	-	4,701	441
Bond issuance	-	5,710,000	-	-	5,710,000	9,635,000
Bond premium	-	318,531	-	-	318,531	52,488
Proceeds from capital leases	-	-	-	-	-	839,792
Bond refunding payments	-	-	-	-	-	(9,595,633)
Total other financing sources	4,701	6,028,531	-	-	6,033,232	932,088
Net change in fund balances	(1,301,226)	5,893,826	50,482	(4,183,323)	459,759	(11,771,694)
Fund Balances						
Beginning of year	17,370,963	1,340,438	175,545	6,381,509	25,268,455	37,040,149
End of year	$ 16,069,737	$ 7,234,264	$ 226,027	$ 2,198,186	$ 25,728,214	$ 25,268,455

Independent School District No. 877
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances to
the Statement of Activities - Governmental Funds
Year Ended June 30, 2018
(with Comparative Totals for the Year Ended June 30, 2017)

	2018	2017
Net change in fund balances - total governmental funds	$ 459,759	$ (11,771,694)
Amounts reported for governmental activities in the Statement of Activities are different because:		
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 outlays	6,088,411	11,683,403
Depreciation expense	(4,756,483)	(4,211,754)
Loss on disposal	(9,641)	(12,656)
Net income from the equity interest in joint venture does not provide current financial resources and is not reported as revenue in the funds.	-	(152,769)
Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(24,717)	(89,242)
Severance benefits are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(81,842)	(20,136)
Proceeds of G.O. Taxable OPEB bonds issued during 2010 were contributed to the OPEB plan to retire the unfunded obligation. Governmental funds report such outlay as expenditures. The impact on the Statement of Activities is the creation of a new net OPEB asset which is a combination of the contribution to the irrevocable trust from the proceeds of the OPEB bond issue and the amortization of the net OPEB obligation for the current year.	(133,053)	40,165
Principal payments on long-term debt and leases are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	5,690,641	6,023,973
Payments to bond escrow accounts are recognized as an other financing use in the governmental funds but have no effect on net position in the Statement of Activities.	-	9,230,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(14,110)	265,863
Governmental funds report the effect of bond discounts and premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	76,636	283,680
Governmental funds report the effect of bond refundings when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	(74,818)	411,500
Proceeds from the sale of bonds and leases are recognized as other financing sources in the governmental funds increasing fund balance but have no effect on net position in the Statement of Activities.	(5,710,000)	(10,474,792)
Governmental funds recognize pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	(16,639,476)	(16,770,648)
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(3,775)	(15,830)
Change in net position - governmental activities	$ (15,132,468)	$ (15,580,937)

See notes to financial statements.

Independent School District No. 877
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 6,342,018	$ 6,372,211	$ 6,528,649	$ 156,438
Other local and county revenues	1,941,581	1,912,882	1,865,294	(47,588)
Revenue from state sources	53,857,128	54,136,174	54,339,704	203,530
Revenue from federal sources	1,583,370	1,774,980	1,599,380	(175,600)
Sales and other conversion of assets	38,775	44,130	33,929	(10,201)
Total revenues	63,762,872	64,240,377	64,366,956	126,579
Expenditures				
Current				
Administration	1,797,321	1,808,261	1,782,399	(25,862)
District support services	1,683,615	1,774,712	1,725,969	(48,743)
Elementary and secondary regular instruction	30,583,520	30,330,499	30,276,791	(53,708)
Vocational education instruction	1,684,305	1,980,534	1,842,650	(137,884)
Special education instruction	11,403,048	11,595,145	11,471,824	(123,321)
Instructional support services	4,619,694	4,695,671	4,446,423	(249,248)
Pupil support services	6,728,668	6,713,248	6,718,100	4,852
Sites and buildings	5,062,665	5,114,385	5,077,709	(36,676)
Fiscal and other fixed cost programs	228,874	227,939	244,106	16,167
Capital outlay				
Administration	10,210	10,210	512	(9,698)
District support services	12,900	12,900	1,614	(11,286)
Elementary and secondary regular instruction	210,619	218,341	62,755	(155,586)
Vocational education instruction	3,250	3,250	4,457	1,207
Special education instruction	30,917	18,337	5,772	(12,565)
Instructional support services	(77,061)	(52,061)	7,011	59,072
Pupil support services	4,193	4,193	660	(3,533)
Sites and buildings	1,206,966	1,606,966	1,718,372	111,406
Debt service				
Principal	285,694	285,694	245,641	(40,053)
Interest and fiscal charges	-	-	40,118	40,118
Total expenditures	65,479,398	66,348,224	65,672,883	(675,341)
Excess of revenues over (under) expenditures	(1,716,526)	(2,107,847)	(1,305,927)	801,920
Other Financing Sources				
Proceeds from sale of capital assets	500	500	4,701	4,201
Net change in fund balance	$ (1,716,026)	$ (2,107,347)	(1,301,226)	$ 806,121
Fund Balance				
Beginning of year			17,370,963	
End of year			$ 16,069,737	

See notes to financial statements.

Independent School District No. 877
Statement of Fiduciary Net Position
June 30, 2018

	Total Trust Funds
Assets	
Investments	
Brokered money market	$ 2,027,934
Fixed income	4,139,900
Equities	8,697,091
Mutual funds	146,779
Total investments	15,011,704
Accounts and interest receivable	37,925
Total assets	$ 15,049,629
Liabilities	
Accounts payable	$ 140,807
Net Position	
Held in trust for OPEB	$ 13,297,904
Held in trust for HRA	1,610,918
Total net position	$ 14,908,822

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

	Total Trust Funds
Additions	
Contributions	$ 535,842
Investment income	
Interest, dividends, change in fair value	806,922
Less investment expenses	(73,963)
Net investment income	732,959
Total additions	1,268,801
Deductions	
Employee benefit deductions	1,168,135
Change in net position	100,666
Net Position	
Beginning of year	14,808,156
End of year	$ 14,908,822

See notes to financial statements.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

Some student activity accounts of the District are under School Board control; therefore, these student activities are included in the General Fund. There are other student activity accounts which are not under School Board control and separate financial statements have been issued for these activities.

A copy of the financial statements of the student activity accounts may be obtained by writing in care of Independent School District No. 877, Buffalo-Hanover-Montrose Schools, 214 First Avenue Northeast, Buffalo, Minnesota 55313.

1. Joint Ventures

A joint venture is a legal entity or other organization that results from a contracted agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in one joint venture. A description of this organization is included in Note 10.

B. Basic Financial Statement Information

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

The District applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

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

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

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements and fiduciary fund 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. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner.

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is incurred. Other revenue is considered available if collected within 60 days.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are that interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

The District applies resources in the following order when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available: restricted, committed, assigned, and unassigned.

Description of Funds

Major Funds

General Fund – This fund includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, health and safety, and disabled accessibility projects.

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

Post Employment Debt Service Fund – This fund is used to account for the accumulation of resources for payments of OPEB bonds, principal, and related costs.

Nonmajor Funds

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

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

Building Construction Capital Project Funds – This fund is used to account for the financial resources used for the construction of or improvements to facilities authorized by bond issue.

Fiduciary Fund

OPEB Irrevocable Trust Fund – This fund is used for reporting resources set aside and held in an irrevocable trust arrangement for OPEB.

HRA Trust Fund – This fund is used for reporting resources set aside and held in a trust arrangement for HRA contributions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments

The District's total deposits and investments are comprised of two major components, each with its own set of legal and contractual provisions as described below and on the following page.

1. District Funds Other than OPEB and HRA Trust Funds

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

2. OPEB and HRA Trust Funds

These funds represent investments administered by the District's OPEB and HRA Trust investment managers. As of June 30, 2018, they were comprised of brokered money markets, government agencies, corporate securities, equities, and mutual funds.

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of short-term investments with original maturities of three months or less from the date of acquisition. Investments are stated at fair value.

Minnesota Statutes authorize the OPEB and HRA Trust to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota, or its municipalities, bankers' acceptances, future contracts, corporate bonds, common stock and foreign stock of the highest quality, mutual funds, repurchase and reverse agreements, commercial paper of the highest quality with a maturity no longer than 270 days and in the State Board of Investments. Investments are stated at fair value.

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

G. Inventories

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

H. Prepaid Items

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Property Taxes

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

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

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000 with an estimated useful life in excess of five years, including all computer equipment regardless of the value. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at its acquisition value at the date of donation.

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 20 years for equipment.

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

K. Deferred Outflows/Inflows of Resources

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources (Continued)

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

L. Long-Term Obligations

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

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

M. Compensated Absences

Vacation pay is earned at various rates by employees and accrued as compensated absences in the Statement of Net Position.

Substantially all employees are entitled to sick leave at various rates. Classified employees are not compensated for unused sick leave upon a qualified termination of employment.

Non-classified employees receive payment for a set number of sick days after reaching age 55 and completing 15 years of service. The amount of compensated absences for sick leave anticipated to be paid upon employees' retirements is recorded as severance payable in the Statement of Net Position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Post Employment Severance and Health Benefits

Severance and health benefits consist of lump sum retirement payments and post employment health care benefits.

The District maintains various early retirement incentive payment plans for its employee groups. Teacher and administrator employee group plans contain benefit formulas based on years of service and/or minimum age requirements. No employee can receive early retirement incentive payments exceeding one year's salary.

Under the terms of certain collectively bargained employment contracts, the District is required to pay the medical and dental insurance premiums for retired teachers and administrators until they reach specific age requirements such as Medicare eligibility. The amount to be paid is equal to the full monthly premium cost for insurance coverage available under the appropriate current employment contract.

O. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

P. Postemployment Benefits Other Than Pensions (OPEB)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Risk Management

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

R. Fund Equity

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

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

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

- Committed Fund Balance – These are amounts that can only be used for specific purposes pursuant to constraints imposed by the School Board by formal action. Constraints are only removed by formal board action.

- Assigned Fund Balance – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the Director of Finance and Operations or the School Board.

- Unassigned Fund Balance – These are amounts that are the residual amounts in the General Fund not reported in any other classification. Unassigned amounts in the General Fund are technically available for expenditure for any purpose. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

- Minimum Fund Balance Policy – The School Board shall strive to maintain a fund balance of between 8% and 12% of fund balance to total operating expenditures in the General Fund. The fund balance shall be defined as the sum of the unassigned fund balance, the restricted next year's approved budget deficit fund balance, and the nonspendable fund balances.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

R. Fund Equity (Continued)

- The Business Office shall monitor the fund balance. If the fund balance falls below 8%, the School Board shall implement a procedure to stabilize the District's financial position. This shall involve:

    1. No new programs will be added at the District level unless matched by a like revenue source;
    2. Allocations such as textbooks, supplies, etc., shall be frozen; and
    3. The District will review other measures which will not immediately affect delivery of programs but could have a cost savings. An example might be areas where expenses have historically been lower than budgeted levels.

- If the fund balance is projected to fall below 6%, the District shall take measures to either generate additional revenues or to reduce expenditures through budget cuts or a combination of both.

S. Net Position

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

T. Use of Estimates

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

U. Comparative Data

Comparative total data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the District's financial position and operations. This data has been restated where necessary for comparable classifications.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. Budgetary Information

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

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not required for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions. Budgetary control for Capital Projects Funds is accomplished through the use of project controls.
4. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – DEPOSITS AND INVESTMENTS

District Funds Other than OPEB and HRA Trust Funds

A. Deposits

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

Custodial Credit Risk – Deposits: This is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or collateral securities that are in possession of an outside party. *Minnesota Statutes* 118A requires all deposits be protected by federal deposit insurance, corporate security bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The District has a deposit policy that requires the District's deposits to be collateralized as required by *Minnesota Statutes* 118.03 for an amount exceeding FDIC or FSLIC coverage. *Minnesota Statutes* require all deposits be protected by federal depository insurance. As of June 30, 2018, the District's bank balance was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

District Funds Other than OPEB and HRA Trust Funds (Continued)

A. Deposits (Continued)

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

Pooled Deposits	
Checking	$ 737,915
Certificates of deposit	4,979,000
Savings	3,247
Total pooled deposits	$ 5,720,162
Non-pooled Deposits	
Certificates of deposit	450,000
Savings	695,022
Total non-pooled deposits	$ 1,145,022

B. Investments

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

Investment Type	Fair Value	Investment Maturities Less than 1 Year	Credit Rating
MNTrust Investment Shares	$ 4,898	$ 4,898	N/A
MSDLAF-Term	9,750,000	9,750,000	AAAm
MSDLAF-Max	5,770,748	5,770,748	AAAm
Total Pooled Investments	$ 15,525,646	$ 15,525,646	

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

Investment Type	Fair Value	Investment Maturities Less than 1 Year	Credit Rating
Brokered Money Markets	$ 2,337	$ 2,337	N/A
MNTrust Investment Shares	73	73	N/A
Brokered Certificates of Deposit	494,985	494,985	N/A
Government Agencies	433,934	433,934	AA+ - Baa3
MSDLAF-Term	5,978,164	5,978,164	AAAm
Total Non-pooled Investments	$ 6,909,493	$ 6,909,493	

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

District Funds Other than OPEB and HRA Trust Funds (Continued)

B. Investments (Continued)

Credit Risk: This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. The District's investment policy refers to *Minnesota Statutes* 118A.01 through 118A.06. Statutes limit investments in the top two ratings issued by nationally recognized statistical rating organizations. The District will minimize credit risk by limiting investments to those allowed by statutory constraints. The District's investments are rated in the table above. Also as indicated in the table, there are certain investments that are not subject to credit risk and therefore, not rated.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy places no limit on the amount the District may invest in any one issuer, though it does state the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities and that no more than 50% of the total portfolio will be with any one instrument. The District's investments in Commerce Bank, NA-MO (12.9%) was above 5% of total investments.

Interest Rate Risk: This is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates. The District's investment policy states the portfolio shall be managed in a manner to attain a market rate of return through budgetary and economic cycles while preserving and protecting capital in the overall portfolio. Investment maturities shall be scheduled to coincide with projected cash flow needs.

Custodial Credit Risk – Investments: This is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy states investments shall be held by institutions designated by the School Board.

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

- $928,919 of non-pooled investments are valued using a matrix pricing model (Level 2 inputs)

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

OPEB and HRA Trust Funds

C. Trust Fund Investments

As of June 30, 2018, the District's OPEB and HRA Trust Fund had the following investments:

		Investment Maturities				
Investment Type	Fair Value	Less than 1 Year	1-2 Years	2-5 Years	5-10 Years	Greater than 10 years
Brokered Money Markets	$ 2,027,934	$ 2,027,934	$ -	$ -	$ -	$ -
Fixed Income						
Government Agencies	3,375,236	784,381	104,090	423,356	1,555,125	508,284
Corporate Securities	764,664	-	156,681	420,149	-	187,834
Equities	8,697,091	8,697,091	-	-	-	-
Mutual Funds	146,779	146,779	-	-	-	-
Total Investments	$ 15,011,704	$ 11,656,185	$ 260,771	$ 843,505	$ 1,555,125	$ 696,118

Interest Rate Risk: The District's OPEB Trust Investment Policy states the investment emphasis is on the current income requirements and capital preservation, with a secondary emphasis on capital appreciation. The District has a moderate risk tolerance. The asset allocation strategy for the trust is as follows:

Asset Class	Percent	Range
Cash equivalents	2%	0-100%
Bonds	48%	+/- 15%
Equities	50%	+/- 15%

Credit Risk: The District will minimize credit risk by limiting investments to those allowed in the Trust portfolio. The Trust's investments in government agencies and corporate securities were rated Baa2 or greater by Moody's. The remaining investments are not subject to credit risk and, therefore, not rated. The District's OPEB Investment Policy states investments must have a rating of Baa3 or greater.

Credit Risk: The District will minimize credit risk by limiting investments to those allowed in the Trust portfolio. The Trust's investments in government agencies and corporate securities were rated Baa2 or greater by Moody's. The remaining investments are not subject to credit risk and, therefore, not rated. The District's OPEB Investment Policy states investments must have a rating of Baa3 or greater.

Concentration of Credit Risk: The District's OPEB Trust Investment Policy states no single security, with the exception of a security issued by the U.S. Government, its agencies and/or instrumentalities, shall at the time of purchase, constitute more than 5% of the value of the portfolio. The Policy also indicates the District has an investment horizon which is considered to be long-term, in excess of ten years. The District's OPEB investments in Federal Home Loan Mortgage Association (5.1%), Federal Farm Credit Bank (5.2%), Federated Strategic Val Div (17.6%), Fidelity Overseas Fund (6.7%), and SPDR S&P 500 ETF Trust(17.4%) were above 5% of total OPEB investments.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

OPEB and HRA Trust Funds (Continued)

C. Trust Fund Investments (Continued)

Custodial Credit Risk: The District's OPEB Trust Investment Policy does not address custodial credit risk.

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

- $8,843,869 of investments are valued using a quoted market prices (Level 1 inputs)
- $4,139,900 of investments are valued using a matrix pricing model (Level 2 inputs)

D. Deposits and Investments

The following is a summary of total deposits and investments:

District governmental funds	
Deposits - pooled (Note 2.A.)	$ 5,720,162
Deposits - non-pooled (Note 2.A.)	1,145,022
Investments pooled (Note 2.B.)	15,525,646
Investments non-pooled (Note 2.B.)	6,909,493
Petty cash	6,000
OPEB and HRA irrevocable trust funds	
Investments (Note 2.C.)	15,011,704
Total deposits and investments	$ 44,318,027

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

Statement of Net Position	
Cash and investments	$ 29,306,323
Statement of Fiduciary Net Position	
Trust funds	15,011,704
Total deposits and investments	$ 44,318,027

NOTE 3 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	$ 4,222,035	$ -	$ -	$ 4,222,035
Construction in progress	11,326,080	5,016,239	13,611,232	2,731,087
Total capital assets not being depreciated	15,548,115	5,016,239	13,611,232	6,953,122
Capital assets being depreciated				
Land improvements	10,958,199	474,316	408,632	11,023,883
Buildings	112,329,009	13,943,036	15,371	126,256,674
Equipment and vehicles	7,089,535	266,052	217,903	7,137,684
Total capital assets being depreciated	130,376,743	14,683,404	641,906	144,418,241
Less accumulated depreciation for				
Land improvements	2,895,258	471,899	408,632	2,958,525
Buildings	52,857,045	3,811,993	6,763	56,662,275
Equipment and vehicles	5,120,203	472,591	216,870	5,375,924
Total accumulated depreciation	60,872,506	4,756,483	632,265	64,996,724
Total capital assets being depreciated, net	69,504,237	9,926,921	9,641	79,421,517
Governmental activities, capital assets, net	$ 85,052,352	$ 14,943,160	$ 13,620,873	$ 86,374,639

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of $4,756,483 for the year ended June 30, 2018, was charged to the following governmental functions:

District support services	$ 2,723
Elementary and secondary regular instruction	2,853,010
Special education instruction	2,631
Instructional support services	73,660
Pupil support	525
Sites and buildings	1,778,982
Food service	43,117
Community service	1,835
Total depreciation expense	$ 4,756,483

NOTE 4 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rates	Original Issue	Final Maturity	Principal Outstanding	Due Within One year
Long-term liabilities						
G.O. bonds, including						
2008A refunding bonds	12/17/08	4.00%-5.125%	$20,340,000	02/01/22	$ 5,980,000	$ 5,980,000
2012A G.O. refunding bonds	03/16/12	2.00%-4.00%	31,215,000	02/01/24	17,355,000	1,750,000
2013A alternative facilities bonds	05/01/13	1.00%-2.00%	3,855,000	02/01/24	2,970,000	180,000
2015A school building bonds	02/04/15	2.75%-3.00%	32,620,000	02/01/30	32,620,000	-
2017A OPEB refunding bonds	06/08/17	2.00%-2.20%	9,635,000	02/01/23	9,330,000	1,780,000
2018A refunding bonds	05/17/18	5.00%	5,710,000	02/01/22	5,710,000	1,670,000
Total G.O. bonds					73,965,000	11,360,000
Unamortized bond premium					2,930,988	-
Net bonds payable					76,895,988	11,360,000
Capital leases payable					957,899	170,922
Severance payable					1,427,854	27,679
Compensated absences payable					322,104	322,104
Total all long-term liabilities					$ 79,603,845	$ 11,880,705

Long-term bond and loan liabilities listed above were issued to finance acquisition and construction of capital facilities, to refinance (refund) previous bond issues and cover annual OPEB costs and net OPEB obligations. Other long-term liabilities, such as severance and compensated absences, are typically liquidated through the General Fund.

NOTE 4 – LONG-TERM DEBT (CONTINUED)

A. Components of Long-Term Liabilities (Continued)

On June 8, 2017, the District issued $9,635,000 G.O. Taxable OPEB Refunding Bonds, Series 2017A for the refunding of the G.O. Taxable OPEB Bond, Series 2009A. The refunding was done to take advantage of lower interest rates. Proceeds of the refunding bond were placed in irrevocable escrow to be used to refund the 2019 through 2024 principal payments of the 2009A issue on the call date of February 1, 2018. As a result, the 2019 through 2024 maturity amounts are considered defeased. The refunding resulted in a decrease in debt service payments of $632,523. The net present value cash flow savings was $634,327.

On May 17, 2018, the District issued $5,710,000 G.O. School Building Refunding Bonds, Series 2018A for the refunding of the G.O. School Building Refunding Bond, Series 2008A. The refunding was done to take advantage of lower interest rates. On August 1, 2018, the District will use a portion of the net proceeds of the Bonds to redeem the 2019 through 2022 maturities of the 2008A Bonds. The refunding resulted in a decrease in debt service payments of $236,161. The net present value cash flow savings was $236,161.

B. Minimum Debt Payments for Bonds

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

Year Ending	G.O. Bonds		
June 30,	Principal	Interest	Total
2019	$ 11,360,000	$ 2,401,919	$ 13,761,919
2020	5,560,000	1,990,307	7,550,307
2021	5,750,000	1,792,208	7,542,208
2022	5,960,000	1,585,957	7,545,957
2023	6,245,000	1,385,333	7,630,333
2024-2028	27,585,000	4,088,125	31,673,125
2029-2030	11,505,000	520,350	12,025,350
Total	$ 73,965,000	$ 13,764,199	$ 87,729,199

C. Capital Lease Obligations

In October 2006, the District entered into a lease purchase agreement for the construction of an addition to the Phoenix Learning Center. The total financed was $750,000 with an interest rate of 4.79% and is to be repaid through the General Fund. The lease agreement requires the District to make annual payments through October 15, 2021.

NOTE 4 – LONG-TERM DEBT (CONTINUED)

C. Capital Lease Obligations (Continued)

In April 2010, the District entered into a lease purchase agreement for the remodel of the Montrose Early Childhood Building. The total financed was $1,324,474 with an interest rate of 5.55% and is to be paid through the General Fund. In April 2017, the District refinanced the lease purchase agreement. The total financed was $839,792 with an interest rate of 2.99% and is to be paid through the General Fund. The lease agreement requires the District to make annual payments through May 1, 2024.

In March 2011, the District entered into a lease purchase agreement for the construction of tennis courts. The total financed was $500,000 with an interest rate of 4.25% and is to be paid through the General Fund. The lease requires the District to make semiannual payments through April 1, 2018.

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

Year Ending June 30,	
2019	$ 202,082
2020	202,082
2021	202,081
2022	166,752
2023	131,424
2024	150,193
Total minimum lease payments	1,054,614
Less amount representing interest	(96,715)
Present value of minimum lease payments	$ 957,899

The carrying value and related accumulated depreciation at June 30, 2018, for the assets purchased was as follows:

Carrying value	$ 2,514,728
Less accumulated depreciation	(817,472)
Assets, net of depreciation	$ 1,697,256

NOTE 4 – LONG-TERM DEBT (CONTINUED)

D. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	$ 73,700,000	$ 5,710,000	$ 5,445,000	$ 73,965,000
Net premium	3,007,624	318,531	395,167	2,930,988
Capital leases payable	1,203,540	-	245,641	957,899
Severance payable	1,346,012	91,249	9,407	1,427,854
Compensated absences payable	297,387	493,566	468,849	322,104
Total long-term liabilities	$ 79,554,563	$ 6,613,346	$ 6,564,064	$ 79,603,845

NOTE 5 – FUND BALANCES

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

Fund Equity
Fund equity balances are classified as follows to reflect the limitations and restrictions of the respective funds.

NOTE 5 – FUND BALANCES (CONTINUED)

A. Restricted/Reserved Fund Balance

	General Fund	Debt Service	Post Employment Benefits Debt Service Fund	Other Nonmajor Funds	Total
Nonspendable for					
Inventory	$ 82,093	$ -	$ -	$ 75,111	$ 157,204
Prepaid items	422,256	-	-	5,969	428,225
Total nonspendable	504,349	-	-	81,080	585,429
Restricted/reserved for					
Operating Capital	734,140	-	-	-	734,140
Teacher Development and Evaluation	103,247	-	-	-	103,247
Medical Assistance	124,412	-	-	-	124,412
Adult Basic Education	-	-	-	12,345	12,345
Early Childhood and Family Education	-	-	-	86,893	86,893
Food Service	-	-	-	396,476	396,476
Debt Service	-	7,234,264	226,027	-	7,460,291
Building Construction	-	-	-	2,002,701	2,002,701
Total restricted/reserved	961,799	7,234,264	226,027	2,498,415	10,920,505
Committed for					
Separation Benefits	3,420,225	-	-	-	3,420,225
Assigned for					
Carryover	301,525	-	-	-	301,525
Dental Insurance	221,656	-	-	-	221,656
Capital	1,459,667	-	-	-	1,459,667
Third Party Special Education	560,353	-	-	-	560,353
Student Activities	360,854	-	-	-	360,854
Total assigned	2,904,055	-	-	-	2,904,055
Unassigned for					
Long-Term Facilities and Maintenance*	(150,913)	-	-	-	(150,913)
Community Education*	-	-	-	(300,928)	(300,928)
School Readiness*	-	-	-	(35,658)	(35,658)
Community Service*	-	-	-	(44,723)	(44,723)
Unassigned	8,430,222	-	-	-	8,430,222
Total unassigned	8,279,309	-	-	(381,309)	7,898,000
Total fund balance	$ 16,069,737	$ 7,234,264	$ 226,027	$ 2,198,186	$ 25,728,214

*Negative restricted/reserved fund balances have been reclassified to unassigned for the financial statements in accordance with GASB Statement No. 54.

Nonspendable for Inventory – A portion of the fund balance has been spent on inventory and is not available for other uses.

NOTE 5 – FUND BALANCES (CONTINUED)

Fund Equity (Continued)

A. Restricted/Reserved Fund Balance (Continued)

Nonspendable for Prepaid Items – A portion of the fund balance has been spent on prepaid items and is not available for other uses.

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

Restricted/Reserved for Teacher Development and Evaluation – This balance represents resources available for teacher development and evaluation uses listed in *Minnesota Statutes* 122A.40, subd. 8 or 122A.41, subd. 5.

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

Restricted/Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education.

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

Restricted for Food Service – This balance represents the positive fund balance of the Food Service Fund.

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

Restricted/Reserved for Building Construction – This balance represents the resources available for the construction of or improvements to facilities authorized by bond issue.

Committed for Separation Benefits – This balance represents the resources set aside for the payment of retirement benefits including compensated absences, pensions, OPEB, and termination benefits.

Assigned for Carryover – This balance represents unspent budget appropriations carried over for the subsequent year.

Assigned for Dental Insurance – This balance represents the resources set aside for payment of dental insurance costs.

Assigned for Capital – This balance represents the resources set aside for capital costs.

NOTE 5 – FUND BALANCES (CONTINUED)

Fund Equity (Continued)

A. Restricted/Reserved Fund Balance (Continued)

Assigned for Third Party Special Education – This balance represents the resources set aside for third party billing purchases.

Assigned for Student Activities – This balance represents the accumulation of the student activity accounts that are under School Board control.

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

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

Unassigned for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes* 124D.16).

Unassigned for Community Service – This balance represents the negative fund balance of the Community Service Fund

B. Net Position

Net position restricted for other purposes on the Statement of Net Position are comprised of the total positive restricted fund balances of the General and total fund balance of the Food Service and Community Service Funds.

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2017, was $19,753,775. The components of pension expense are noted in the following plan summaries.

Teachers' Retirement Association

A. Plan Description

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

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

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

Teachers employed in Minnesota's public elementary and secondary school, charter schools and certain educational institutions maintained by the state (except those teachers employed by the 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 College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

B. Benefits Provided

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

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

Tier 1 Benefits

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

With these provisions:

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

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

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits

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

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

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

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

C. Contribution Rate

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

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

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

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

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

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

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

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

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

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

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

Changes in actuarial assumptions since the 2016 valuation:

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

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

Teachers' Retirement Association (Continued)

E. Discount Rate
The discount rate used to measure the total pension liability was 5.12%. This is an increase from the discount rate at the prior measurement date of 4.66%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.5%) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56% was applied to periods on and after 2053, resulting in a SEIR of 5.12%. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01%).

F. Net Pension Liability
On June 30, 2018, the District reported a liability of $106,376,507 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District's proportionate share was 0.5329% at the end of the measurement period and 0.5235% for the beginning of the year.

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

District's proportionate share of net pension liability	$ 106,376,507
State's proportionate share of the net pension liability associated with the District	10,282,834

For the year ended June 30, 2018, the District recognized pension expense of $18,702,399. It recognized $197,217 as an increase to this pension expense for the support provided by direct aid.

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

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 821,607	$ 746,943
Net difference between projected and actual earnings on plan investments	-	1,031,371
Changes of assumptions	56,806,771	14,901,669
Changes in proportion	2,311,816	237,447
Contributions to TRA subsequent to the measurement date	2,185,002	-
Total	$ 62,125,196	$ 16,917,430

$2,185,002 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

2019	$ 11,163,593
2020	13,039,543
2021	11,827,129
2022	9,747,976
2023	(2,755,477)
Total	$ 43,022,764

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

Teachers' Retirement Association (Continued)

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

District proportionate share of NPL		
1% decrease (4.12%)	Current (5.12%)	1% increase (6.12%)
$ 140,396,491	$ 106,376,507	$ 77,693,521

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

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

Public Employees' Retirement Association

A. Plan Description
The District participates in the following cost-sharing multiple-employer defined benefit pension plans administered by 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.

B. Benefits Provided
PERA provides retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

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

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. 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% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2018. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2018. The District's contributions to the General Employees Fund for the year ended June 30, 2018, were $728,627. The District's contributions were equal to the required contributions as set by state statute.

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

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2018, the District reported a liability of $9,505,678 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 $6 million to the fund in 2017. 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 $119,554. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was 0.1489%, which was an increase of 0.0005% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $1,051,376 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $9,048 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the General Employees Fund.

At June 30, 2018, the District reported its proportionate share of deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 313,278	$ 614,085
Changes in actuarial assumptions	1,572,847	952,945
Difference between projected and actual investments earnings	-	447,189
Change in proportion	30,447	241,855
Contributions paid to PERA subsequent to the measurement date	728,627	-
Total	$ 2,645,199	$ 2,256,074

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

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

$728,627 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2019	$ (259,504)
2020	494,835
2021	(171,335)
2022	(403,498)
Total	$ (339,502)

E. Actuarial Assumptions

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

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

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

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

The following changes in actuarial assumptions occurred in 2017:

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

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

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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

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

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

F. Discount Rates

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

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proprinate share of the PERA net pension liability	$ 14,744,012	$ 9,505,678	$ 5,217,149

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

Public Employees' Retirement Association (Continued)

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

NOTE 7 – RETIREMENT PLANS

A. Post Retirement Health Care Savings Plan
The District's Post Retirement Health Care Savings Plan (the "Plan") allows employees to use individual accounts to save for medical expenses. The accounts are funded entirely with employer contributions. Employee participation is a voluntary process negotiated through the collective bargaining process. Employees cannot voluntarily contribute to this Plan. Amounts and how it will be funded must be mandated through collective bargaining or through a personnel policy. Any employee covered under the Plan may draw down the balance of the account for reimbursement of eligible medical expenses including health care premiums. Contributions to the Plan by the District totaled $64,107 for the year.

B. Defined Contribution Plan
The District provides eligible employees future retirement benefits through the District's Defined Contribution 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. The District makes matching contribution for some administrative employees of $48,500. Contributions are invested to tax deferred annuities selected and owned by Plan participants. Employee contributions for the fiscal year totaled $738,805.

NOTE 8 – FLEXIBLE BENEFIT PLAN

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

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

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

NOTE 8 – FLEXIBLE BENEFIT PLAN (CONTINUED)

Amounts withheld for medical reimbursement and dependent care are held for the benefit of the flexible benefit plan. All assets of the plan are administered by an employee of the District. Payments are made by the District to participating employees upon submitting a request for reimbursement of eligible expenses incurred by the participant. The medical reimbursement and dependent care activity is included in the financial statements in the General Fund.

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

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage. In addition, the plan provides severance benefits based on years of service that are placed directly in a medical savings account upon retirement. Medical coverage is administered by BlueCross BlueShield. It is the District's policy to periodically review its medical coverage and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Benefits Provided

Teachers who apply for early retirement shall remain eligible to receive certain health insurance benefits until the end of the school year in which the teacher becomes Medicare eligible. Full vesting of such amounts occurs upon attaining 56 years of age.

C. Members

As of June 30, 2018, the following were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	53
Active employees	574
Total	627

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with Blue Cross Blue Shield. For the year 2018, the District contributed $324,890 to the plan.

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total OPEB Liability	
Investment rate of return	6.50%, net of investment expense
Salary increases	3.50%, including inflation
Inflation	2.75%
Healthcare cost trend increases	6.8% initially, decreasing 0.3% per year to an ultimate rate of 4.4%
Mortality Assumption	RP 2000 mortality tables, with projected mortality improvements based on scale AA

The actuarial assumptions used in the June 30, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2017 – June 30, 2018.

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

Asset Class	Target	Long-Term Expected Real Rate of Return
Domestic stocks	51 %	4.95 %
International stocks	14	5.24
Bonds	32	1.99
Alternative assets	0	4.19
Unallocated cash	3	0.58
Total	100 %	

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

E. Actuarial Assumptions (Continued)

The details of the investments and the investment policy are described in Note 3 of the District's financial statements. For the year ended June 30, 2018, the annual money-weighed rate of return on investments, net of investment expense, was 5.4 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

F. Discount Rate

The discount rate used to measure the total OPEB liability was 5.72%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

G. Changes in Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2017	$ 12,031,452	$ 13,482,189	$ (1,450,737)
Changes for the year			
Service cost	580,052	-	580,052
Interest	741,570	-	741,570
Change in assumptions	154,281	-	154,281
Employer contributions	-	324,890	(324,890)
Net investment income	-	714,809	(714,809)
Benefit payments	(1,223,984)	(1,223,984)	-
Administrative expense	-	-	-
Other charges	-	-	-
Net changes	251,919	(184,285)	436,204
Balances at June 30, 2018	$ 12,283,371	$ 13,297,904	$ (1,014,533)
Plan fiduciary net position as a percentage of the total OPEB liability			108.26%

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

H. OPEB Liability Sensitivity

The following presents the District's net OPEB liability calculated using the discount rate of 5.72% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease (4.72%)	Current (5.72%)	1% increase (6.72%)
Net OPEB liability (asset)	$ (289,590)	$ (1,014,533)	$ (1,708,824)

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

	1% decrease (8.5% decreasing to 4.5%)	Current (9.5% decreasing to 5.5%)	1% increase (10.5% decreasing to
Net OPEB liability (asset)	$ (1,912,618)	$ (1,014,533)	$ 29,584

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

For the year ended June 30, 2018, the District recognized OPEB expense of $457,943. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ 12,789	$ -
Differences between expected and actual economic experience	-	-
Changes of assumptions	135,139	124,019
Total	$ 147,928	$ 124,019

NOTE 9 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

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

Year Ending June 30,	Total
2019	$ (6,547)
2020	(6,547)
2021	(6,549)
2022	27,140
2023	(1,323)
Thereafter	17,735
Total	$ 23,909

J. Payable to the OPEB Plan
At June 30, 2018, the District reported a payable of $0 to the OPEB plan. The amount is reported as a receivable on the OPEB Trust Fund Statement of Fiduciary Net Position.

NOTE 10 – COMMITMENTS

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

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

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

B. Rental Agreement
The District entered into a rental agreement with the City of Buffalo, Minnesota (the "City") in 2001 for use of the Civic Center by the District.

The original agreement was for a period of 15 years commencing September 1, 2000. The District has approved an amended agreement extending the agreement for an additional three years. The agreement calls for a minimum rental of 335 hours of ice time per year at the rate of $194 per hour and an annual payment of $40,000 for use of classrooms, team and locker rooms, and additional ice time during the day when school is in session.

NOTE 10 – COMMITMENTS (CONTINUED)

B. Rental Agreement (Continued)

Any increase in the hourly rate of rental will be negotiated between the City and the District annually. Minimum annual payments to the City under this agreement are $104,990. The District is entitled to a percentage of gate receipts from tickets sold for attendance at District functions as part of the terms of this agreement.

C. Construction Commitments

As of June 30, 2018, the District had outstanding construction commitments as follows:

Project	Project Authorization	Expended through June 30, 2018	Commitment
Parkside Shed	$ 99,444	$ 14,917	$ 84,527
BHS Controls (HVAC)	532,575	212,060	320,515
BCMS Wall and Reroofing	362,734	342,227	20,507
BCMS Parking Lot	304,175	263,666	40,509

NOTE 11 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

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

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

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 877
Schedule of Changes in Net OPEB Liability
and Related Ratios

	June 30, 2018	June 30, 2017
Total OPEB Liability		
Service cost	$ 580,052	$ 571,820
Interest	741,570	708,616
Changes of assumptions	154,281	(164,949)
Benefit payments	(1,223,984)	(883,563)
Net change in total OPEB liability	251,919	231,924
Beginning of year	12,031,452	11,799,528
End of Year	$ 12,283,371	$ 12,031,452
Plan Fiduciary Net Pension (FNP)		
Employer contributions	$ 324,890	$ 142,146
Projected investment income	714,809	1,013,962
Benefit payments	(1,223,984)	(883,563)
Other changes	-	(54,610)
Net change in plan fiduciary net position	(184,285)	217,935
Beginning of year	13,482,189	13,264,254
End of year	$ 13,297,904	$ 13,482,189
Net OPEB Liability	$ (1,014,533)	$ (1,450,737)
Plan FNP as a percentage of the total OPEB liability	108.26%	112.06%
Covered-employee payroll	$ 36,409,652	$ 36,004,117
Net OPEB liability as a percentage of covered-employee	-2.79%	-4.03%

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

Independent School District No. 877
Schedule of Investment Returns

	June 30, 2018	June 30, 2017
Annual money-weighted rate of return, net of investment expense	5.42%	7.79%

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

Independent School District No. 877
Schedule of District's and Non-Employer Proportionate Share (if Applicable) of Net Pension Liability
Last Ten Years General Employees Retirement Fund

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1626%	$ 7,638,133	$ -	$ 7,638,133	$ 8,537,407	89.5%	78.8%
2015	0.1537%	7,965,532	-	7,965,532	8,884,053	89.7%	78.2%
2016	0.1484%	12,049,344	157,434	12,206,778	9,210,493	130.8%	68.9%
2017	0.1489%	9,505,678	119,554	9,625,232	9,594,720	99.1%	75.9%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.5473%	$ 25,219,190	$ 1,774,131	$ 26,993,321	$ 24,984,186	100.9%	81.5%
2015	0.5152%	31,870,215	3,909,225	35,779,440	26,147,587	121.9%	76.8%
2016	0.5235%	124,867,241	12,532,418	137,399,659	27,230,707	458.6%	44.9%
2017	0.5329%	106,376,507	10,282,834	116,659,341	28,687,733	370.8%	51.6%

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

Independent School District No. 877
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 618,962	$ 618,962	$ -	$ 8,537,407	7.25%
2015	666,304	666,304	-	8,884,053	7.50%
2016	690,787	690,787	-	9,210,493	7.50%
2017	719,604	719,604	-	9,594,720	7.50%
2018	728,627	728,627	-	9,715,027	7.50%

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

Schedule of District Contributions
TRA Retirement Fund
Last Ten Years

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 1,748,893	$ 1,748,893	$ -	$ 24,984,186	7.00%
2015	1,961,069	1,961,069	-	26,147,587	7.50%
2016	2,042,303	2,042,303	-	27,230,707	7.50%
2017	2,151,580	2,151,580	-	28,687,733	7.50%
2018	2,185,002	2,185,002	-	29,133,360	7.50%

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

Independent School District No. 877
Notes to the Required Supplementary Information

TRA Retirement Fund

2017 Changes

Changes in Actuarial Assumptions

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

2016 Changes

Changes in Actuarial Assumptions

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

TRA Retirement Fund (Continued)

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

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

General Employees Fund

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

2016 Changes
Changes in Actuarial Assumptions
- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.

Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

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

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

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SUPPLEMENTARY INFORMATION

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual Detail - General Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 6,342,018	$ 6,372,211	$ 6,528,649	$ 156,438
Other local and county revenues	1,941,581	1,912,882	1,865,294	(47,588)
Revenue from state sources	53,857,128	54,136,174	54,339,704	203,530
Revenue from federal sources	1,583,370	1,774,980	1,599,380	(175,600)
Sales and other conversion of assets	38,775	44,130	33,929	(10,201)
Total revenues	63,762,872	64,240,377	64,366,956	126,579
Expenditures				
Administration				
Salaries	1,231,570	1,229,400	1,229,550	150
Employee benefits	464,061	468,436	441,040	(27,396)
Purchased services	45,840	45,840	42,041	(3,799)
Supplies and materials	11,100	11,800	17,614	5,814
Capital expenditures	10,210	10,210	512	(9,698)
Other expenditures	44,750	52,785	52,154	(631)
Total administration	1,807,531	1,818,471	1,782,911	(35,560)
District support services				
Salaries	887,600	858,545	855,400	(3,145)
Employee benefits	377,392	387,365	374,325	(13,040)
Purchased services	383,973	494,684	460,594	(34,090)
Supplies and materials	11,600	11,600	16,350	4,750
Capital expenditures	12,900	12,900	1,614	(11,286)
Other expenditures	23,050	22,518	19,300	(3,218)
Total district support services	1,696,515	1,787,612	1,727,583	(60,029)
Elementary and secondary regular instruction				
Salaries	19,958,064	19,649,599	19,590,668	(58,931)
Employee benefits	7,854,974	7,642,494	7,581,511	(60,983)
Purchased services	1,168,702	1,384,608	1,365,766	(18,842)
Supplies and materials	1,450,786	1,385,137	1,486,214	101,077
Capital expenditures	210,619	218,341	62,755	(155,586)
Other expenditures	150,994	268,661	252,632	(16,029)
Total elementary and secondary regular instruction	30,794,139	30,548,840	30,339,546	(209,294)

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual Detail - General Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Expenditures				
Vocational education instruction				
Salaries	$ 741,583	$ 908,417	$ 900,747	$ (7,670)
Employee benefits	299,418	359,740	342,985	(16,755)
Purchased services	607,505	670,963	562,871	(108,092)
Supplies and materials	32,917	33,917	26,558	(7,359)
Capital expenditures	3,250	3,250	4,457	1,207
Other expenditures	2,882	7,497	9,489	1,992
Total vocational education instruction	1,687,555	1,983,784	1,847,107	(136,677)
Special education instruction				
Salaries	7,751,353	7,858,554	7,751,842	(106,712)
Employee benefits	2,948,003	2,930,653	2,879,281	(51,372)
Purchased services	532,542	490,311	542,453	52,142
Supplies and materials	93,851	185,041	151,419	(33,622)
Capital expenditures	30,917	18,337	5,772	(12,565)
Other expenditures	77,299	130,586	146,829	16,243
Total special education instruction	11,433,965	11,613,482	11,477,596	(135,886)
Instructional support services				
Salaries	3,075,971	3,039,264	2,899,822	(139,442)
Employee benefits	900,447	988,746	925,818	(62,928)
Purchased services	173,929	248,296	164,052	(84,244)
Supplies and materials	317,027	292,209	387,826	95,617
Capital expenditures	(77,061)	(52,061)	7,011	59,072
Other expenditures	152,320	127,156	68,905	(58,251)
Total instructional support services	4,542,633	4,643,610	4,453,434	(190,176)
Pupil support services				
Salaries	1,206,208	1,161,239	1,193,276	32,037
Employee benefits	521,602	504,325	496,155	(8,170)
Purchased services	5,013,037	5,061,129	5,023,379	(37,750)
Supplies and materials	(12,679)	(18,975)	(863)	18,112
Capital expenditures	4,193	4,193	660	(3,533)
Other expenditures	500	5,530	6,153	623
Total pupil support services	6,732,861	6,717,441	6,718,760	1,319

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual Detail - General Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Expenditures				
Sites and buildings				
Salaries	$ 2,096,253	$ 2,100,813	$ 1,995,201	$ (105,612)
Employee benefits	625,350	657,828	611,135	(46,693)
Purchased services	1,657,487	1,741,062	1,886,963	145,901
Supplies and materials	636,081	565,314	537,709	(27,605)
Capital expenditures	1,206,966	1,606,966	1,718,372	111,406
Other expenditures	47,494	49,368	46,701	(2,667)
Total sites and buildings	6,269,631	6,721,351	6,796,081	74,730
Fiscal and other fixed cost programs				
Purchased services	228,874	227,939	244,106	16,167
Debt service				
Principal	285,694	285,694	245,641	(40,053)
Interest and fiscal charges	-	-	40,118	40,118
Total debt service	285,694	285,694	285,759	65
Total expenditures	65,479,398	66,348,224	65,672,883	(675,341)
Excess of revenues over (under) expenditures	(1,716,526)	(2,107,847)	(1,305,927)	801,920
Other Financing Sources				
Proceeds from sale of capital assets	500	500	4,701	4,201
Net change in fund balance	$ (1,716,026)	$ (2,107,347)	(1,301,226)	$ 806,121
Fund Balance				
Beginning of year			17,370,963	
End of year			$ 16,069,737	

Independent School District No. 877
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2018
(with Comparative Totals as of June 30, 2017)

	Special Revenue			Capital Project Fund	Total Nonmajor Funds	
	Food Service	Community Service	Total	Building Construction	2018	2017
Assets						
Cash and investments	$ 464,461	$ 36,436	$ 500,897	$ 2,362,178	$ 2,863,075	$ 1,246,082
Current property taxes receivable	-	232,650	232,650	-	232,650	858,079
Delinquent property taxes receivable	-	5,325	5,325	-	5,325	14,248
Accounts receivable	144	40,339	40,483	625	41,108	20,383
Due from Department of Education	4,260	74,653	78,913	-	78,913	50,611
Due from other Minnesota school districts	-	28,040	28,040	-	28,040	29,811
Due from Federal Government through Department of Education	35,999	-	35,999	-	35,999	53,624
Due from other governmental units	721	9,545	10,266	-	10,266	-
Inventory	75,111	-	75,111	-	75,111	167,603
Prepaid items	-	5,969	5,969	-	5,969	78,543
Total assets	$ 580,696	$ 432,957	$ 1,013,653	$ 2,362,803	$ 3,376,456	$ 2,518,984
Liabilities						
Accounts payable	$ 10,003	$ 20,471	$ 30,474	$ 332,170	$ 362,644	$ 35,809
Salaries and benefits payable	15,744	133,076	148,820	-	148,820	144,671
Due to other Minnesota districts	-	-	-	-	-	1,056
Due to other governmental units	-	128	128	27,932	28,060	2,251
Unearned revenue	83,362	56,592	139,954	-	139,954	143,781
Total liabilities	109,109	210,267	319,376	360,102	679,478	327,568
Deferred Inflows of Resources						
Unavailable revenue - property taxes levied For subsequent year's expenditures	-	493,467	493,467	-	493,467	1,760,794
Unavailable revenue - delinquent property taxes	-	5,325	5,325	-	5,325	14,248
Total deferred inflows of resources	-	498,792	498,792	-	498,792	1,775,042
Fund Balances						
Nonspendable	75,111	5,969	81,080	-	81,080	246,146
Restricted	396,476	99,238	495,714	2,002,701	2,498,415	543,038
Unassigned	-	(381,309)	(381,309)	-	(381,309)	(372,810)
Total fund balances	471,587	(276,102)	195,485	2,002,701	2,198,186	416,374
Total liabilities, deferred inflows of resources, and fund balances	$ 580,696	$ 432,957	$ 1,013,653	$ 2,362,803	$ 3,376,456	$ 2,518,984

Independent School District No. 877
Combining Statement of Revenues,
Expenditures, and Changes in Fund Balances -
Nonmajor Governmental Funds
Year Ended June 30, 2018
(with Comparative Totals for the Year Ended June 30, 2017)

	Special Revenue			Capital Project		
		Community		Building	Total Nonmajor Funds	
	Food Service	Service	Total	Construction	2018	2017
Revenues						
Local property taxes	$ -	$ 484,481	$ 484,481	$ -	$ 484,481	$ 1,736,269
Other local and county revenues	6,494	2,731,934	2,738,428	75,661	2,814,089	2,812,533
Revenue from state sources	160,069	503,516	663,585	-	663,585	736,484
Revenue from federal sources	1,142,624	-	1,142,624	-	1,142,624	1,269,559
Sales and other conversion of assets	1,683,801	-	1,683,801	-	1,683,801	1,727,117
Total revenues	2,992,988	3,719,931	6,712,919	75,661	6,788,580	8,281,962
Expenditures						
Current						
Sites and buildings	-	-	-	760,303	760,303	-
Food service	3,074,132	-	3,074,132	-	3,074,132	2,851,804
Community education and services	-	3,666,061	3,666,061	-	3,666,061	3,942,586
Capital outlay						
Sites and buildings	-	-	-	3,453,337	3,453,337	-
Food service	4,773	-	4,773	-	4,773	8,395
Community education and services	-	13,297	13,297	-	13,297	13,020
Debt service						
Principal	-	-	-	-	-	735,000
Interest and fiscal charges	-	-	-	-	-	584,488
Total expenditures	3,078,905	3,679,358	6,758,263	4,213,640	10,971,903	8,135,293
Excess of revenues over (under) expenditures	(85,917)	40,573	(45,344)	(4,137,979)	(4,183,323)	146,669
Other Financing Sources						
Bond issuance	-	-	-	-	-	9,635,000
Bond premium	-	-	-	-	-	52,488
Bond refunding payments	-	-	-	-	-	(9,595,633)
Total other financing sources	-	-	-	-	-	91,855
Net change in fund balances	(85,917)	40,573	(45,344)	(4,137,979)	(4,183,323)	238,524
Fund Balances						
Beginning of year	557,504	(316,675)	240,829	6,140,680	6,381,509	177,850
End of year	$ 471,587	$ (276,102)	$ 195,485	$ 2,002,701	$ 2,198,186	$ 416,374

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Food Service Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Other local and county revenues	$ 2,996	$ 5,341	$ 6,494	$ 1,153
Revenue from state sources	181,336	162,310	160,069	(2,241)
Revenue from federal sources	1,229,855	1,287,519	1,142,624	(144,895)
Sales and other conversion of assets	1,888,674	1,750,440	1,683,801	(66,639)
Total revenues	3,302,861	3,205,610	2,992,988	(212,622)
Expenditures				
Food service				
Salaries	1,130,829	1,119,502	1,107,211	(12,291)
Employee benefits	565,776	557,022	562,544	5,522
Purchased services	145,437	186,957	161,591	(25,366)
Supplies and materials	1,307,208	1,258,002	1,234,314	(23,688)
Capital expenditures	8,660	5,000	4,773	(227)
Other expenditures	1,500	8,416	8,472	56
Total expenditures	3,159,410	3,134,899	3,078,905	(55,994)
Net change in fund balance	$ 143,451	$ 70,711	(85,917)	$ (156,628)
Fund Balance				
Beginning of year			557,504	
End of year			$ 471,587	

Independent School District No. 877
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Community Service Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 491,497	$ 491,497	$ 484,481	$ (7,016)
Other local and county revenues	2,830,420	2,737,021	2,731,934	(5,087)
Revenue from state sources	503,033	526,033	503,516	(22,517)
Total revenues	3,824,950	3,754,551	3,719,931	(34,620)
Expenditures				
Community education and services				
Salaries	2,536,262	2,526,448	2,382,165	(144,283)
Employee benefits	604,800	742,172	750,136	7,964
Purchased services	282,095	338,235	325,605	(12,630)
Supplies and materials	233,050	200,760	195,710	(5,050)
Capital expenditures	18,500	26,300	13,297	(13,003)
Other expenditures	10,650	6,827	12,445	5,618
Total expenditures	3,685,357	3,840,742	3,679,358	(161,384)
Net change in fund balance	$ 139,593	$ (86,191)	40,573	$ 126,764
Fund Balance				
Beginning of year			(316,675)	
End of year			$ (276,102)	

Independent School District No. 877
Combining Statement of Fiduciary Net Position
June 30, 2018

	OPEB Irrevocable Trust Fund	HRA Trust Fund	Total Trust Funds
Assets			
Investments			
Brokered money market	$ 417,016	$ 1,610,918	$ 2,027,934
Fixed income	4,139,900	-	4,139,900
Equities	8,697,091	-	8,697,091
Mutual funds	146,779	-	146,779
Total investments	13,400,786	1,610,918	15,011,704
Accounts and interest receivable	37,925	-	37,925
Total assets	$ 13,438,711	$ 1,610,918	$ 15,049,629
Liabilities			
Accounts payable	$ 140,807	$ -	$ 140,807
Net Position			
Held in trust for OPEB	$ 13,297,904	$ -	$ 13,297,904
Held in trust for HRA	-	1,610,918	1,610,918
Total net position	$ 13,297,904	$ 1,610,918	$ 14,908,822

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

	OPEB Irrevocable Trust Fund	HRA Trust Fund	Total Trust Funds
Additions			
Contributions	$ 269,040	$ 266,802	$ 535,842
Investment income			
Interest, dividends, change in fair value	788,773	18,149	806,922
Less investment expenses	(73,963)	-	(73,963)
Net investment income	714,810	18,149	732,959
Total additions	983,850	284,951	1,268,801
Deductions			
Employee benefit deductions	1,168,135	-	1,168,135
Change in net position	(184,285)	284,951	100,666
Net Position			
Beginning of year	13,482,189	1,325,967	14,808,156
End of year	$ 13,297,904	$ 1,610,918	$ 14,908,822

Independent School District No. 877
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
Commodities Programs	10.555	$ 164,406
Commodities Program - cash	10.555	17,232
School Breakfast	10.553	157,942
Type A Lunch	10.555	751,550
Summer Food Service	10.559	51,057
Total Child Nutrition Cluster and U.S. Department of Agriculture		1,142,187
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A Cluster		
Title I, Part A	84.010	440,892
Title II, Part A - Improving Teacher Quality	84.367	69,548
Title III, Part A - Language Enhancement	84.365	2,084
Special Education Cluster		
Special Education	84.027	919,914
Coordinated Early Intervening Services	84.027	60,000
Handicapped Early Education	84.173	13,953
Total Special Education Cluster		993,867
Through Wright County Interagency Early Intervention Committee		
Special Education - Infants and Toddlers	84.181	30,365
Total Department of Education		1,536,756
Total Federal Expenditures		$ 2,678,943

The notes to the Schedule of Expenditures of Federal Awards are an integral part of this statement.

Independent School District No. 877
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

NOTE 3 – INVENTORY

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

NOTE 4 – INDIRECT COST RATE

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

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OTHER DISTRICT INFORMATION

Independent School District No. 877
Deferred Tax Levies
(Unaudited)

Calendar Year Levied	Collected	School Building Refunding Bonds of 2018A	School Building Bonds of 2015	School Refunding Bonds of 2012 School Building Bonds of 2003	School Refunding Bond 2017 Taxable OPEB Bonds of 2009	School Refunding Bond 2017 Alternative Facilities Bonds of 2013	Total
2017	2018	$ 2,124,779	$ 1,004,769	$ 2,566,410	$ 2,068,931	$ 246,356	$ 8,011,245
2018	2019	2,023,350	1,004,769	2,571,660	2,084,051	243,994	7,927,824
2019	2020	2,022,038	1,004,769	2,563,260	2,098,121	231,131	7,919,319
2020	2021	556,763	1,004,769	4,022,130	2,116,391	223,204	7,923,257
2021	2022	-	1,004,769	4,747,470	2,044,256	215,355	8,011,850
2022	2023	-	1,004,769	4,755,660	-	2,265,165	8,025,594
2023	2024	-	6,291,519	-	-	-	6,291,519
2024	2025	-	6,311,416	-	-	-	6,311,416
2025	2026	-	6,315,459	-	-	-	6,315,459
2026	2027	-	6,312,794	-	-	-	6,312,794
2027	2028	-	6,310,658	-	-	-	6,310,658
2028	2029	-	6,315,960	-	-	-	6,315,960
		$ 6,726,930	$ 43,886,420	$ 21,226,590	$ 10,411,750	$ 3,425,205	$ 85,676,895

Independent School District No. 877
Property Tax Levies, Rates, and Valuations
Last Ten Fiscal Years
(Unaudited)

Year Collectible	Net Tax Capacity Valuations	Tax Capacity Rates	General Fund	Community Service Fund	Debt Service Fund	OPEB Debt Service Fund	Total All Funds
2009	$ 34,865,502	0.26180	$ 5,680,660	$ 565,908	$ 6,650,262	$ -	$ 12,896,830
2010	32,763,398	0.28085	5,673,327	564,269	6,035,737	838,712	13,112,045
2011	30,210,896	0.31952	5,580,632	590,417	6,664,340	518,688	13,354,077
2012	27,627,448	0.35165	5,407,118	560,963	6,650,801	518,688	13,137,570
2013	25,795,102	0.36930	5,353,503	549,781	6,362,376	520,630	12,786,290
2014	26,369,245	0.33882	5,040,652	479,555	6,259,996	492,256	12,272,459
2015	28,598,205	0.35375	5,102,489	444,304	7,363,703	496,186	13,406,682
2016	30,076,092	0.34489	6,299,838	464,451	5,807,758	1,290,641	13,862,688
2017	31,467,344	0.32887	6,260,288	488,197	5,914,677	1,272,597	13,935,759
2018	33,452,365	0.32471	6,963,233	493,467	5,334,875	2,069,902	14,861,477

Source: School Tax Report

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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, 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. 877, Buffalo-Hanover-Montrose, Minnesota, as of and for the year ending June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 8, 2018.

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

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

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
October 8, 2018

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

Independent Auditor's Report

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, Minnesota

Report on Compliance for Each Major Federal Program
We have audited Independent School District No. 877, Buffalo-Hanover-Montrose, Minnesota with the types of compliance requirements described in the OMB *Compliance Supplemen*t that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs, in Accordance with the Uniform Guidance.

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

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

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

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Opinion on Each Major Federal Program
In our opinion, Independent School District No. 877 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

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

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

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

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

Bergan KDV Ltd.

Minneapolis, Minnesota
October 8, 2018

Independent School District No. 877
Schedule of Findings and Questioned Costs in
Accordance with the Uniform Guidance

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

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

Federal Awards

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

Identification of Major Programs

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

Independent School District No. 877
Schedule of Findings and Questioned Costs in
Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS

None

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None

Report on Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 877
Buffalo-Hanover-Montrose, 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. 877, Buffalo-Hanover-Montrose, Minnesota as of and for the year ended June 30, 2018, and the related notes to financial statements, and have issued our report thereon dated October 8, 2018.

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
October 8, 2018

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Independent School District No. 877
Uniform Financial Accounting and Reporting Standards
Compliance Table
For the Year Ended June 30, 2018

	Audit	UFARS	Audit-UFARS
01 General Fund			
Total Revenue	$64,366,956	$ 64,366,961	$ (5)
Total Expenditures	65,672,883	65,672,888	(5)
Nonspendable:			
460 Nonspendable fund balance	504,349	504,348	1
Restricted/reserved:			
403 Staff Development	-	-	-
406 Health and Safety	-	-	-
407 Capital Projects Levy	-	-	-
408 Cooperative Program	-	-	-
413 Building Projects Funded by COP/LP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
423 Certain Teacher Programs	-	-	-
424 Operating Capital	734,140	734,140	-
426 $25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alternative Programs	-	-	-
436 State Approved Alternative Program	-	-	-
438 Gifted and Talented	-	-	-
440 Teacher Development and Evaluations	103,247	103,247	-
441 Basic Skills Programs	-	-	-
445 Career Technical Programs	-	-	-
448 Achievement and Integration Revenue	-	-	-
449 Safe School Crime	-	-	-
450 Transaction for Pre-Kindergarten	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liabilities not Held in Trust	-	-	-
453 Unfunded Severance and Retirement Levy	-	-	-
459 Basic Skills Extended Time	-	-	-
467 Long-Term Facilities Maintenance	(150,913)	(150,913)	-
472 Medical Assistance	124,412	124,412	-
475 Title VII - Impact Aid	-	-	-
476 Payments in Lieu of Taxes	-	-	-
Restricted:			
464 Restricted fund balance	-	-	-
Committed:			
418 Committed for separation	3,420,225	3,420,225	-
461 Committed	-	-	-
Assigned:			
462 Assigned fund balance	2,904,055	2,904,056	(1)
Unassigned:			
422 Unassigned fund balance (net position)	8,430,222	8,430,221	1
02 Food Services Fund			
Total revenue	$ 2,992,988	$ 2,992,989	$ (1)
Total expenditures	3,078,905	3,078,907	(2)
Nonspendable:			
460 Nonspendable fund balance	75,111	75,111	-
Restricted/reserved:			
452 OPEB liabilities not held in trust	-	-	-
Restricted:			
464 Restricted fund balance	396,476	396,475	1
Unassigned:			
463 Unassigned fund balance	-	-	-
04 Community Service Fund			
Total revenue	$ 3,719,931	$ 3,719,932	$ (1)
Total expenditures	3,679,358	3,679,357	1
Nonspendable:			
460 Nonspendable fund balance	5,969	5,969	-
Restricted/reserved:			
426 $25 Taconite	-	-	-
431 Community Education	(300,928)	(300,928)	-
432 ECFE	86,893	86,893	-
440 Teacher Development and Evaluation	-	-	-
444 School Readiness	(35,658)	(35,658)	-
447 Adult Basic Education	12,345	12,345	-
452 OPEB Liabilities not Held in Trust	-	-	-
Restricted:			
464 Restricted fund balance	-	-	-
Unassigned:			
463 Unassigned fund balance	(44,723)	(44,723)	-

	Audit	UFARS	Audit-UFARS
06 Building Construction Fund			
Total revenue	$ 75,661	$ 75,661	$ -
Total expenditures	4,213,640	4,213,641	(1)
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/Reserved:			
407 Capital Projects Levy	-	-	-
409 Alternative Facility Program	-	-	-
413 Building Projects Funded by COP	-	-	-
Restricted:			
464 Restricted fund balance	2,002,701	2,002,700	1
Unassigned:			
463 Unassigned fund balance	-	-	-
07 Debt Service Fund			
Total revenue	$ 6,467,095	$ 6,467,094	$ 1
Total expenditures	6,601,800	6,601,799	1
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted/reserved:			
425 Bond refunding	5,968,179	5,968,179	-
433 Maximum effort load aid	-	-	-
451 QZAB Payments	-	-	-
Restricted:			
464 Restricted fund balance	1,266,085	1,266,085	-
Unassigned:			
463 Unassigned fund balance	-	-	-
08 Trust Fund			
Total revenue	$ 284,951	$ 284,950	$ 1
Total expenditures	-	-	-
Unassigned:			
422 Net position	1,610,918	1,610,918	-
20 Internal Service Fund			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Net position	-	-	-
25 OPEB Revocable Trust			
Total revenue	$ -	$ -	$ -
Total expenditures	-	-	-
Unassigned:			
422 Net position	-	-	-
45 OPEB Irrevocable Trust			
Total revenue	$ 983,850	$ 983,849	$ 1
Total expenditures	1,168,135	1,168,134	1
Unassigned:			
422 Net position	13,297,904	13,297,904	-
47 OPEB Debt Service			
Total revenue	$ 1,280,247	$ 1,280,247	$ -
Total expenditures	1,229,765	1,229,766	(1)
Nonspendable:			
460 Nonspendable fund balance	-	-	-
Restricted:			
464 Restricted fund balance	226,027	226,026	1
Unassigned:			
463 Unassigned fund balance	-	-	-