INDEPENDENT SCHOOL DISTRICT NO. 831
FOREST LAKE, MINNESOTA

Financial Statements
and Supplemental Information

Year Ended
June 30, 2018

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INDEPENDENT SCHOOL DISTRICT NO. 831

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INTRODUCTORY SECTION

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INDEPENDENT SCHOOL DISTRICT NO. 831

School Board and Administration
Year Ended June 30, 2018

SCHOOL BOARD

	Board Position During 2017–2018
Robert Rapheal	Chairperson (President)
Gail Theisen	Vice Chairperson (Vice President)
Jill Olson	Clerk
Julie Corcoran	Treasurer
Karen Morehead	Director
Luke Odegaard	Director
Jeff Peterson	Director

ADMINISTRATION

Dr. Steven Massey	Superintendent
Lawrence Martini	Director of Business Services

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FINANCIAL SECTION

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MMKR
CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
Thomas A. Karnowski, CPA
Paul A. Radosevich, CPA
William J. Lauer, CPA
James H. Eichten, CPA
Aaron J. Nielsen, CPA
Victoria L. Holinka, CPA/CMA
Jaclyn M. Huegel, CPA

INDEPENDENT AUDITOR'S REPORT

To the School Board and Management of
Independent School District No. 831
Forest Lake, 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. 831 (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

(continued)

Malloy, Montague, Karnowski, Radosevich & Co., P.A.
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OPINIONS

In our opinion, the financial statements referred to on the previous page present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows 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 and the required supplementary information (RSI), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI 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 introductory section, supplemental information, and other district information, as listed in the table of contents, are presented for purposes of additional analysis and are not required parts 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 Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements of the District. The accompanying Uniform Financial Accounting and Reporting Standards (UFARS) Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education, and is also not a required part of the basic financial statements of the District.

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

(continued)

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

Prior Year Comparative Information

We have previously audited the District's 2017 financial statements, and we expressed unmodified audit opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information in our report dated December 13, 2017. In our opinion, the partial 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 December 28, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 28, 2018

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This section of Independent School District No. 831's (the District) annual financial statements presents management's narrative overview and analysis of the District's financial performance during the fiscal year ended June 30, 2018. Please read it in conjunction with the other components of the District's annual financial statements.

FINANCIAL HIGHLIGHTS

- The District's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at June 30, 2018 by $56,394,091 (deficit net position). The District's total net position decreased by $13,310,633 during the fiscal year ended June 30, 2018.

- Government-wide revenues totaled $93,737,857 and were $13,310,633 less than expenses of $107,048,490.

- The General Fund's total fund balance (under the governmental fund presentation) increased to $2,137,470, or $438,447 more than the prior year, compared to an increase of $488,028 planned in the budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual financial statements consists of the following parts:

- Independent Auditor's Report;

- Management's discussion and analysis;

- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to basic financial statements;

- Required supplementary information; and

- Supplemental information consisting of combining and individual fund statements and schedules.

The following explains the two types of statements included in the basic financial statements:

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

In the government-wide financial statements, the District's activities are shown in one category titled "governmental activities." These activities, including regular and special education instruction, transportation, administration, food services, and community education, are primarily financed with state aids and property taxes.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the District's *funds*—focusing on its most significant or "major" funds, rather than the District as a whole. Funds (Food Service Special Revenue and Community Service Special Revenue) that do not meet the threshold to be classified as major funds are called "nonmajor" funds. Detailed financial information for nonmajor funds can be found in the supplemental information section.

Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with Minnesota statutory requirements and accounting principles generally accepted in the United States of America.

The District maintains the following kinds of funds:

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

Proprietary Funds – The District maintains one type of proprietary fund. The internal service funds are used as an accounting device to accumulate and allocate costs internally among the District's various functions. The District uses internal service funds to account for the self-insurance activities of district employees' medical and dental claims. These services have been included within governmental activities in the government-wide financial statements. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to other organizations. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Table 1 is a summarized view of the District's Statement of Net Position:

Table 1
Summary Statement of Net Position
as of June 30, 2018 and 2017

	2018	2017
Assets		
Current and other assets	$ 88,161,889	$ 143,992,286
Capital assets, net of depreciation	150,372,477	98,470,905
Total assets	$ 238,534,366	$ 242,463,191
Deferred outflows of resources		
Bond refunding deferments	$ 480,347	$ 518,906
OPEB plan deferments	46,867	36,173
Pension plan deferments	76,974,110	96,759,357
Total deferred outflows of resources	$ 77,501,324	$ 97,314,436
Liabilities		
Current and other liabilities	$ 23,631,100	$ 27,556,186
Long-term liabilities, including due within one year	302,874,992	327,880,162
Total liabilities	$ 326,506,092	$ 355,436,348
Deferred inflows of resources		
Bond refunding deferments	$ 143,323	$ 389,020
OPEB plan deferments	258,013	–
Pension plan deferments	24,462,914	4,313,678
Property taxes levied for subsequent year	21,059,439	22,722,039
Total deferred inflows of resources	$ 45,923,689	$ 27,424,737
Net position		
Net investment in capital assets	$ 36,766,733	$ 31,954,266
Restricted	1,921,401	573,291
Unrestricted	(95,082,225)	(75,611,015)
Total net position	$ (56,394,091)	$ (43,083,458)

The District's financial position is the product of many factors. For example, the determination of the District's net investment in capital assets involves many assumptions and estimates, such as current and accumulated depreciation amounts. A conservative versus liberal approach to depreciation estimates, as well as capitalization policies, will produce a significant difference in the calculated amounts. The other major factor in determining net position as compared to fund balances is the liability for long-term severance, pension, and other post-employment benefits, which impacts the unrestricted portion of net position.

The District's increase in net investment in capital assets is due mostly to the District repaying debt at a faster rate than the assets being depreciated. The District's increase in net position restricted for capital asset acquisition, food service, and community service contributed to the increase in the restricted portion of net position. The change in the District's share of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) pension plans also contributed to the change in deferred outflows of resources, long-term liabilities, deferred inflows of resources, and unrestricted net position.

Table 2 presents a summarized version of the District's Statement of Activities:

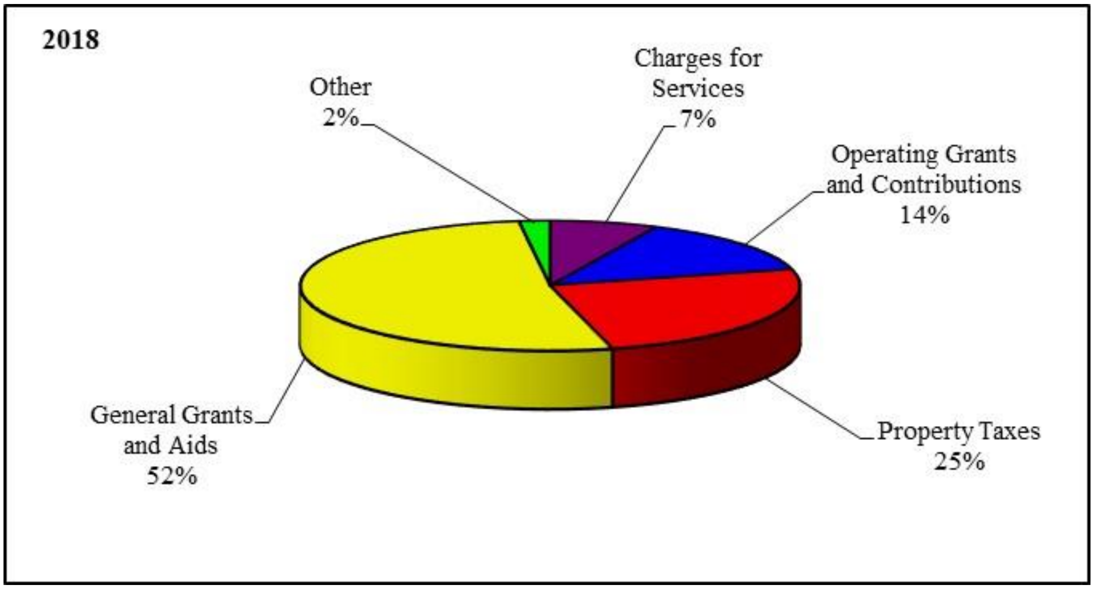
Table 2
Summary Statement of Activities
for the Years Ended June 30, 2018 and 2017

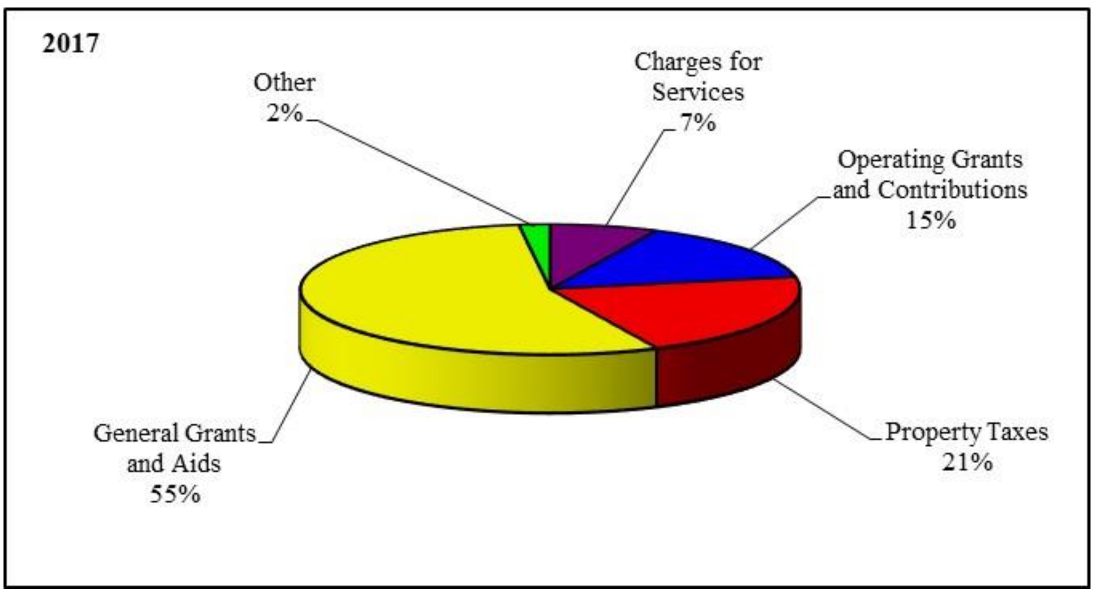
	2018	2017
Revenues		
Program revenues		
Charges for services	$ 6,697,514	$ 6,437,175
Operating grants and contributions	13,334,671	13,194,175
General revenues		
Property taxes	23,571,789	19,430,966
General grants and aids	48,177,917	50,352,014
Other	1,955,966	1,585,486
Total revenues	93,737,857	90,999,816
Expenses		
Administration	3,618,600	4,923,047
District support services	2,774,376	2,052,095
Elementary and secondary regular instruction	36,792,292	39,074,208
Vocational education instruction	1,604,135	1,727,610
Special education instruction	16,690,659	17,305,271
Instructional support services	6,380,709	6,333,778
Pupil support services	11,308,606	12,344,131
Sites and buildings	10,704,394	8,490,188
Fiscal and other fixed cost programs	635,768	574,212
Food service	3,775,043	3,957,910
Community service	4,956,962	4,990,631
Depreciation not allocated to other functions	2,946,179	2,835,218
Interest and fiscal charges	4,860,767	5,475,005
Total expenses	107,048,490	110,083,304
Change in net position	(13,310,633)	(19,083,488)
Net position – beginning	(43,083,458)	(23,999,970)
Net position – ending	$ (56,394,091)	$ (43,083,458)

This table is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. This statement includes depreciation expense, but excludes capital asset purchase costs, debt proceeds, and the repayment of debt principal. Revenues increased from the prior year, primarily with the approved property tax levy. The decrease in expenses reflects the change in the PERA and the TRA multiple-employer defined benefit pension plans mentioned earlier.

Figure A shows further analysis of these revenue sources:

Figure A – Sources of Revenues for Fiscal Years 2018 and 2017



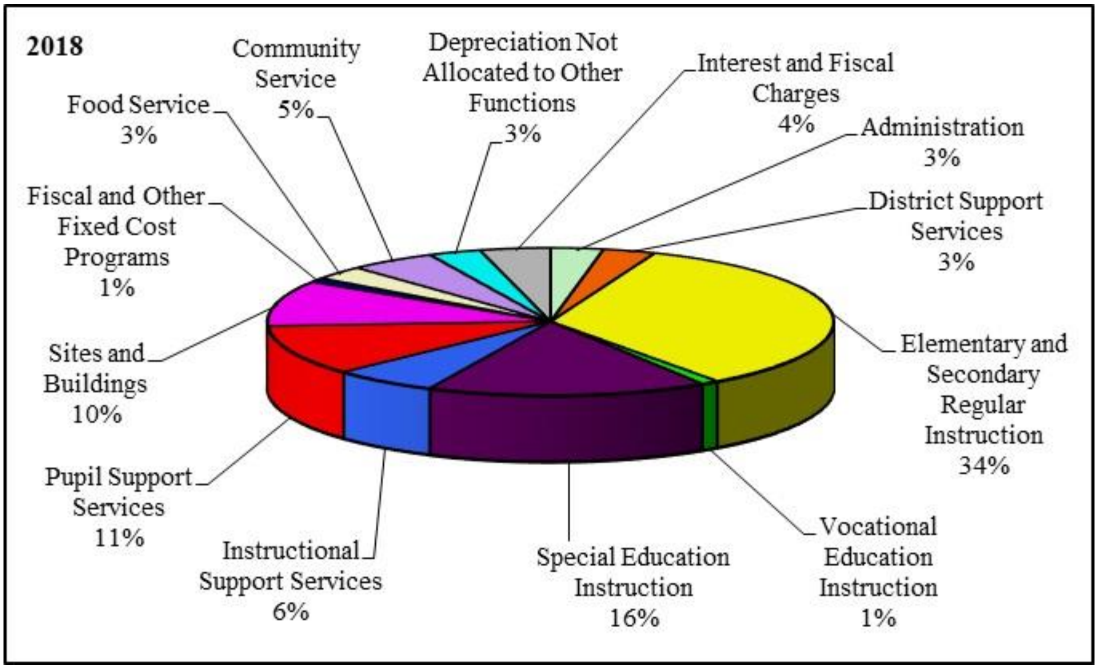


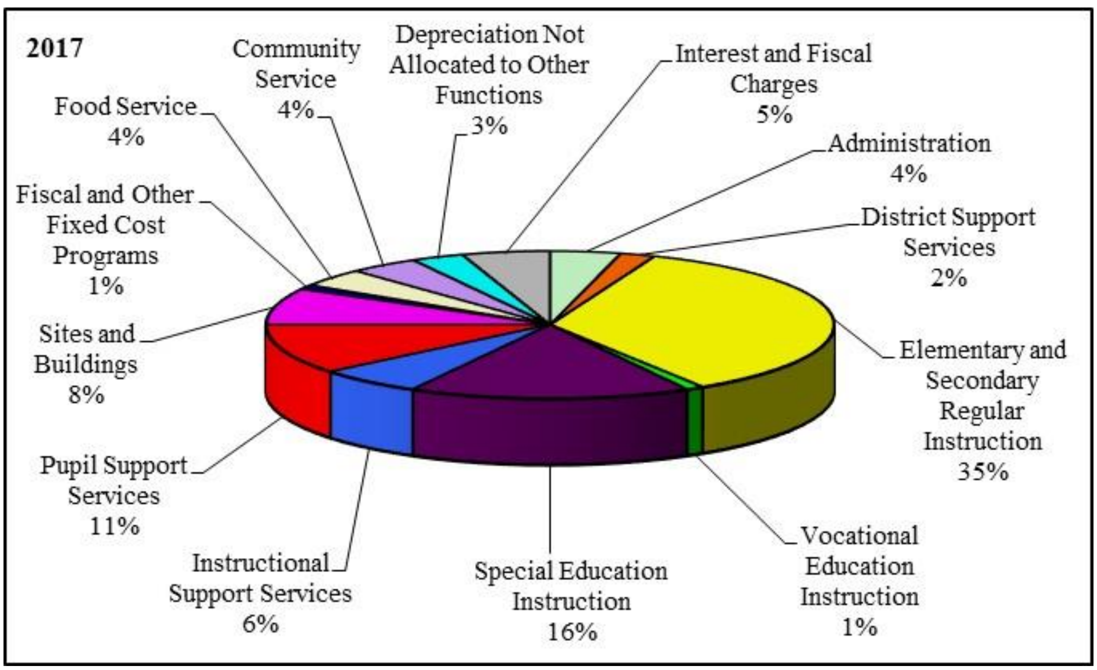
The largest share of the District's revenue is received from the state, including the general education aid formula and most of the operating grants.

Property taxes are generally the next largest source of funding. The level of revenue property tax sources provide is not only dependent on district taxpayers by way of operating and building referenda, but also by decisions made by the Legislature in the mix of state aid and local effort in a variety of funding formulas.

Figure B shows further analysis of the expense functions:

Figure B – Expenses for Fiscal Years 2018 and 2017





The District's expenses are predominately related to educating students. Programs (or functions) such as elementary and secondary regular instruction, vocational education instruction, special education instruction, and instructional support services are directly related to classroom instruction, while the rest of the programs support instruction and other necessary costs to operate the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is also reflected in its governmental funds. Table 3 shows the change in total fund balances of each of the District's governmental funds:

Table 3
Governmental Fund Balances
as of June 30, 2018 and 2017

	2018	2017	Increase (Decrease)
Major funds			
General	$ 2,137,470	$ 1,699,023	$ 438,447
Capital Projects – Building Construction	37,362,764	88,886,436	(51,523,672)
Debt Service	1,174,606	1,527,673	(353,067)
Nonmajor funds			
Food Service Special Revenue	292,943	–	292,943
Community Service Special Revenue	821,795	556,880	264,915
Total governmental funds	$ 41,789,578	$ 92,670,012	$ (50,880,434)

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance that has not yet been limited to use for a particular purpose by either an external party, the District itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the District's School Board.

At June 30, 2018, the District's governmental funds reported combined fund balances of $41,789,578, a decrease of $50,880,434 in comparison with the prior year. Approximately 1.3 percent of this amount ($546,476) constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of the fund balance is either nonspendable, restricted, or assigned to indicate that it is: 1) not in spendable form ($242,427), 2) restricted for particular purposes ($40,539,561), or 3) assigned for particular purposes ($461,114).

ANALYSIS OF THE GENERAL FUND

Table 4 summarizes the amendments to the General Fund budget:

Table 4
General Fund
Budget

	Original Budget	Final Budget	Increase (Decrease)	Percent Change
Revenue	$ 71,450,000	$ 73,550,000	$ 2,100,000	2.9 %
Expenditures and other financing uses	$ 71,447,263	$ 73,061,972	$ 1,614,709	2.3 %

The District is required to adopt an operating budget prior to the beginning of its fiscal year, referred to above as the original budget. During the year, the District amended the budget for known significant changes in circumstances such as: updated enrollment estimates, legislative changes, additional funding received from grants or other local sources, staffing changes, employee contract settlements, insurance premium changes, special education tuition changes, or for new debt issued.

Table 5 summarizes the operating results of the General Fund:

Table 5
General Fund
Operating Results

		Over (Under) Final Budget		Over (Under) Prior Year	
	2018 Actual	Amount	Percent	Amount	Percent
Revenue and other financing sources	$ 75,166,080	$ 1,616,080	2.2%	$ 1,472,844	2.0%
Expenditures and other financing uses	74,727,633	$ 1,665,661	2.3%	$ 289,152	0.4%
Net change in fund balances	$ 438,447				

The fund balance of the General Fund increased $438,447, compared to an increase of $488,028 approved in the budget.

The largest revenue variances to budget occurred in state sources and property taxes, which were $976,749 and $321,398 more than projected in the budget, respectively. Conservative budgeting for special education and long-term facilities maintenance revenue along with the pass-through of state funding for pensions contributed to state sources exceeding budget. The property tax variance was due to miscellaneous collections and delinquent tax collections being more than anticipated in the budget. The revenue increase from the prior year was mainly in property taxes, which increased $1,417,788, due to the increased property tax levy for long-term facilities maintenance in the current year.

The expenditure and other financing uses budget variance was spread across several programs and object categories, with the largest variance in sites and buildings, which was $1,161,256 over budget, due to a timing of long-term facilities maintenance projects at year-end. The District recognized more spending for salaries, employee benefits, and capital expenditures compared to amounts anticipated in the budget. The increase from the prior year is mainly due to increased capital expenditures related to long-term facilities maintenance projects.

COMMENTS ON SIGNIFICANT ACTIVITIES IN OTHER FUNDS

Capital Projects – Building Construction Fund

The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities financed with voter-approved building bonds and as authorized by the District's long-term facilities maintenance program as approved by the Minnesota Department of Education. At June 30, 2018, the District had a total fund balance of $37,362,764, which reflects a decrease of $51,523,672. This decrease is consistent with the approved budget, utilizing the proceeds from the 2016B General Obligation School Building Bonds to finance district-wide projects.

Debt Service Fund

Debt Service Fund expenditures exceeded revenues by $353,067 in the current year, compared to a $1,000 fund balance increase anticipated in the budget. The funding of the Debt Service Fund is largely controlled with each individual debt obligation's financing plan. The remaining fund balance of $1,174,606 at June 30, 2018 is available for meeting future debt service obligations.

Food Service Special Revenue Fund

The Food Service Special Revenue Fund ended the year with revenues and other financing sources exceeding expenditures, increasing equity by $292,943, compared to a planned fund balance increase of $1,629. The District made a transfer of $114,709 from the General Fund, contributing to the increase in the current year.

Community Service Special Revenue Fund

The Community Service Special Revenue Fund ended the year with revenues exceeding expenditures, increasing equity by $264,915, compared to a planned fund balance increase of $247, mainly due to more participation than anticipated.

Internal Service Funds

Internal service funds are used to account for the financing of goods and services provided by one department or agency of a government to other departments or agencies on a cost-reimbursement basis. The District currently maintains two internal service funds used to account for the District's self-insured health and dental insurance functions.

Operating revenues for the internal service funds for fiscal 2018 totaled $9,618,118. Operating expenses totaled $9,353,926 for self-insured health and dental benefit claims. The internal service funds also reported $47,682 in investment earnings in the current year.

The net position for internal service funds as of June 30, 2018 totaled $3,678,908, which represents an increase of $311,874 in net position from the prior year.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

Table 6 shows the District's capital assets, together with changes from the previous year. The table also shows the total depreciation expense for fiscal years ending June 30, 2018 and 2017:

Table 6
Capital Assets

	2018	2017	Change
Land	$ 1,885,726	$ 1,885,726	$ –
Construction in progress	67,815,581	39,972,672	27,842,909
Buildings	77,684,188	77,647,165	37,023
Building and land improvements	55,657,392	30,226,392	25,431,000
Furniture and equipment	21,773,010	20,236,461	1,536,549
Intangibles	1,895,000	1,895,000	–
Less accumulated depreciation	(76,338,420)	(73,392,511)	(2,945,909)
Total	$ 150,372,477	$ 98,470,905	$ 51,901,572
Depreciation expense	$ 3,177,397	$ 3,024,700	$ 152,697

By the end of fiscal year 2018, the District had invested in a broad range of capital assets, including school buildings, athletic facilities, and other equipment for various instructional programs (see Table 6).

The changes presented in the table above reflect the ongoing activity of projects at district sites during fiscal year 2018, including the activity of the Capital Projects – Building Construction Fund.

The District defines capital assets as those with an initial, individual cost of $5,000 or more, which benefit more than one fiscal year.

Additional details about capital assets can be found in the notes to basic financial statements.

Long-Term Liabilities

Table 7 illustrates the components of the District's long-term liabilities with changes from the prior year:

Table 7
Outstanding Long-Term Liabilities

	2018	2017	Change
General obligation bonds payable	$ 151,000,000	$ 154,825,000	$ (3,825,000)
Certificates of participation payable	2,540,000	2,655,000	(115,000)
Unamortized premium/discount	3,125,777	3,526,078	(400,301)
Capital lease payable	74,234	146,469	(72,235)
Net pension liability	136,944,300	157,428,767	(20,484,467)
Net OPEB liability	6,542,468	6,149,275	393,193
Severance benefits payable	1,709,998	2,101,610	(391,612)
Compensated absences payable	938,215	1,047,963	(109,748)
Total	$ 302,874,992	$ 327,880,162	$ (25,005,170)

The decrease in general obligation bonds payable, certificates of participation payable, and capital lease payable, is due to the planned principal payments made in fiscal 2018.

The difference in the net pension liability reflects the change in the District's proportionate share of the state-wide pension obligations for the PERA and the TRA.

The state limits the amount of general obligation debt the District can issue to 15 percent of the market value of all taxable property within the District's corporate limits (see Table 8).

Table 8
Limitations on Debt

District's market value	$ 4,992,499,000
Limit rate	15.0%
Legal debt limit	$ 748,874,850

Additional details of the District's long-term debt activity can be found in the notes to basic financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of the voter-approved operating referendum, the District is dependent on the state of Minnesota for a majority of its revenue authority.

The general education program is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the state of Minnesota for educational resources. For the 2019 fiscal year, the Legislature added $124, or 2 percent, per pupil to the basic general education funding formula.

In November 2018, voters of the District passed a levy referendum to provide an additional amount of $825 per pupil per year, for eight years. These funds will be used to support educational programming, including teaching staff and curriculum.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

These financial statements are 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 these statements or need additional financial information, contact the Business Services Department at (651) 982-8125. The address is: Independent School District No. 831, 6100 North 210th Street, Forest Lake, Minnesota 55025.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Net Position
as of June 30, 2018
(With Partial Comparative Information as of June 30, 2017)

	Governmental Activities 2018	Governmental Activities 2017
Assets		
Cash and temporary investments	$ 69,664,424	$ 123,514,241
Receivables		
Current taxes	11,988,517	12,975,288
Delinquent taxes	416,941	412,899
Accounts and interest	551,514	411,422
Due from other governmental units	5,030,930	5,934,911
Due from fiduciary fund	267,136	340,848
Inventory	63,208	73,719
Prepaid items	179,219	328,958
Capital assets		
Not depreciated	69,701,307	41,858,398
Depreciated, net of accumulated depreciation	80,671,170	56,612,507
Total capital assets, net of accumulated depreciation	150,372,477	98,470,905
Total assets	238,534,366	242,463,191
Deferred outflows of resources		
Bond refunding deferments	480,347	518,906
OPEB plan deferments	46,867	36,173
Pension plan deferments	76,974,110	96,759,357
Total deferred outflows of resources	77,501,324	97,314,436
Total assets and deferred outflows of resources	$ 316,035,690	$ 339,777,627
Liabilities		
Salaries payable	$ 776,512	$ 935,001
Accounts and contracts payable	17,812,935	21,112,836
Accrued interest payable	2,222,222	2,629,756
Due to other governmental units	409,706	299,169
Unearned revenue	1,881,074	1,890,940
Claims incurred, but not reported	528,651	688,484
Long-term liabilities		
Due within one year	5,315,510	5,109,542
Due in more than one year	297,559,482	322,770,620
Total long-term liabilities	302,874,992	327,880,162
Total liabilities	326,506,092	355,436,348
Deferred inflows of resources		
Bond refunding deferments	143,323	389,020
OPEB plan deferments	258,013	–
Pension plan deferments	24,462,914	4,313,678
Property taxes levied for subsequent year	21,059,439	22,722,039
Total deferred inflows of resources	45,923,689	27,424,737
Net position		
Net investment in capital assets	36,766,733	31,954,266
Restricted for		
Capital asset acquisition	795,382	–
Food service	292,943	–
Community service	833,076	573,291
Unrestricted	(95,082,225)	(75,611,015)
Total net position	(56,394,091)	(43,083,458)
Total liabilities, deferred inflows of resources, and net position	$ 316,035,690	$ 339,777,627

See notes to basic financial statements

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Activities
Year Ended June 30, 2018
(With Partial Comparative Information for the Year Ended June 30, 2017)

	2018				2017
		Program Revenues		Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Governmental Activities
Governmental activities					
Administration	$ 3,618,600	$ –	$ –	$ (3,618,600)	$ (4,923,047)
District support services	2,774,376	–	–	(2,774,376)	(2,052,095)
Elementary and secondary regular instruction	36,792,292	1,058,396	1,409,911	(34,323,985)	(37,027,019)
Vocational education instruction	1,604,135	5,096	32,607	(1,566,432)	(1,694,997)
Special education instruction	16,690,659	335,414	9,319,108	(7,036,137)	(7,498,606)
Instructional support services	6,380,709	–	23,867	(6,356,842)	(6,314,661)
Pupil support services	11,308,606	–	192,360	(11,116,246)	(12,173,043)
Sites and buildings	10,704,394	35,233	–	(10,669,161)	(8,476,003)
Fiscal and other fixed cost programs	635,768	–	–	(635,768)	(574,212)
Food service	3,775,043	2,303,717	1,590,093	118,767	23,387
Community service	4,956,962	2,959,658	766,725	(1,230,579)	(1,431,435)
Depreciation not allocated to other functions	2,946,179	–	–	(2,946,179)	(2,835,218)
Interest and fiscal charges	4,860,767	–	–	(4,860,767)	(5,475,005)
Total governmental activities	$ 107,048,490	$ 6,697,514	$ 13,334,671	(87,016,305)	(90,451,954)
General revenues					
Taxes					
Property taxes for general purposes				13,354,770	11,988,707
Property taxes for community service				1,052,396	982,243
Property taxes for debt service				9,164,623	6,460,016
General grants and aids				48,177,917	50,352,014
Other general revenues				1,074,102	1,011,353
Investment earnings				881,864	574,133
Total general revenues				73,705,672	71,368,466
Change in net position				(13,310,633)	(19,083,488)
Net position – beginning				(43,083,458)	(23,999,970)
Net position – ending				$ (56,394,091)	$ (43,083,458)

INDEPENDENT SCHOOL DISTRICT NO. 831

Balance Sheet
Governmental Funds
as of June 30, 2018
(With Partial Comparative Information as of June 30, 2017)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Assets			
Cash and temporary investments	$ 9,936,429	$ 46,477,348	$ 5,268,857
Receivables			
Current taxes	6,220,527	–	5,139,466
Delinquent taxes	247,895	–	148,278
Accounts and interest	37,402	457,710	–
Due from other governmental units	4,897,148	–	2,129
Due from other funds	267,136	–	–
Inventory	–	–	–
Prepaid items	170,007	–	–
Total assets	$ 21,776,544	$ 46,935,058	$ 10,558,730
Liabilities			
Salaries payable	$ 648,372	$ –	$ –
Accounts and contracts payable	7,827,270	9,571,300	3,075
Due to other governmental units	408,591	994	–
Unearned revenue	–	–	–
Total liabilities	8,884,233	9,572,294	3,075
Deferred inflows of resources			
Property taxes levied for subsequent year	10,621,897	–	9,300,188
Unavailable revenue – delinquent taxes	132,944	–	80,861
Total deferred inflows of resources	10,754,841	–	9,381,049
Fund balances (deficits)			
Nonspendable	170,007	–	–
Restricted	795,382	37,527,255	1,174,606
Assigned	461,114	–	–
Unassigned	710,967	(164,491)	–
Total fund balances	2,137,470	37,362,764	1,174,606
Total liabilities, deferred inflows of resources, and fund balances	$ 21,776,544	$ 46,935,058	$ 10,558,730

Nonmajor Funds	Total Governmental Funds 2018	Total Governmental Funds 2017
$ 1,717,476	$ 63,400,110	$ 117,564,851
628,524	11,988,517	12,975,288
20,768	416,941	412,899
45,007	540,119	387,083
131,653	5,030,930	5,934,911
–	267,136	340,848
63,208	63,208	73,719
9,212	179,219	322,226
$ 2,615,848	$ 81,886,180	$ 138,011,825
$ 128,140	$ 776,512	$ 935,001
94,934	17,496,579	20,948,046
121	409,706	299,169
129,280	129,280	130,787
352,475	18,812,077	22,313,003
1,137,354	21,059,439	22,722,039
11,281	225,086	306,771
1,148,635	21,284,525	23,028,810
72,420	242,427	395,945
1,042,318	40,539,561	90,968,474
–	461,114	471,136
–	546,476	834,457
1,114,738	41,789,578	92,670,012
$ 2,615,848	$ 81,886,180	$ 138,011,825

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INDEPENDENT SCHOOL DISTRICT NO. 831

Reconciliation of the Balance Sheet to the
Statement of Net Position
Governmental Funds
as of June 30, 2018
(With Partial Comparative Information as of June 30, 2017)

	2018	2017
Total fund balances – governmental funds	$ 41,789,578	$ 92,670,012
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets are included in net position, but are excluded from fund balances because they do not represent financial resources.		
Cost of capital assets	226,710,897	171,863,416
Accumulated depreciation	(76,338,420)	(73,392,511)
Long-term liabilities are included in net position, but are excluded from fund balances until due and payable.		
General obligation bonds payable	(151,000,000)	(154,825,000)
Certificates of participation payable	(2,540,000)	(2,655,000)
Unamortized premium/discount	(3,125,777)	(3,526,078)
Capital lease payable	(74,234)	(146,469)
Net pension liability	(136,944,300)	(157,428,767)
Net OPEB liability	(6,542,468)	(6,149,275)
Severance benefits payable	(1,709,998)	(2,101,610)
Compensated absences payable	(938,215)	(1,047,963)
Accrued interest payable on long-term debt is included in net position, but is excluded from fund balances until due and payable.	(2,222,222)	(2,629,756)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	3,678,908	3,367,034
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – bond refunding deferments	480,347	518,906
Deferred outflows – OPEB plan deferments	46,867	36,173
Deferred outflows – pension plan deferments	76,974,110	96,759,357
Deferred inflows – bond refunding deferments	(143,323)	(389,020)
Deferred inflows – OPEB plan deferments	(258,013)	–
Deferred inflows – pension plan deferments	(24,462,914)	(4,313,678)
Deferred inflows – unavailable revenue – delinquent taxes	225,086	306,771
Total net position – governmental activities	$ (56,394,091)	$ (43,083,458)

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018
(With Partial Comparative Information for the Year Ended June 30, 2017)

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund
Revenue			
Local sources			
Property taxes	$ 13,421,398	$ –	$ 9,174,550
Investment earnings	80,894	714,844	28,134
Other	2,508,241	–	–
State sources	57,201,749	–	21,286
Federal sources	1,953,798	–	–
Total revenue	75,166,080	714,844	9,223,970
Expenditures			
Current			
Administration	3,305,470	–	–
District support services	2,794,017	–	–
Elementary and secondary regular instruction	27,505,436	–	–
Vocational education instruction	1,228,503	–	–
Special education instruction	12,505,873	–	–
Instructional support services	5,258,752	–	–
Pupil support services	10,874,254	–	–
Sites and buildings	10,193,913	–	–
Fiscal and other fixed cost programs	635,768	–	–
Food service	–	–	–
Community service	–	–	–
Capital outlay	–	52,238,516	–
Debt service			
Principal	187,235	–	3,825,000
Interest and fiscal charges	123,703	–	5,752,037
Total expenditures	74,612,924	52,238,516	9,577,037
Excess (deficiency) of revenue over expenditures	553,156	(51,523,672)	(353,067)
Other financing sources (uses)			
Refunding bond debt issued	–	–	–
Building bond debt issued	–	–	–
Premium on debt issued	–	–	–
Discount on debt issued	–	–	–
Payments to refunded bond escrow agent	–	–	–
Transfers in	–	–	–
Transfers (out)	(114,709)	–	–
Total other financing sources (uses)	(114,709)	–	–
Net change in fund balances	438,447	(51,523,672)	(353,067)
Fund balances			
Beginning of year	1,699,023	88,886,436	1,527,673
End of year	$ 2,137,470	$ 37,362,764	$ 1,174,606

See notes to basic financial statements

Nonmajor Funds	Total Governmental Funds 2018	Total Governmental Funds 2017
$ 1,057,526	$ 23,653,474	$ 19,446,940
10,310	834,182	563,649
5,263,375	7,771,616	7,448,528
995,404	58,218,439	58,430,530
1,361,414	3,315,212	3,338,381
8,688,029	93,792,923	89,228,028
–	3,305,470	3,706,541
–	2,794,017	1,981,718
–	27,505,436	27,796,600
–	1,228,503	1,331,649
–	12,505,873	13,191,811
–	5,258,752	4,875,659
–	10,874,254	11,214,282
–	10,193,913	8,252,564
–	635,768	574,212
3,700,468	3,700,468	3,789,152
4,525,699	4,525,699	4,506,514
18,713	52,257,229	44,844,927
–	4,012,235	3,585,290
–	5,875,740	4,189,278
8,244,880	144,673,357	133,840,197
443,149	(50,880,434)	(44,612,169)
–	–	5,365,000
–	–	67,070,000
–	–	1,162,631
–	–	(5,632)
–	–	(5,279,823)
114,709	114,709	1,188,279
–	(114,709)	(1,188,279)
114,709	–	68,312,176
557,858	(50,880,434)	23,700,007
556,880	92,670,012	68,970,005
$ 1,114,738	$ 41,789,578	$ 92,670,012

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INDEPENDENT SCHOOL DISTRICT NO. 831

Reconciliation of the Statement of
Revenue, Expenditures, and Changes in Fund Balances
to the Statement of Activities
Governmental Funds
Year Ended June 30, 2018
(With Partial Comparative Information for the Year Ended June 30, 2017)

	2018	2017
Total net change in fund balances – governmental funds	$ (50,880,434)	$ 23,700,007
Amounts reported for governmental activities in the Statement of Activities are different because:		
Capital outlays are recorded as net position and the cost is allocated over their estimated useful lives as depreciation expense. However, fund balances are reduced for the full cost of capital outlays at the time of purchase.		
Capital outlays	55,109,345	44,744,864
Depreciation expense	(3,177,397)	(3,024,700)
A gain or loss on the disposal of capital assets, including the difference between the carrying value and any related sale proceeds, is included in the change in net position. However, only the sale proceeds are included in the change in fund balances.	(30,376)	(36,418)
The amount of debt issued is reported in the governmental funds as a source of financing. Debt obligations are not revenues in the Statement of Activities, but rather constitute long-term liabilities.		
Refunding bonds payable	–	(5,365,000)
Building bonds payable	–	(67,070,000)
Repayment of long-term debt does not affect the change in net position. However, it reduces fund balances.		
General obligation bonds payable	3,825,000	8,140,000
Certificates of participation payable	115,000	115,000
Capital lease payable	72,235	70,290
Interest on long-term debt is included in the change in net position as it accrues, regardless of when payment is due. However, it is included in the change in fund balances when due.	407,534	(1,911,081)
Debt issuance premiums and discounts are included in the change in net position as they are amortized over the life of the debt. However, they are included in the change in fund balances upon issuance as other financing sources and uses.	400,301	(121,708)
Certain expenses are included in the change in net position, but do not require the use of current funds, and are not included in the change in fund balances.		
Net pension liability	20,484,467	(107,822,607)
Net OPEB liability	(393,193)	(718,417)
Severance benefits payable	391,612	204,045
Compensated absences payable	109,748	(168,799)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The change in net position of the internal service funds is included in the governmental activities in the Statement of Activities.	311,874	890,389
The recognition of certain revenues and expenses/expenditures differ between the full accrual governmental activities financial statements and the modified accrual governmental fund financial statements.		
Deferred outflows – bond refunding deferments	(38,559)	518,906
Deferred outflows – OPEB plan deferments	10,694	36,173
Deferred outflows – pension plan deferments	(19,785,247)	86,406,227
Deferred inflows – bond refunding deferments	245,697	(389,020)
Deferred inflows – OPEB plan deferments	(258,013)	–
Deferred inflows – pension plan deferments	(20,149,236)	2,734,335
Deferred inflows – unavailable revenue – delinquent taxes	(81,685)	(15,974)
Change in net position – governmental activities	$ (13,310,633)	$ (19,083,488)

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INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund
Year Ended June 30, 2018

	Budgeted Amounts			Over (Under)
	Original	Final	Actual	Final Budget
Revenue				
Local sources				
Property taxes	$ 11,000,000	$ 13,100,000	$ 13,421,398	$ 321,398
Investment earnings	10,000	10,000	80,894	70,894
Other	2,415,000	2,415,000	2,508,241	93,241
State sources	56,225,000	56,225,000	57,201,749	976,749
Federal sources	1,800,000	1,800,000	1,953,798	153,798
Total revenue	71,450,000	73,550,000	75,166,080	1,616,080
Expenditures				
Current				
Administration	3,950,550	3,439,046	3,305,470	(133,576)
District support services	3,060,387	3,056,853	2,794,017	(262,836)
Elementary and secondary regular instruction	27,339,108	27,641,517	27,505,436	(136,081)
Vocational education instruction	1,028,116	924,584	1,228,503	303,919
Special education instruction	12,838,930	12,139,223	12,505,873	366,650
Instructional support services	4,320,335	4,569,916	5,258,752	688,836
Pupil support services	11,315,548	11,308,467	10,874,254	(434,213)
Sites and buildings	6,759,289	9,032,657	10,193,913	1,161,256
Fiscal and other fixed cost programs	520,000	520,000	635,768	115,768
Debt service				
Principal	190,000	190,000	187,235	(2,765)
Interest and fiscal charges	125,000	125,000	123,703	(1,297)
Total expenditures	71,447,263	72,947,263	74,612,924	1,665,661
Excess (deficiency) of revenue over expenditures	2,737	602,737	553,156	(49,581)
Other financing sources (uses)				
Transfers (out)	–	(114,709)	(114,709)	–
Net change in fund balances	$ 2,737	$ 488,028	438,447	$ (49,581)
Fund balances				
Beginning of year			1,699,023	
End of year			$ 2,137,470	

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Net Position
Internal Service Funds
as of June 30, 2018
(With Partial Comparative Information as of June 30, 2017)

	2018	2017
Assets		
Current assets		
Cash and temporary investments	$ 6,264,314	$ 5,949,390
Receivables		
Accounts and interest	11,395	24,339
Prepaid items	–	6,732
Total current assets	6,275,709	5,980,461
Liabilities		
Current liabilities		
Accounts and contracts payable	316,356	164,790
Unearned revenue	1,751,794	1,760,153
Claims incurred, but not reported	528,651	688,484
Total current liabilities	2,596,801	2,613,427
Net position		
Unrestricted	$ 3,678,908	$ 3,367,034

INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Revenue, Expenses, and Changes in Net Position
Internal Service Funds
Year Ended June 30, 2018
(With Partial Comparative Information for the Year Ended June 30, 2017)

	2018	2017
Operating revenue		
Charges for services		
Contributions from governmental funds	$ 9,618,118	$ 9,848,999
Operating expenses		
Health benefit claims	8,836,541	8,425,939
Dental benefit claims	517,385	543,155
Total operating expenses	9,353,926	8,969,094
Operating income	264,192	879,905
Nonoperating revenue		
Investment earnings	47,682	10,484
Change in net position	311,874	890,389
Net position		
Beginning of year	3,367,034	2,476,645
End of year	$ 3,678,908	$ 3,367,034

See notes to basic financial statements

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INDEPENDENT SCHOOL DISTRICT NO. 831

Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2018
(With Partial Comparative Information for the Year Ended June 30, 2017)

	2018	2017
Cash flows from operating activities		
Contributions from governmental funds	$ 9,622,703	$ 9,843,468
Payment for health claims	(8,834,896)	(8,482,747)
Payment for dental claims	(520,565)	(539,816)
Net cash flows from operating activities	267,242	820,905
Cash flows from investing activities		
Investment income received	47,682	10,484
Net change in cash and cash equivalents	314,924	831,389
Cash and cash equivalents		
Beginning of year	5,949,390	5,118,001
End of year	$ 6,264,314	$ 5,949,390
Reconciliation of operating income to net cash flows from operating activities		
Operating income	$ 264,192	$ 879,905
Adjustments to reconcile operating income to net cash flows from operating activities		
Changes in assets and liabilities		
Accounts and interest receivable	12,944	9,822
Prepaid items	6,732	(6,732)
Accounts and contracts payable	151,566	(109,032)
Unearned revenue	(8,359)	(15,353)
Claims incurred, but not reported	(159,833)	62,295
Net cash flows from operating activities	$ 267,242	$ 820,905

See notes to basic financial statements

Statement of Fiduciary Net Position
as of June 30, 2018

	Post-Employment Benefits Trust Fund
Assets	
Cash and temporary investments	$ 951,100
Investments, at fair value	
Negotiable certificates of deposit	939,078
MNTrust Investment Shares Portfolio	505,311
Accounts and interest receivable	29,808
Total assets	2,425,297
Liabilities	
Due to other funds	267,136
Net position	
Held in trust for employee benefits	$ 2,158,161

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

	Post-Employment Benefits Trust Fund
Additions	
Investment earnings	$ 32,754
Deductions	
Benefits paid to plan members and administrative fees	267,386
Change in net position	(234,632)
Net position	
Beginning of year	2,392,793
End of year	$ 2,158,161

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Independent School District No. 831 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit. Based on these criteria, there are no organizations considered to be component units of the District.

In addition to component units, the District is required to disclose its relationships with related organizations. The District is a member of Technology and Information Educational Services (TIES), a consortium of Minnesota school districts that provides data processing services and support to its member districts. TIES is a separate legal entity that is financially independent of the District. Further, the District does not appoint a voting majority of TIES' Board of Directors. Therefore, TIES is not included as part of the District's reporting entity. During the fiscal year ended June 30, 2018, the District paid TIES $406,155 for services provided.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are not included in the District's basic financial statements.

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and 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. Generally, the effect of material interfund activity has been removed from the government-wide financial statements. Transactions representing interfund services provided and used are not eliminated in the consolidation process to the government-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported instead as general revenues.

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

For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. For capital assets that essentially serve all functional areas, depreciation expense is reported as "depreciation not allocated to other functions." Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

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. For this purpose, the District generally considers revenues, including property taxes, to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

2. **Recording of Expenditures** – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt and other long-term liabilities, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as capital outlay expenditures in the governmental funds. In the General Fund, capital outlay expenditures are included within the applicable functional areas.

Internal service funds are presented in the proprietary fund financial statements. Because the principal users of the internal services are the District's governmental activities, the internal service funds are consolidated into the governmental activities column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service funds are charges to customers (other district funds) for service. Operating expenses for the internal service funds include the cost of providing the services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary funds are presented in the fiduciary fund financial statements by type, for which the District has one Post-Employment Benefits Trust Fund. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

Proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as described earlier in these notes.

Description of Funds

The existence of the various district funds has been established by the Minnesota Department of Education (MDE). Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are as follows:

Major Governmental Funds

General Fund – The General Fund is the government's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

Capital Projects – Building Construction Fund – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities and as authorized by the District's MDE-approved long-term facilities maintenance program.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation debt principal, interest, and related costs. The regular debt service account is used for all general obligation debt service except for the financial activities of the other post-employment benefits (OPEB) debt service account. The OPEB debt service account is used for the taxable OPEB bond issues.

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is used to record financial activities of the District's child nutrition program.

Community Service Special Revenue Fund – The Community Service Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, or other similar services.

Proprietary Funds

Internal Service Funds – Internal service funds account for the financing of goods or services provided by one department to other departments or agencies of the District, or to other governments, on a cost-reimbursement basis. The District's internal service funds are used to account for dental and health insurance benefits offered by the District to its employees as a self-insured plan.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fiduciary Fund

Post-Employment Benefits Trust Fund – The Post-Employment Benefits Trust Fund is used to administer resources received and held by the District as the trustee for others. The Post-Employment Benefits Trust Fund includes assets held in an irrevocable trust to fund post-employment insurance benefits of eligible employees.

E. Budgetary Information

The School Board adopts an annual budget for all governmental funds prepared on the same basis of accounting as the fund financial statements. Legal budgetary control is at the fund level. Budgeted appropriations lapse at year-end. Expenditures in the General, Community Service Special Revenue, and Debt Service Funds exceeded budgeted appropriations by $1,665,661, $323,218, and $372,037, respectively, during the year ended June 30, 2018. Revenues in excess of budget, along with available fund balance, financed these variances.

F. Cash and Temporary Investments

Cash and temporary 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 respective funds on the basis of applicable cash balance participation by each fund. Bond proceeds recorded in the Capital Projects – Building Construction Fund are not pooled, and earnings on these proceeds are allocated directly to the fund.

In the Post-Employment Benefits Trust Fund, assets were contributed to an irrevocable trust established to finance the District's liability for post-employment insurance benefits. Earnings from the investments of this trust are allocated directly to this fund.

For purposes of the Statement of Cash Flows, the District considers all highly liquid debt instruments with an original maturity from the time of purchase by the District of three months or less to be cash equivalent. The Proprietary Fund's equity in the government-wide cash and investment management pool is considered to be cash equivalent.

Investments are generally stated at fair value, except for certain investments in external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the District's recurring fair value measurements as of year-end.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Receivables

When necessary, the District utilizes an allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are delinquent property taxes receivable.

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of purchased food and surplus commodities received from the federal government. Purchased food inventory is recorded at cost on a first-in, first-out basis. Surplus commodities are stated at standardized costs, as determined by the U.S. Department of Agriculture.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are recorded as expenditures/expenses at the time of consumption.

J. Property Taxes

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

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes $660,644 of the property tax levy collectible in 2018 as revenue to the District in fiscal year 2017–2018. The remaining portion of the taxes collectible in 2018 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

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

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources (unavailable revenue) in the fund financial statements because it is not known to be available to finance the operations of the District in the current year.

K. Capital Assets

Capital assets that are purchased or constructed by the District are recorded at historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation. The District defines capital assets as those with an initial, individual cost of $5,000 or more, which benefit more than one fiscal year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital assets are recorded in the government-wide financial statements, but are not reported in the governmental fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for buildings and building and land improvements, 5 to 15 years for furniture and equipment, and 10 to 20 years for intangible assets. Land and construction in progress are not depreciated.

The District does not possess material amounts of infrastructure capital assets, such as sidewalks or parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

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. If material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

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

M. Compensated Absences

Under the terms of collectively bargained contracts, eligible employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for unused, accrued vacation to the limit specified in their labor contract or School Board policy upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued when earned in the government-wide financial statements. Compensated absences are accrued in the governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end, due to employee termination or similar circumstances.

N. Severance Benefits

The District provides lump sum severance benefits to eligible employees in accordance with provisions in certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. The severance benefit is calculated by converting a portion of unused accumulated sick leave. No individual can receive severance benefits in excess of one year’s salary. Members of certain employee groups may also elect to receive district matching contributions paid into a tax-deferred matching contribution plan. The amount of any severance or retirement benefit due to an individual is reduced by the total matching contributions made by the District to such a plan over the course of that individual’s employment.

Severance benefits payable are recorded as a liability in the government-wide financial statements as they are earned and it becomes probable they will vest at some point in the future. Severance benefits payable are accrued in the governmental fund financial statements as the liability matures, due to employee termination.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. State-Wide Pension Plans

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 the Teachers Retirement Association (TRA) and additions to/deductions from the PERA's and the TRA's fiduciary net positions have been determined on the same basis as they are reported by the PERA and the TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

The TRA has a special funding situation created by direct aid contributions made by the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into the TRA in 2006. A second direct aid source is from the state of Minnesota for the merger of the Duluth Teachers Retirement Fund Association in 2015.

The PERA has a special funding situation created by a direct aid contribution made by the state of Minnesota. The direct aid is a result of the merger of the Minneapolis Employees Retirement Fund into the PERA on January 1, 2015.

P. Other Post-Employment Benefits (OPEB) Plan

For purposes of measuring the net OPEB liability, deferred outflows/inflows of resources, and OPEB expense, information about the fiduciary net position of the District's OPEB plan 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, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and certain investments that have a maturity at the time of purchase of one year or less, which are reported at amortized cost.

Q. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, statements of financial position or balance sheets will sometimes report separate sections for deferred outflows or inflows of resources. These separate financial statement elements represent a consumption or acquisition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) or an inflow of financial resources (revenue) until then.

The District reports deferred outflows and inflows of resources related to bond refunding deferments in the government-wide Statement of Net Position. A bond refunding deferment 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.

The District also reports deferred outflows and inflows of resources related to pensions and OPEB in the government-wide Statement of Net Position. These deferred outflows and inflows result from differences between expected and actual economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings on pension and OPEB plan investments, changes in proportion, and contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension and OPEB standards.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes levied for subsequent years, which represents property taxes received or reported as a receivable before the period for which the taxes are levied, are 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.

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.

R. Net Position

In the government-wide and internal service fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

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

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

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

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

S. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.

- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.

- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.

- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In the governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority.

- **Unassigned** – The residual classification for the General Fund, which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, then use unrestricted resources as they are needed.

When committed, assigned, or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

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 and disclosures in the financial statements during the reporting period. Actual results could differ from those estimates.

U. Risk Management and Self-Insurance

1. **General Insurance** – 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 workers' compensation for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years. There were no significant reductions in the District's insurance coverage in the current year.

2. **Self-Insurance** – The District has established two internal service funds to account for and finance its self-insured risk of loss for respective employee dental and health insurance plans. Under these plans, the internal service funds provide coverage to participating employees and their dependents for various dental and healthcare costs as described in the plans.

   The District makes premium payments, that include both employer and employee contributions to the internal service funds on behalf of program participants based on rates determined by insurance company estimates of monthly claims paid for each coverage class, plus the stop-loss health insurance premium costs and administrative service charges.

   District claim liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. Because actual claim liabilities depend on complex factors such as inflation, changes in legal doctrines, and damage awards, the process used in computing a claim liability does not necessarily result in an exact amount. Claim liabilities are evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Changes in the balance of dental claim liabilities for the past two years were as follows:

	Balance – Beginning of Year	Charges and Changes in Estimates	Claim Payments	Balance – End of Year
2017	$ 8,545	$ 543,155	$ 541,153	$ 10,547
2018	$ 10,547	$ 517,385	$ 522,098	$ 5,834

Changes in the balance of health insurance claim liabilities for the past two years were as follows:

	Balance – Beginning of Year	Charges and Changes in Estimates	Claim Payments	Balance – End of Year
2017	$ 617,644	$ 8,425,939	$ 8,365,646	$ 677,937
2018	$ 677,937	$ 8,836,541	$ 8,991,661	$ 522,817

V. Prior Period Comparative Financial Information/Reclassification

The basic financial statements include certain prior year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's prior year financial statements, from which the summarized information was derived. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Components of Cash and Investments

Cash and investments at year-end consist of the following:

Deposits	$	32,000,422
Investments		40,059,491
Total deposits and investments	$	72,059,913

Cash and investments are included on the basic financial statements as follows:

Statement of Net Position		
Cash and temporary investments	$	69,664,424
Statement of Fiduciary Net Position		
Cash and temporary investments		951,100
Investments, at fair value		1,444,389
Total deposits and investments	$	72,059,913

B. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, including checking accounts, savings accounts, and nonnegotiable certificates of deposit.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The District's deposit policies do not further limit depository choices.

At year-end, the carrying amount of the District's deposits was $32,000,422, while the balance on the bank records was $33,200,698. At June 30, 2018, all deposits were fully covered by federal deposit insurance, surety bonds, or by collateral held by the District's agent in the District's name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Investments

The District has the following investments at year-end:

Deposits/Investments	Credit Risk Rating	Credit Risk Agency	Fair Value Measurements Using	Interest Risk – Maturity Duration in Years: Less Than 1	1 to 5	5 to 10	Greater Than 10	Total
U.S. agency securities	AA	S&P	Level 2	$ 4,967,836	$ 983,379	$ –	$ –	$ 5,951,215
State and local bonds	AAA	S&P	Level 2	$ 865,448	$ –	$ –	$ –	865,448
State and local bonds	AA	S&P	Level 2	$ 3,918,946	$ 245,795	$ –	$ 251,178	4,415,919
State and local bonds	A	S&P	Level 2	$ 325,059	$ –	$ –	$ –	325,059
State and local bonds	AA	Moody's	Level 2	$ 1,079,194	$ 1,321,509	$ –	$ –	2,400,703
Negotiable certificates of deposit	N/R	N/A	Level 2	$ 1,931,078	$ –	$ –	$ –	1,931,078
Investment pools/mutual funds								
Minnesota School District Liquid Asset Fund	AAA	S&P	N/A	N/A	N/A	N/A	N/A	105,346
MNTrust Investment Shares Portfolio	AAA	S&P	N/A	N/A	N/A	N/A	N/A	4,969,105
MNTrust Term Series	N/R	N/A	N/A	$ 2,000,000	$ –	$ –	$ –	2,000,000
Wells Fargo Federal Treasury Obligation I	AAA	S&P	Level 1	N/A	N/A	N/A	N/A	17,095,618
Total investments								$ 40,059,491

N/R – Not Rated
N/A – Not Applicable

The Minnesota School District Liquid Asset Fund (MSDLAF), MNTrust Investment Shares Portfolio, and MNTrust Term Series are external investment pools not registered with the Securities and Exchange Commission regulated by Minnesota Statutes. The District's investment in these investment pools are measured at the net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. For these investment pools, there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice required except for the MSDLAF – MAX Class, which requires a redemption notice of 14 days and the MNTrust Term Series, which requires a redemption notice of 7 days.

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

Concentration Risk – This is the risk associated with investing a significant portion of the District's investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District's investment policies do not address concentration risk.

Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District's investment policies do not limit the maturities of investments; however, when purchasing investments, the District considers such things as interest rates and cash flow needs.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District's investments to direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers. For assets held in the Post-Employment Benefits Trust Fund, the investment options available to the District are expanded to include the investment types specified in Minnesota Statutes § 356A.06, Subd. 7. The District's investment policies do not further restrict investing in specific financial instruments.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year is as follows:

	Beginning Balance	Additions	Deletions	Completed Construction	Ending Balance
Capital assets, not depreciated					
Land	$ 1,885,726	$ –	$ –	$ –	$ 1,885,726
Construction in progress	39,972,672	52,956,931	(30,376)	(25,083,646)	67,815,581
Total capital assets, not depreciated	41,858,398	52,956,931	(30,376)	(25,083,646)	69,701,307
Capital assets, depreciated					
Buildings	77,647,165	37,023	–	–	77,684,188
Building and land improvements	30,226,392	347,354	–	25,083,646	55,657,392
Furniture and equipment	20,236,461	1,768,037	(231,488)	–	21,773,010
Intangibles	1,895,000	–	–	–	1,895,000
Total capital assets, depreciated	130,005,018	2,152,414	(231,488)	25,083,646	157,009,590
Less accumulated depreciation for					
Buildings	(48,000,276)	(1,536,443)	–	–	(49,536,719)
Building and land improvements	(10,060,721)	(768,810)	–	–	(10,829,531)
Furniture and equipment	(15,210,018)	(788,361)	231,488	–	(15,766,891)
Intangibles	(121,496)	(83,783)	–	–	(205,279)
Total accumulated depreciation	(73,392,511)	(3,177,397)	231,488	–	(76,338,420)
Net capital assets, depreciated	56,612,507	(1,024,983)	–	25,083,646	80,671,170
Total capital assets, net	$ 98,470,905	$ 51,931,948	$ (30,376)	$ –	$ 150,372,477

NOTE 3 – CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to the following governmental functions:

Administration	$	1,633
District support services		30,921
Elementary and secondary regular instruction		43,131
Special education instruction		5,032
Instructional support services		20,394
Pupil support services		127,070
Community service		3,037
Depreciation not allocated to other functions		2,946,179
Total depreciation expense	$	3,177,397

NOTE 4 – LONG-TERM LIABILITIES

A. General Obligation Bonds Payable

The District currently has the following general obligation bonds payable outstanding:

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
Refunding bonds	10/08/2015	5.00%	$ 10,285,000	02/01/2019	$ 3,655,000
School building bonds	05/05/2016	2.00–5.00%	$ 75,000,000	02/01/2046	75,000,000
School building bonds	12/15/2016	3.00–5.00%	$ 67,070,000	02/01/2046	67,070,000
Taxable OPEB refunding bonds	12/15/2016	1.25–3.35%	$ 5,365,000	02/01/2030	5,275,000
Total general obligation bonds payable					$ 151,000,000

These bonds were issued to finance acquisition, construction, and/or improvements of capital facilities; to finance the retirement (refunding) of prior bond issues; or to finance OPEB obligations. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

B. Certificates of Participation Payable

Issue	Issue Date	Interest Rate	Face/Par Value	Final Maturity	Principal Outstanding
Certificates of participation	02/25/2014	1.20–5.35%	$ 3,000,000	02/01/2034	$ 2,540,000

On February 25, 2014, the District issued $3,000,000 of Certificates of Participation, Series 2014A. The proceeds were used to purchase the Forest Lake Area Athletic Association (FLAAA) Sports Center and Ice Arena. The District has a nominal ground lease agreement with the City of Forest Lake for the land where the FLAAA Sports Center and Ice Arena are located. The certificates of participation are paid by the General Fund.

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

C. Capital Lease Payable

The District entered into a $355,257 capital lease agreement to finance the acquisition of telephone and communications technology equipment on December 15, 2014. This lease has an effective interest rate of 2.735 percent and calls for annual principal and interest payments of $76,288 through June 2019. The lease is being paid by the General Fund. The leased assets were recorded at $410,064, which includes the asset and labor costs (the present value of future minimum lease payments as of the inception date of the lease). Total accumulated depreciation on these assets at year-end was $164,026.

D. Other Long-Term Liabilities

The District offers a number of benefits to its employees, including pensions, severance benefits, compensated absences, and OPEB. The details of these various benefit liabilities are discussed elsewhere in these notes. Such benefits are financed primarily from the General Fund. The District has also established an Employee Benefits Trust Fund to finance OPEB obligations.

District employees participate in two state-wide, cost-sharing, multiple-employer defined benefit pension plans administered by the PERA and the TRA. The following is a summary of the net pension liabilities, deferred outflows and inflows of resources, and pension expense reported for these plans for the current year:

Pension Plans	Net Pension Liabilities	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
PERA	$ 14,797,960	$ 4,232,588	$ 3,488,577	$ 1,672,191
TRA	122,146,340	72,741,522	20,974,337	21,451,268
Total	$ 136,944,300	$ 76,974,110	$ 24,462,914	$ 23,123,459

E. Minimum Debt Payments

Minimum annual principal and interest payments to maturity for general obligation bonds, certificates of participation, and the capital lease are as follows:

Year Ending	General Obligation Bonds		Certificates of Participation		Capital Lease	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 3,845,000	$ 5,216,154	$ 115,000	$ 117,178	$ 74,234	$ 2,054
2020	3,345,000	5,030,459	120,000	114,360	–	–
2021	3,495,000	4,875,849	125,000	110,760	–	–
2022	3,645,000	4,728,899	125,000	106,573	–	–
2023	3,815,000	4,558,386	130,000	101,885	–	–
2024–2028	21,295,000	20,582,904	755,000	418,608	–	–
2029–2033	24,895,000	16,936,158	950,000	215,085	–	–
2034–2038	29,055,000	12,752,700	220,000	11,770	–	–
2039–2043	34,175,000	7,626,713	–	–	–	–
2044–2046	23,435,000	1,651,063	–	–	–	–
	$ 151,000,000	$ 83,959,285	$ 2,540,000	$ 1,196,219	$ 74,234	$ 2,054

NOTE 4 – LONG-TERM LIABILITIES (CONTINUED)

F. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
General obligation bonds payable	$ 154,825,000	$ –	$ 3,825,000	$ 151,000,000	$ 3,845,000
Certificates of participation payable	2,655,000	–	115,000	2,540,000	115,000
Unamortized premium/discount	3,526,078	–	400,301	3,125,777	–
Total bonds and certificates payable	161,006,078	–	4,340,301	156,665,777	3,960,000
Capital lease payable	146,469	–	72,235	74,234	74,234
Net pension liability	157,428,767	9,562,317	30,046,784	136,944,300	–
Net OPEB liability	6,149,275	640,512	247,319	6,542,468	–
Severance benefits payable	2,101,610	–	391,612	1,709,998	461,114
Compensated absences payable	1,047,963	710,414	820,162	938,215	820,162
	$ 327,880,162	$ 10,913,243	$ 35,918,413	$ 302,874,992	$ 5,315,510

NOTE 5 – FUND BALANCES

The following is a breakdown of equity components of governmental funds, which are defined earlier in the report. When applicable, certain restrictions, which have an accumulated deficit balance at June 30, are included in unassigned fund balance in the District's financial statements in accordance with accounting principles generally accepted in the United States of America. A description of these deficit balance restrictions is included herein since the District has specific authority to future resources for such deficits.

Classifications

At June 30, 2018, a summary of the District's governmental fund balance classifications are as follows:

	General Fund	Capital Projects – Building Construction Fund	Debt Service Fund	Nonmajor Funds	Total
Nonspendable					
Inventory	$ –	$ –	$ –	$ 63,208	$ 63,208
Prepaid items	170,007	–	–	9,212	179,219
Total nonspendable	170,007	–	–	72,420	242,427
Restricted					
Operating capital	626,446	–	–	–	626,446
Long-term facilities maintenance	168,936	–	–	–	168,936
Capital projects	–	37,527,255	–	–	37,527,255
Debt service	–	–	1,174,606	–	1,174,606
Food service	–	–	–	227,190	227,190
Community education programs	–	–	–	142,368	142,368
Early childhood family education programs	–	–	–	259,855	259,855
School readiness	–	–	–	369,048	369,048
Community service	–	–	–	43,857	43,857
Total restricted	795,382	37,527,255	1,174,606	1,042,318	40,539,561
Assigned					
Severance	461,114	–	–	–	461,114
Unassigned					
Long-term facilities maintenance restricted account deficit	–	(164,491)	–	–	(164,491)
Unassigned	710,967	–	–	–	710,967
Total unassigned	710,967	(164,491)	–	–	546,476
Total	$ 2,137,470	$ 37,362,764	$ 1,174,606	$ 1,114,738	$ 41,789,578

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

A. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

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

2. Teachers Retirement Association (TRA)

The 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. The TRA is a separate statutory entity, administered by a Board of Trustees. The Board of Trustees consists of four active members, one retired member, and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the City of St. Paul and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by Minnesota State Colleges 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 administered by MnSCU.

B. Benefits Provided

The PERA and the TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statutes and can only be modified by the State Legislature.

- **PERA** – 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 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded, or have fallen below 80.0 percent, are given 1.0 percent increases.

- **TRA** – Post-retirement benefit increases are provided to eligible benefit recipients each January and are assumed to remain level at 2.0 percent annually through 2018, and 1.0 percent thereafter.

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.

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

1. GERF Benefits

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 the PERA’s Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent of average salary 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 age 66.

2. TRA Benefits

The 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 Statutes 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 the 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 I Benefits

Step-Rate Formula	Percentage per Year
Basic Plan	
First 10 years of service	2.2 %
All years after	2.7 %
Coordinated Plan	
First 10 years if service years are up to July 1, 2006	1.2 %
First 10 years if service years are July 1, 2006 or after	1.4 %
All other years of service if service years are up to July 1, 2006	1.7 %
All other years of service if service years are up to July 1, 2006 or after	1.9 %

With these provisions:

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

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

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

Tier II Benefits

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

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

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

C. Contributions

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Coordinated Plan members were required to contribute 6.5 percent of their annual covered salary in fiscal year 2018; the District was required to contribute 7.5 percent for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2018, were $1,096,981. The District's contributions were equal to the required contributions as set by state statutes.

2. TRA Contributions

Minnesota Statutes, Chapter 354 sets the rates for employer and employee contributions. Rates for each fiscal year were:

	Year Ended June 30,			
	2017		2018	
	Employee	Employer	Employee	Employer
Basic Plan	11.0 %	11.5 %	11.0 %	11.5 %
Coordinated Plan	7.5 %	7.5 %	7.5 %	7.5 %

The District's contributions to the TRA for the plan's fiscal year ended June 30, 2018, were $2,267,163. The District's contributions were equal to the required contributions for each year as set by state statutes.

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

The following is a reconciliation of employer contributions in the TRA's Comprehensive Annual Financial Report (CAFR) Statement of Changes in Fiduciary Net Position to the employer contributions used in the Schedule of Employer and Nonemployer Pension Allocations:

		in thousands
Employer contributions reported in the TRA's CAFR Statement of Changes in Fiduciary Net Position	$	367,791
Add employer contributions not related to future contribution efforts		810
Deduct the TRA's contributions not included in allocation		(456)
Total employer contributions		368,145
Total nonemployer contributions		35,588
Total contributions reported in the Schedule of Employer and Nonemployer 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. The TRA has rounded percentage amounts to the nearest ten thousandths.

D. Pension Costs

1. GERF Pension Costs

At June 30, 2018, the District reported a liability of $14,797,960 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by the 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 the PERA's participating employers. The District's proportionate share was 0.2318 percent at the end of the measurement period and 0.2280 percent for the beginning of the period.

The District's net pension liability reflected a reduction due to the state of Minnesota's contribution of $6 million to the fund. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. 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 the net pension liability	$	14,797,960
State's proportionate share of the net pension liability associated with the District	$	186,086

For the year ended June 30, 2018, the District recognized pension expense of $1,666,817 for its proportionate share of the GERF's pension expense. In addition, the District recognized an additional $5,374 as pension expense (and grant revenue) for its proportionate share of the state of Minnesota's contribution of $6 million to the GERF.

At June 30, 2018, the District reported its proportionate share of the GERF's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 487,696	$ 942,306
Changes in actuarial assumptions	2,416,505	1,483,497
Differences between projected and actual investment earnings	–	675,557
Changes in proportion	231,406	387,217
District's contributions to the GERF subsequent to the measurement date	1,096,981	–
Total	$ 4,232,588	$ 3,488,577

A total of $1,096,981 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2019	$ (335,576)
2020	$ 824,992
2021	$ (214,241)
2022	$ (628,145)

2. TRA Pension Costs

At June 30, 2018, the District reported a liability of $122,146,340 for its proportionate share of the TRA's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the TRA in relation to total system contributions, including direct aid from the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The District's proportionate share was 0.6119 percent at the end of the measurement period and 0.5824 percent for the beginning of the period.

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

The pension liability amount reflected a reduction due to direct aid provided to the 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 the net pension liability	$ 122,146,340
State's proportionate share of the net pension liability associated with the District	$ 11,808,367

For the year ended June 30, 2018, the District recognized pension expense of $21,224,793. It also recognized $226,475 as an increase to pension expense for the support provided by direct aid.

At June 30, 2018, the District reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 989,710	$ 857,574
Changes in actuarial assumptions	63,064,059	17,110,774
Difference between projected and actual investment earnings	–	1,444,100
Changes in proportion	6,420,590	1,561,889
District's contributions to the TRA subsequent to the measurement date	2,267,163	–
Total	$ 72,741,522	$ 20,974,337

A total of $2,267,163 reported as deferred outflows of resources related to pensions resulting from district contributions to the TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to the TRA pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2019	$ 12,799,765
2020	$ 15,016,170
2021	$ 12,995,806
2022	$ 11,108,588
2023	$ (2,420,307)

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

E. Actuarial Assumptions

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

Assumptions	GERF	TRA
Inflation	2.50% per year	
Price inflation		2.50%
Wage growth rate		2.85% for 10 years, and 3.25% thereafter
Active member payroll	3.25% per year	2.85% to 8.85% for 10 years, and 3.25% to 9.25% thereafter
Investment rate of return	7.50%	5.12%

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. Cost of living benefit increases for retirees are assumed to be 1.0 percent per year for the GERF through 2044, and then 2.5 percent thereafter, and 2.0 percent per year for all future years for the TRA.

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

The following changes in actuarial assumptions occurred in 2017:

1. **GERF**

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

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

2. **TRA**

- The cost of living adjustment (COLA) was assumed to increase from 2.00 percent annually to 2.50 percent annually on July 1, 2045.

- The COLA was not assumed to increase to 2.50 percent, but remain at 2.00 percent for all future years.

- Adjustments were made to the CSA loads. The active load was reduced from 1.40 percent to zero percent, the vested inactive load increased from 4.00 percent to 7.00 percent, and the nonvested inactive load increased from 4.00 percent to 9.00 percent.

- The investment return assumption was changed from 8.00 percent to 7.50 percent.

- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.

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

- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for 10 years, followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate changed from 4.66 percent to 5.12 percent.

The long-term expected rate of return on pension plan investments is 7.50 percent for the GERF and 5.12 percent for the TRA. The Minnesota State Board of Investment, which manages the investments of the PERA and the TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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 Rate of Return
Domestic stocks	39 %	5.10 %
International stocks	19	5.30 %
Bonds	20	0.75 %
Alternative assets	20	5.90 %
Cash	2	– %
Total	100 %	

F. Discount Rate

1. GERF

The discount rate used to measure the total pension liability in 2017 was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the GERF 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.

2. TRA

The discount rate used to measure the total pension liability was 5.12 percent. This is an increase from the discount rate at the prior measurement date of 4.66 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal year 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50 percent) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56 percent was applied to periods on and after 2053, resulting in a SEIR of 5.12 percent. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01 percent).

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	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	$ 22,952,734	$ 14,797,960	$ 8,121,794
TRA discount rate	4.12%	5.12%	6.12%
District's proportionate share of the TRA net pension liability	$ 161,209,632	$ 122,146,340	$ 89,211,232

H. Pension Plan Fiduciary Net Position

Pension Benefit Reforms – The 2018 pension bill included a number of reforms to the various defined benefit pension plans across the state, including the plans administered by the PERA and the TRA. The reforms include several changes, including modifications in future COLA and contribution rates.

Detailed information about the GERF's fiduciary net position is available in a separately issued PERA financial report. That report may be obtained on the PERA website at www.mnpera.org; by writing to the PERA at 60 Empire Drive, Suite 200, St. Paul, Minnesota 55103; or by calling (651) 296-7460 or (800) 652-9026.

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

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through the OPEB Plan, a single-employer defined benefit plan administered by the District. Management of the plan is vested with the School Board of the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements.

The District administers a defined benefit Post-Employment Benefits Trust Fund. The assets of the plan are reported in the District's financial report in the Post-Employment Benefits Trust Fund, established by the District to finance these obligations. The plan assets may be used only for the payment of benefits of the plan, in accordance with the terms of the plan. The plan does not issue a publicly available financial report.

B. Benefits Provided

All retirees of the District upon retirement have the option under state law to continue their medical insurance coverage through the District. For members of certain employee groups, the District pays for all or part of the eligible retiree's premiums for medical and/or dental insurance from the time of retirement until the employee reaches the age of eligibility for Medicare. Benefits paid by the District differ by bargaining unit and date of hire, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these district-paid premium benefits must pay the full district premium rate for their coverage.

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

C. Contributions

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined periodically by the District. The District has established the Post-Employment Benefits Trust Fund to finance these obligations.

D. Membership

Membership in the plan consisted of the following as of the most recent study:

Retirees and beneficiaries receiving benefits	90
Active plan members	792
Total members	882

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

E. Net OPEB Liability of the District

The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The components of the net OPEB liability of the District at year-end were as follows:

Total OPEB liability	$ 8,700,629
Plan fiduciary net position	(2,158,161)
District's net OPEB liability	$ 6,542,468
Plan fiduciary net position as a percentage of the total OPEB liability	24.8%

F. Actuarial Method and Assumptions

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

Discount rate	3.50%
Expected long-term investment return	2.40% (net of investment expenses)
20-year municipal bond yield	3.50%
Inflation rate	2.50%
Salary increases	3.00%
Medical trend rate	6.50%, grading to 5.00% over 6 years
Dental trend rate	4.00%

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

The actuarial assumptions used in the latest valuation were based on those used to value pension liabilities for Minnesota school district employees. The state pension plans base their assumptions on periodic experience studies.

The District's policy in regard to the allocation of invested assets is established and may be amended by the School Board by a majority vote of its members. It is the policy of the School Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes allowable under state statutes.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

The long-term expected rate of return on OPEB plan investments was set based on the plan's target investment allocation described below, along with long-term return expectations by asset class. When there is sufficient historical evidence of market outperformance, historical average returns may be considered.

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Fixed income	95.00 %	2.50 %
Cash	5.00	1.00 %
Total	100.00 %	2.40 %

G. Concentrations

At year-end, the District's OPEB plan held investments in negotiable certificates of deposit at Compass Bank, Capital One Bank, Keybank, and Ally Bank that represented 5 percent or more of the OPEB plan's fiduciary net position. These negotiable certificates of deposit are fully covered by federal deposit insurance.

H. Rate of Return

For the current year ended, the annual money-weighted rate of return on investments, net of investment expense, was 1.40 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

I. Discount Rate

The discount rate used to measure the total OPEB liability was 3.50 percent. The projection of cash flows used to determine the discount rate was determined by projecting forward the fiduciary net position (assets) as of the valuation date, increasing by the investment return assumption, and reducing by benefit payments in each period until assets are exhausted. Expected benefit payments by year were discounted using the expected asset return assumptions for the years in which the assets were sufficient to pay all benefit payments. Any remaining benefit payments after the trust fund is exhausted are discounted at the 20-year municipal bond rate. The equivalent single rate is the discount rate. The contribution and benefit payment history, as well as the funding policy, have also been taken into account. The District discount rate used in the prior measurement date was 2.90 percent.

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

J. Changes in the Net OPEB Liability

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Beginning balance – July 1, 2017	$ 8,542,068	$ 2,392,793	$ 6,149,275
Changes for the year			
Service cost	458,783	–	458,783
Interest	257,179	–	257,179
Assumption changes	(290,265)	–	(290,265)
Net investment income	–	57,427	(57,427)
Differences between expected and actual experience	–	(24,673)	24,673
Benefit payments – paid through trust	(267,136)	(267,136)	–
Administrative expenses	–	(250)	250
Total net changes	158,561	(234,632)	393,193
Ending balance – June 30, 2018	$ 8,700,629	$ 2,158,161	$ 6,542,468

Assumption changes since the prior measurement date include the following:

- The discount rate was changed from 2.90 percent to 3.50 percent.

K. Net OPEB Liability Sensitivity to Discount and Healthcare Cost Trend Rate Changes

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 a discount rate that is 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
OPEB discount rate	2.50%	3.50%	4.50%
Net OPEB liability	$ 7,115,787	$ 6,542,468	$ 6,002,499

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 percentage point lower or 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease in Healthcare Trend Rate	Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
OPEB healthcare trend rate	5.50% decreasing to 4.00% over 6 years	6.50% decreasing to 5.00% over 6 years	7.50% decreasing to 6.00% over 6 years
OPEB dental trend rate	3.00%	4.00%	5.00%
Net OPEB liability	$ 5,750,660	$ 6,542,468	$ 7,478,960

NOTE 7 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (CONTINUED)

L. OPEB Expense and Related Deferred Outflows of Resources and Deferred Inflows of Resources

For the current year ended, the District recognized OPEB expense of $640,512. As of year-end, 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
Changes in actuarial assumptions	$ –	$ 258,013
Differences between projected and actual investment earnings	46,867	–
Total	$ 46,867	$ 258,013

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,	OPEB Expense Amount
2019	$ (18,273)
2020	$ (18,273)
2021	$ (18,276)
2022	$ (27,319)
2023	$ (32,252)
Thereafter	$ (96,753)

NOTE 8 – FLEXIBLE BENEFIT PLAN

The District has a cafeteria plan (the Plan) established under § 125 of the IRC. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pretax dollars withheld from payroll checks to the Plan for healthcare and dependent care benefits.

Before the beginning of the Plan year, which is from September 1 to August 31, each participant designates a total amount of pretax dollars to be contributed to the Plan during the year. Payments are made from the Plan to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the participant. 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.

The Plan is administered by the District for child care, medical expense reimbursements, and health insurance premiums. The District withholds amounts from employee payroll checks equal to the amount of the health insurance premiums owing and makes the premium payments when due. These payments are recorded in the General Fund. The medical reimbursement and dependent care activity in the financial statements is accounted for 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 of general creditors of the District in an amount equal to the eligible healthcare and dependent care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 9 – HEALTHCARE REIMBURSEMENT PLAN

The District also maintains a healthcare reimbursement plan (the Healthcare Plan) under § 105 of the IRC. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Participants may use the funds contributed by the District to be reimbursed for uninsured health expenses paid, additional costs associated with health insurance coverage, or insurance premiums paid under a spouse or dependent plan.

All assets of the Healthcare Plan are held by the District. The Healthcare Plan is administered by an independent contract administrator and is included in the financial statements in the various district funds.

All property of the Healthcare Plan 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 Healthcare Plan are equal to those of general creditors of the District in an amount equal to the eligible healthcare expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 10 – INTERFUND TRANSACTIONS

A. Interfund Receivables and Payables

The District's General Fund has an interfund receivable from the fiduciary Post-Employment Benefits Trust Fund relating to post-employment benefit costs of $267,136 to be reimbursed as of June 30, 2018.

B. Transfers

During fiscal 2018, the General Fund transferred $114,709 to the Food Service Special Revenue Fund to finance certain food service operating costs. Such interfund transfers reported in the fund financial statements are eliminated in the government-wide financial statements.

NOTE 11 – OPERATING LEASES

The District has operating bus leases for student transportation. The leases have monthly payments ranging from $2,651 to $34,088, and expire at various times through August 2022. Operating lease expenditures for the year ended June 30, 2018 were approximately $1,054,800.

The District is currently utilizing space under an operating lease agreement for the Step Program. The lease has monthly payments ranging from $12,553 to $13,931, and will expire in November 2024. Operating lease expenditures for the year ended June 30, 2018 were approximately $151,948.

Future commitments on these leases are as follows:

Year Ending June 30,	Bus Leases	Space Lease
2019	$ 2,284,712	$ 154,227
2020	1,741,018	156,536
2021	328,909	158,889
2022	109,824	161,272
2023	267,456	163,691
2024–2025	–	235,802
	$ 4,731,919	$ 1,030,417

NOTE 12 – COMMITMENTS AND CONTINGENCIES

A. Federal and State Revenues

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

B. Legal Claims

The District has the usual and customary types of miscellaneous legal claims pending at year-end, mostly of a minor nature and usually covered by insurance carried for that purpose. Although the outcomes of these claims are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

C. Construction Contracts

At June 30, 2018, the District had commitments totaling $31,208,895 under various construction contracts for which the work was not yet completed.

D. Guaranteed Energy Savings Commitment

During fiscal year 2016, the District entered into a guaranteed energy savings agreement with APEX under Minnesota Statutes, Section 471.345, Subd. 13, not to exceed 20 years. This agreement is for the purpose of implementing comprehensive utility cost-saving measures to improve the energy efficiency of school district facilities. As of June 30, 2018, the District has recorded $1,895,000 as an intangible asset related to this energy savings contract. Total accumulated depreciation on these intangible assets at year-end was $205,279. The District is also required to purchase the energy generated by the solar panels owned by the provider that are installed on various buildings of the District.

E. Purchase Power Commitment

During fiscal year 2018, the District entered into five community solar garden subscription agreements with SoCore Sherburne LLC. The District is committed to purchasing up to 36.94 percent of the annual delivered energy of three solar systems, 29.77 percent of the annual delivered energy of one solar system, and 34.25 percent of the annual delivered energy of one solar system for a period of 25 years from the commercial operation starting date.

During fiscal year 2018, the District entered into two community solar garden subscription agreements with New Energy Equity LLC. The District is committed to purchasing up to 23 percent of the annual delivered energy for a period of 25 years from the commercial operation date of December 31, 2017.

NOTE 13 – SUBSEQUENT EVENTS

In August 2018, the District issued $8,250,000 of General Obligation Facilities Maintenance and Tax Abatement Bonds, Series 2018A. The bonds bear interest rates ranging from 3.00–5.00 percent and mature in 2029.

In November 2018, voters of the District passed a levy referendum to provide an additional amount of $825 per pupil per year, for eight years. These funds will be used to support educational programming, including teaching staff and curriculum.

REQUIRED SUPPLEMENTARY INFORMATION

Public Employees Retirement Association Pension Benefits Plan
Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
Year Ended June 30, 2018

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the 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 as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.2504%	$ 11,762,537	$ –	$ 11,762,537	$ 13,148,109	89.46%	78.70%
06/30/2016	06/30/2015	0.2348%	$ 12,168,555	$ –	$ 12,168,555	$ 13,777,131	88.32%	78.20%
06/30/2017	06/30/2016	0.2280%	$ 18,512,470	$ 241,803	$ 18,754,273	$ 14,132,795	130.99%	68.90%
06/30/2018	06/30/2017	0.2318%	$ 14,797,960	$ 186,086	$ 14,984,046	$ 14,933,242	99.09%	75.90%

Public Employees Retirement Association Pension Benefits Plan
Schedule of District Contributions
Year Ended June 30, 2018

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	$ 1,018,736	$ 1,018,736	$ –	$ 13,777,131	7.39%
06/30/2016	$ 1,060,550	$ 1,060,550	$ –	$ 14,132,795	7.50%
06/30/2017	$ 1,120,066	$ 1,120,066	$ –	$ 14,933,242	7.50%
06/30/2018	$ 1,096,981	$ 1,096,981	$ –	$ 14,645,936	7.49%

Note: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 831

Teachers Retirement Association Pension Benefits Plan
Schedule of District's and Nonemployer Proportionate Share of Net Pension Liability
Year Ended June 30, 2018

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Proportionate Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and the 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 as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/2015	06/30/2014	0.6615%	$ 30,481,444	$ 2,144,221	$ 32,625,665	$ 30,196,677	100.94%	81.50%
06/30/2016	06/30/2015	0.6052%	$ 37,437,605	$ 4,591,853	$ 42,029,458	$ 30,724,443	121.85%	76.80%
06/30/2017	06/30/2016	0.5824%	$138,916,297	$ 13,944,490	$152,860,787	$ 30,285,682	458.69%	44.88%
06/30/2018	06/30/2017	0.6119%	$122,146,340	$ 11,808,367	$133,954,707	$ 32,939,487	370.82%	51.57%

Teachers Retirement Association Pension Benefits Plan
Schedule of District Contributions
Year Ended June 30, 2018

District Fiscal Year-End Date	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
06/30/2015	$ 2,304,333	$ 2,304,333	$ –	$ 30,724,443	7.50%
06/30/2016	$ 2,271,426	$ 2,271,426	$ –	$ 30,285,682	7.50%
06/30/2017	$ 2,470,228	$ 2,470,228	$ –	$ 32,939,487	7.50%
06/30/2018	$ 2,267,163	$ 2,267,163	$ –	$ 30,174,216	7.51%

Note: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 831

Other Post-Employment Benefits Plan
Schedule of Changes in the District's Net
OPEB Liability and Related Ratios
Year Ended June 30, 2018

	2018	2017
Total OPEB liability		
Service cost	$ 458,783	$ 492,508
Interest	257,179	245,576
Assumption changes	(290,265)	–
Benefit payments	(267,136)	(340,848)
Net change in total OPEB liability	158,561	397,236
Total OPEB liability – beginning of year	8,542,068	8,144,832
Total OPEB liability – end of year	8,700,629	8,542,068
Plan fiduciary net position		
Net investment income	32,754	19,917
Benefit payments – paid through trust	(267,136)	(340,848)
Administrative expenses	(250)	(250)
Net change in plan fiduciary net position	(234,632)	(321,181)
Plan fiduciary net position – beginning of year	2,392,793	2,713,974
Plan fiduciary net position – end of year	2,158,161	2,392,793
Net OPEB liability	$ 6,542,468	$ 6,149,275
Fiduciary net position as a percentage of the total OPEB liability	24.8%	28.0%
Covered-employee payroll	$ 40,930,546	$ 39,738,394
Net OPEB liability as a percentage of covered-employee payroll	16.0%	15.5%

Note 1: The District implemented GASB Statement Nos. 74 and 75 in fiscal 2017. This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

INDEPENDENT SCHOOL DISTRICT NO. 831

Other Post-Employment Benefits Plan
Schedule of Investment Returns
Year Ended June 30, 2018

Year	Annual Money-Weighted Rate of Return Net of Investment Expense
2017	0.70%
2018	1.40%

Note: The District implemented GASB Statement Nos. 74 and 75 in fiscal 2017. This schedule is intended to present 10-year trend information. Additional years will be added as they become available.

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PERA – GENERAL EMPLOYEES RETIREMENT FUND

2017 CHANGES IN ACTUARIAL ASSUMPTIONS:

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

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

2016 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035, and 2.50 percent per year thereafter, to 1.00 percent per year for all years.

- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.

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

2015 CHANGES IN PLAN PROVISIONS:

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Retirement 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.

2015 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2030, and 2.50 percent per year thereafter, to 1.00 percent per year through 2035, and 2.50 percent per year thereafter.

TRA

2017 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The cost of living adjustment (COLA) was assumed to increase from 2.00 percent annually to 2.50 percent annually on July 1, 2045.
- The COLA was not assumed to increase to 2.50 percent, but remain at 2.00 percent for all future years.
- Adjustments were made to the CSA loads. The active load was reduced from 1.40 percent to zero percent, the vested inactive load increased from 4.00 percent to 7.00 percent, and the nonvested inactive load increased from 4.00 percent to 9.00 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for 10 years, followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.
- The single discount rate changed from 4.66 percent to 5.12 percent.

2016 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The single discount rate was changed from 8.00 percent to 4.66 percent.

2015 CHANGES IN PLAN PROVISIONS:

- The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

2015 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The annual COLA for the June 30, 2015 valuation assumed 2.00 percent. The prior year valuation used 2.00 percent, with an increase to 2.50 percent commencing in 2034.
- The discount rate used to measure the total pension liability was 8.00 percent. This is a decrease from the discount rate at the prior measurement date of 8.25 percent.

OTHER POST-EMPLOYMENT BENEFITS PLAN

2018 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The discount rate was changed from 2.90 percent to 3.50 percent.

2017 CHANGES IN ACTUARIAL ASSUMPTIONS:

- The healthcare trend rates were changed to better anticipate short-term and long-term medical increases.

- The mortality table was updated from RP-2000 projected to 2014 with Scale BB to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

- The discount rate was changed from 3.00 percent to 2.90 percent.

- The withdrawal table for all employees and retirement tables for only employees eligible to retire with Rule of 90 also were updated.

- The percentage of future retirees who are assumed to continue on the District’s medical plan post-employment was changed from 90 percent to 80 percent for all employees (except Directors and the Superintendent) who are eligible for a subsidy.

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SUPPLEMENTAL INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 831

Nonmajor Governmental Funds
Combining Balance Sheet
as of June 30, 2018

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and temporary investments	$ 361,626	$ 1,355,850	$ 1,717,476
Receivables			
Current taxes	–	628,524	628,524
Delinquent taxes	–	20,768	20,768
Accounts and interest	–	45,007	45,007
Due from other governmental units	27,207	104,446	131,653
Inventory	63,208	–	63,208
Prepaid items	2,545	6,667	9,212
Total assets	$ 454,586	$ 2,161,262	$ 2,615,848
Liabilities			
Salaries payable	$ 13,118	$ 115,022	$ 128,140
Accounts and contracts payable	25,740	69,194	94,934
Due to other governmental units	–	121	121
Unearned revenue	122,785	6,495	129,280
Total liabilities	161,643	190,832	352,475
Deferred inflows of resources			
Property taxes levied for subsequent year	–	1,137,354	1,137,354
Unavailable revenue – delinquent taxes	–	11,281	11,281
Total deferred inflows of resources	–	1,148,635	1,148,635
Fund balances			
Nonspendable	65,753	6,667	72,420
Restricted	227,190	815,128	1,042,318
Total fund balances	292,943	821,795	1,114,738
Total liabilities, deferred inflows of resources, and fund balances	$ 454,586	$ 2,161,262	$ 2,615,848

INDEPENDENT SCHOOL DISTRICT NO. 831

Nonmajor Governmental Funds
Combining Statement of Revenue, Expenditures, and Changes in Fund Balances
Year Ended June 30, 2018

	Special Revenue Funds		
	Food Service	Community Service	Total
Revenue			
Local sources			
Property taxes	$ –	$ 1,057,526	$ 1,057,526
Investment earnings	–	10,310	10,310
Other	2,303,717	2,959,658	5,263,375
State sources	231,603	763,801	995,404
Federal sources	1,358,490	2,924	1,361,414
Total revenue	3,893,810	4,794,219	8,688,029
Expenditures			
Current			
Food service	3,700,468	–	3,700,468
Community service	–	4,525,699	4,525,699
Capital outlay	15,108	3,605	18,713
Total expenditures	3,715,576	4,529,304	8,244,880
Excess of revenue over expenditures	178,234	264,915	443,149
Other financing sources			
Transfers in	114,709	–	114,709
Net change in fund balances	292,943	264,915	557,858
Fund balances			
Beginning of year	–	556,880	556,880
End of year	$ 292,943	$ 821,795	$ 1,114,738

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund
Comparative Balance Sheet
as of June 30, 2018 and 2017

	2018	2017
Assets		
Cash and temporary investments	$ 9,936,429	$ 8,775,634
Receivables		
Current taxes	6,220,527	7,272,343
Delinquent taxes	247,895	265,472
Accounts and interest	37,402	60,928
Due from other governmental units	4,897,148	5,745,397
Due from other funds	267,136	340,848
Prepaid items	170,007	307,516
Total assets	$ 21,776,544	$ 22,768,138
Liabilities		
Salaries payable	$ 648,372	$ 774,429
Accounts and contracts payable	7,827,270	7,325,908
Due to other governmental units	408,591	289,887
Unearned revenue	–	12,700
Total liabilities	8,884,233	8,402,924
Deferred inflows of resources		
Property taxes levied for subsequent year	10,621,897	12,466,619
Unavailable revenue – delinquent taxes	132,944	199,572
Total deferred inflows of resources	10,754,841	12,666,191
Fund balances (deficits)		
Nonspendable for prepaid items	170,007	307,516
Restricted for operating capital	626,446	–
Restricted for long-term facilities maintenance	168,936	–
Assigned for severance	461,114	471,136
Unassigned – long-term facilities maintenance restricted account deficit	–	(468,294)
Unassigned	710,967	1,388,665
Total fund balances	2,137,470	1,699,023
Total liabilities, deferred inflows of resources, and fund balances	$ 21,776,544	$ 22,768,138

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2018
(With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018			2017
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 13,100,000	$ 13,421,398	$ 321,398	$ 12,003,610
Investment earnings	10,000	80,894	70,894	29,677
Other	2,415,000	2,508,241	93,241	2,344,996
State sources	56,225,000	57,201,749	976,749	57,412,440
Federal sources	1,800,000	1,953,798	153,798	1,902,513
Total revenue	73,550,000	75,166,080	1,616,080	73,693,236
Expenditures				
Current				
Administration				
Salaries	2,280,014	2,186,755	(93,259)	2,491,589
Employee benefits	1,029,513	1,017,436	(12,077)	1,058,957
Purchased services	63,100	29,716	(33,384)	86,434
Supplies and materials	15,154	11,621	(3,533)	5,531
Other expenditures	51,265	59,942	8,677	64,030
Total administration	3,439,046	3,305,470	(133,576)	3,706,541
District support services				
Salaries	1,103,683	1,092,724	(10,959)	883,623
Employee benefits	617,678	555,798	(61,880)	522,990
Purchased services	1,111,814	1,023,694	(88,120)	501,337
Supplies and materials	216,578	113,894	(102,684)	68,620
Other expenditures	7,100	7,907	807	5,148
Total district support services	3,056,853	2,794,017	(262,836)	1,981,718
Elementary and secondary regular instruction				
Salaries	18,615,554	18,211,456	(404,098)	18,437,124
Employee benefits	7,389,954	7,602,386	212,432	7,503,240
Purchased services	915,430	933,088	17,658	871,366
Supplies and materials	694,379	606,844	(87,535)	816,668
Capital expenditures	12,000	4,142	(7,858)	20,517
Other expenditures	14,200	147,520	133,320	147,685
Total elementary and secondary regular instruction	27,641,517	27,505,436	(136,081)	27,796,600

(continued)

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2018
(With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018			2017
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Vocational education instruction				
Salaries	600,424	822,948	222,524	1,023,046
Employee benefits	268,975	317,245	48,270	240,240
Purchased services	16,270	30,721	14,451	22,790
Supplies and materials	28,915	36,148	7,233	31,183
Capital expenditures	10,000	16,760	6,760	9,721
Other expenditures	–	4,681	4,681	4,669
Total vocational education instruction	924,584	1,228,503	303,919	1,331,649
Special education instruction				
Salaries	8,281,628	8,650,005	368,377	9,118,082
Employee benefits	3,308,874	3,073,146	(235,728)	3,212,490
Purchased services	513,921	626,664	112,743	669,161
Supplies and materials	8,000	47,218	39,218	105,790
Capital expenditures	22,000	50,487	28,487	32,272
Other expenditures	4,800	58,353	53,553	54,016
Total special education instruction	12,139,223	12,505,873	366,650	13,191,811
Instructional support services				
Salaries	3,197,670	3,862,285	664,615	3,620,214
Employee benefits	961,082	1,045,067	83,985	978,689
Purchased services	267,264	209,990	(57,274)	120,640
Supplies and materials	129,450	108,155	(21,295)	126,441
Capital expenditures	1,000	761	(239)	613
Other expenditures	13,450	32,494	19,044	29,062
Total instructional support services	4,569,916	5,258,752	688,836	4,875,659
Pupil support services				
Salaries	5,247,719	4,835,825	(411,894)	5,267,930
Employee benefits	1,824,095	2,003,444	179,349	2,135,982
Purchased services	2,841,714	2,684,731	(156,983)	2,875,818
Supplies and materials	889,724	813,296	(76,428)	884,703
Capital expenditures	505,100	522,920	17,820	36,473
Other expenditures	115	14,038	13,923	13,376
Total pupil support services	11,308,467	10,874,254	(434,213)	11,214,282

(continued)

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual (continued)
Year Ended June 30, 2018
(With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018			2017
	Budget	Actual	Over (Under) Budget	Actual
Expenditures (continued)				
Current (continued)				
Sites and buildings				
Salaries	2,085,127	2,111,494	26,367	2,335,364
Employee benefits	1,022,278	1,117,176	94,898	1,143,452
Purchased services	3,075,612	2,542,722	(532,890)	3,487,647
Supplies and materials	467,161	402,223	(64,938)	456,034
Capital expenditures	2,376,879	4,013,931	1,637,052	825,813
Other expenditures	5,600	6,367	767	4,254
Total sites and buildings	9,032,657	10,193,913	1,161,256	8,252,564
Fiscal and other fixed cost programs				
Purchased services	520,000	635,768	115,768	574,212
Debt service				
Principal	190,000	187,235	(2,765)	185,290
Interest and fiscal charges	125,000	123,703	(1,297)	139,876
Total debt service	315,000	310,938	(4,062)	325,166
Total expenditures	72,947,263	74,612,924	1,665,661	73,250,202
Excess (deficiency) of revenue over expenditures	602,737	553,156	(49,581)	443,034
Other financing (uses)				
Transfers (out)	(114,709)	(114,709)	–	(1,188,279)
Net change in fund balances	$ 488,028	438,447	$ (49,581)	(745,245)
Fund balances				
Beginning of year		1,699,023		2,444,268
End of year		$ 2,137,470		$ 1,699,023

INDEPENDENT SCHOOL DISTRICT NO. 831

Food Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2018 and 2017

	2018	2017
Assets		
Cash and temporary investments	$ 361,626	$ 46,546
Receivables		
Accounts and interest	–	429
Due from other governmental units	27,207	58,612
Inventory	63,208	73,719
Prepaid items	2,545	12,195
Total assets	$ 454,586	$ 191,501
Liabilities		
Salaries payable	$ 13,118	$ 35,835
Accounts and contracts payable	25,740	42,167
Due to other governmental units	–	3,827
Unearned revenue	122,785	109,672
Total liabilities	161,643	191,501
Fund balances (deficit)		
Nonspendable for inventory	63,208	73,719
Nonspendable for prepaid items	2,545	12,195
Restricted for food service	227,190	–
Unassigned	–	(85,914)
Total fund balances	292,943	–
Total liabilities and fund balances	$ 454,586	$ 191,501

INDEPENDENT SCHOOL DISTRICT NO. 831

Food Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2018
(With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018			2017
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Other – primarily meal sales	$ 2,353,590	$ 2,303,717	$ (49,873)	$ 2,315,731
State sources	234,266	231,603	(2,663)	238,033
Federal sources	1,232,745	1,358,490	125,745	1,427,533
Total revenue	3,820,601	3,893,810	73,209	3,981,297
Expenditures				
Current				
Salaries	1,499,571	1,377,710	(121,861)	1,399,482
Employee benefits	445,124	406,564	(38,560)	408,982
Purchased services	167,305	171,835	4,530	151,559
Supplies and materials	1,657,642	1,740,987	83,345	1,826,874
Other expenditures	2,470	3,372	902	2,255
Capital outlay	46,860	15,108	(31,752)	6,490
Total expenditures	3,818,972	3,715,576	(103,396)	3,795,642
Excess of revenue over expenditures	1,629	178,234	176,605	185,655
Other financing sources				
Transfers in	–	114,709	114,709	184,263
Net change in fund balances	$ 1,629	292,943	$ 291,314	369,918
Fund balances (deficit)				
Beginning of year		–		(369,918)
End of year		$ 292,943		$ –

INDEPENDENT SCHOOL DISTRICT NO. 831

Community Service Special Revenue Fund
Comparative Balance Sheet
as of June 30, 2018 and 2017

	2018	2017
Assets		
Cash and temporary investments	$ 1,355,850	$ 1,101,614
Receivables		
Current taxes	628,524	588,341
Delinquent taxes	20,768	21,864
Accounts and interest	45,007	27,533
Due from other governmental units	104,446	129,262
Prepaid items	6,667	2,515
Total assets	$ 2,161,262	$ 1,871,129
Liabilities		
Salaries payable	$ 115,022	$ 124,737
Accounts and contracts payable	69,194	101,890
Due to other governmental units	121	4,801
Unearned revenue	6,495	8,415
Total liabilities	190,832	239,843
Deferred inflows of resources		
Property taxes levied for subsequent year	1,137,354	1,057,995
Unavailable revenue – delinquent taxes	11,281	16,411
Total deferred inflows of resources	1,148,635	1,074,406
Fund balances		
Nonspendable for prepaid items	6,667	2,515
Restricted for community education programs	142,368	16,928
Restricted for early childhood family education programs	259,855	211,417
Restricted for school readiness	369,048	280,321
Restricted for adult basic education	–	3,815
Restricted for community service	43,857	41,884
Total fund balances	821,795	556,880
Total liabilities, deferred inflows of resources, and fund balances	$ 2,161,262	$ 1,871,129

INDEPENDENT SCHOOL DISTRICT NO. 831

Community Service Special Revenue Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2018
(With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018			2017
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Property taxes	$ 958,239	$ 1,057,526	$ 99,287	$ 983,285
Investment earnings	–	10,310	10,310	2,199
Other – primarily tuition and fees	2,573,331	2,959,658	386,327	2,787,201
State sources	672,063	763,801	91,738	763,660
Federal sources	2,700	2,924	224	8,335
Total revenue	4,206,333	4,794,219	587,886	4,544,680
Expenditures				
Current				
Salaries	2,712,426	2,906,058	193,632	2,932,800
Employee benefits	844,285	955,493	111,208	962,357
Purchased services	438,475	476,702	38,227	474,233
Supplies and materials	179,450	178,426	(1,024)	127,820
Other expenditures	5,150	9,020	3,870	9,304
Capital outlay	26,300	3,605	(22,695)	30,479
Total expenditures	4,206,086	4,529,304	323,218	4,536,993
Net change in fund balances	$ 247	264,915	$ 264,668	7,687
Fund balances				
Beginning of year		556,880		549,193
End of year		$ 821,795		$ 556,880

INDEPENDENT SCHOOL DISTRICT NO. 831

Capital Projects – Building Construction Fund
Comparative Balance Sheet
as of June 30, 2018 and 2017

	2018	2017
Assets		
Cash and temporary investments	$ 46,477,348	$ 102,066,978
Receivables		
Accounts and interest	457,710	298,193
Total assets	$ 46,935,058	$ 102,365,171
Liabilities		
Accounts and contracts payable	$ 9,571,300	$ 13,478,081
Due to other governmental units	994	654
Total liabilities	9,572,294	13,478,735
Fund balances (deficit)		
Restricted for capital projects	37,527,255	88,886,436
Unassigned – long-term facilities maintenance restricted account deficit	(164,491)	–
Total fund balances	37,362,764	88,886,436
Total liabilities and fund balances	$ 46,935,058	$ 102,365,171

INDEPENDENT SCHOOL DISTRICT NO. 831

Capital Projects – Building Construction Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances
Budget and Actual
Year Ended June 30, 2018
(With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018			2017
	Budget	Actual	Over (Under) Budget	Actual
Revenue				
Local sources				
Investment earnings	$ 750,000	$ 714,844	$ (35,156)	$ 525,502
Other	–	–	–	600
Total revenue	750,000	714,844	(35,156)	526,102
Expenditures				
Capital outlay				
Salaries	147,083	80,115	(66,968)	107,431
Employee benefits	63,009	38,767	(24,242)	48,444
Purchased services	2,500,000	7,719,933	5,219,933	9,217,326
Capital expenditures	57,289,908	44,399,701	(12,890,207)	35,434,757
Total expenditures	60,000,000	52,238,516	(7,761,484)	44,807,958
Excess (deficiency) of revenue over expenditures	(59,250,000)	(51,523,672)	7,726,328	(44,281,856)
Other financing sources				
Building bond debt issued	–	–	–	66,908,139
Transfers in	–	–	–	1,004,016
Total other financing sources	–	–	–	67,912,155
Net change in fund balances	$ (59,250,000)	(51,523,672)	$ 7,726,328	23,630,299
Fund balances				
Beginning of year		88,886,436		65,256,137
End of year		$ 37,362,764		$ 88,886,436

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INDEPENDENT SCHOOL DISTRICT NO. 831

Debt Service Fund
Balance Sheet by Account
as of June 30, 2018
(With Comparative Totals as of June 30, 2017)

	Regular Debt Service Account	OPEB Debt Service Account	Totals 2018	Totals 2017
Assets				
Cash and temporary investments	$ 4,879,578	$ 389,279	$ 5,268,857	$ 5,574,079
Receivables				
Current taxes	4,964,276	175,190	5,139,466	5,114,604
Delinquent taxes	137,041	11,237	148,278	125,563
Due from other governmental units	2,006	123	2,129	1,640
Total assets	$ 9,982,901	$ 575,829	$ 10,558,730	$ 10,815,886
Liabilities				
Accounts and contracts payable	$ 3,075	$ –	$ 3,075	$ –
Deferred inflows of resources				
Property taxes levied for subsequent year	8,983,170	317,018	9,300,188	9,197,425
Unavailable revenue – delinquent taxes	74,743	6,118	80,861	90,788
Total deferred inflows of resources	9,057,913	323,136	9,381,049	9,288,213
Fund balances				
Restricted for debt service	921,913	252,693	1,174,606	1,527,673
Total liabilities, deferred inflows of resources and fund balances	$ 9,982,901	$ 575,829	$ 10,558,730	$ 10,815,886

INDEPENDENT SCHOOL DISTRICT NO. 831

Debt Service Fund
Schedule of Revenue, Expenditures, and Changes in Fund Balances by Account
Budget and Actual
Year Ended June 30, 2018
(With Comparative Actual Amounts for the Year Ended June 30, 2017)

	2018		
		Actual	
	Budget	Regular Debt Service Account	OPEB Debt Service Account
Revenue			
Local sources			
Property taxes	$ 9,201,000	$ 8,643,420	$ 531,130
Investment earnings	5,000	27,493	641
State sources	–	20,057	1,229
Total revenue	9,206,000	8,690,970	533,000
Expenditures			
Debt service			
Principal	4,190,000	3,475,000	350,000
Interest	4,980,000	5,559,612	172,837
Fiscal charges and other	35,000	19,588	–
Total expenditures	9,205,000	9,054,200	522,837
Excess (deficiency) of revenue over expenditures	1,000	(363,230)	10,163
Other financing sources (uses)			
Refunding bond debt issued	–	–	–
Building bond debt issued	–	–	–
Premium on debt issued	–	–	–
Discount on debt issued	–	–	–
Payments to refunded bond escrow agent	–	–	–
Total other financing sources (uses)	–	–	–
Net change in fund balances	$ 1,000	(363,230)	10,163
Fund balances			
Beginning of year		1,285,143	242,530
End of year		$ 921,913	$ 252,693

		2017
Total	Over (Under) Budget	Actual
$ 9,174,550	$ (26,450)	$ 6,460,045
28,134	23,134	6,271
21,286	21,286	16,397
9,223,970	17,970	6,482,713
3,825,000	(365,000)	3,400,000
5,732,449	752,449	2,642,691
19,588	(15,412)	1,406,711
9,577,037	372,037	7,449,402
(353,067)	(354,067)	(966,689)
–	–	5,365,000
–	–	161,861
–	–	1,162,631
–	–	(5,632)
–	–	(5,279,823)
–	–	1,404,037
(353,067)	$ (354,067)	437,348
1,527,673		1,090,325
$ 1,174,606		$ 1,527,673

Internal Service Funds
Combining Statement of Net Position
as of June 30, 2018
(With Comparative Totals as of June 30, 2017)

	Health Benefits Self-Insurance	Dental Self-Insurance	Totals 2018	Totals 2017
Assets				
Current assets				
Cash and temporary investments	$ 5,837,364	$ 426,950	$ 6,264,314	$ 5,949,390
Receivables				
Accounts and interest	10,867	528	11,395	24,339
Prepaid items	–	–	–	6,732
Total current assets	5,848,231	427,478	6,275,709	5,980,461
Liabilities				
Current liabilities				
Accounts and contracts payable	299,769	16,587	316,356	164,790
Unearned revenue	1,647,851	103,943	1,751,794	1,760,153
Claims incurred, but not reported	522,817	5,834	528,651	688,484
Total current liabilities	2,470,437	126,364	2,596,801	2,613,427
Net position				
Unrestricted	$ 3,377,794	$ 301,114	$ 3,678,908	$ 3,367,034

Internal Service Funds
Combining Statement of Revenue, Expenses, and Changes in Net Position
Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	Health Benefits Self-Insurance	Dental Self-Insurance	Totals 2018	Totals 2017
Operating revenue				
Charges for services				
Contributions from governmental funds	$ 9,077,327	$ 540,791	$ 9,618,118	$ 9,848,999
Operating expenses				
Health benefit claims	8,836,541	–	8,836,541	8,425,939
Dental benefit claims	–	517,385	517,385	543,155
Total operating expenses	8,836,541	517,385	9,353,926	8,969,094
Operating income	240,786	23,406	264,192	879,905
Nonoperating revenue				
Investment earnings	39,091	8,591	47,682	10,484
Change in net position	279,877	31,997	311,874	890,389
Net position				
Beginning of year	3,097,917	269,117	3,367,034	2,476,645
End of year	$ 3,377,794	$ 301,114	$ 3,678,908	$ 3,367,034

INDEPENDENT SCHOOL DISTRICT NO. 831

Internal Service Funds
Combining Statement of Cash Flows
Year Ended June 30, 2018
(With Comparative Totals for the Year Ended June 30, 2017)

	Health Benefits Self-Insurance	Dental Self-Insurance	Totals 2018	Totals 2017
Cash flows from operating activities				
Contributions from governmental funds	$ 9,066,403	$ 556,300	$ 9,622,703	$ 9,843,468
Payment for health claims	(8,834,896)	–	(8,834,896)	(8,482,747)
Payment for dental claims	–	(520,565)	(520,565)	(539,816)
Net cash flows from operating activities	231,507	35,735	267,242	820,905
Cash flows from investing activities				
Investment income received	39,091	8,591	47,682	10,484
Net change in cash and cash equivalents	270,598	44,326	314,924	831,389
Cash and cash equivalents				
Beginning of year	5,566,766	382,624	5,949,390	5,118,001
End of year	$ 5,837,364	$ 426,950	$ 6,264,314	$ 5,949,390
Reconciliation of operating income to net cash flows from operating activities				
Operating income	$ 240,786	$ 23,406	$ 264,192	$ 879,905
Adjustments to reconcile operating income to net cash flows from operating activities				
Changes in assets and liabilities				
Accounts and interest receivable	10,886	2,058	12,944	9,822
Prepaid items	6,732	–	6,732	(6,732)
Accounts and contracts payable	150,033	1,533	151,566	(109,032)
Unearned revenue	(21,810)	13,451	(8,359)	(15,353)
Claims incurred, but not reported	(155,120)	(4,713)	(159,833)	62,295
Net cash flows from operating activities	$ 231,507	$ 35,735	$ 267,242	$ 820,905

OTHER DISTRICT INFORMATION

(UNAUDITED)

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INDEPENDENT SCHOOL DISTRICT NO. 831

Government-Wide Revenue by Type
Last Ten Fiscal Years

	Program Revenues		General Revenues			
Year Ended June 30,	Charges for Services	Operating Grants and Contributions	Property Taxes	General Grants and Aids	Investment Earnings and Other	Total
2009	$ 6,317,834	$ 8,948,473	$ 15,746,200	$ 46,440,215	$ 809,674	$ 78,262,396
	8%	12%	20%	59%	1%	100%
2010	6,157,018	9,452,410	14,997,282	43,413,186	622,628	74,642,524
	8%	13%	20%	58%	1%	100%
2011	6,370,292	10,511,839	20,845,675	38,446,379	645,610	76,819,795
	8%	14%	27%	50%	1%	100%
2012	6,148,601	11,485,954	15,230,036	44,173,101	591,559	77,629,251
	8%	14%	20%	57%	1%	100%
2013	6,115,186	11,490,994	16,176,424	43,429,388	553,293	77,765,285
	8%	14%	21%	56%	1%	100%
2014	5,954,935	12,220,938	11,742,462	50,084,696	855,420	80,858,451
	7%	15%	15%	62%	1%	100%
2015	6,423,354	11,968,641	17,571,864	49,259,872	1,193,682	86,417,413
	7%	14%	21%	57%	1%	100%
2016	6,847,529	12,672,382	17,057,514	49,382,999	629,701	86,590,125
	8%	14%	20%	57%	1%	100%
2017	6,437,175	13,194,175	19,430,966	50,352,014	1,585,486	90,999,816
	7%	15%	21%	55%	2%	100%
2018	6,697,514	13,334,671	23,571,789	48,177,917	1,955,966	93,737,857
	7%	14%	25%	52%	2%	100%

Note: The change in "tax shift" as approved in legislation impacted the amount of tax revenue recognized in fiscal years 2011 and 2014. Changes in the amount of revenue recognized due to the tax shift are offset by an adjustment to state aid payments by an equal amount.

INDEPENDENT SCHOOL DISTRICT NO. 831

Government-Wide Expenses by Function
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Elementary and Secondary Regular Instruction	Vocational Education Instruction	Special Education Instruction	Instructional Support Services
2009	$ 3,225,772	$ 1,739,222	$ 26,371,372	$ 965,967	$ 9,693,826	$ 5,610,049
	4%	2%	35%	1%	13%	8%
2010	3,147,946	1,702,804	28,492,182	956,606	9,584,548	2,331,929
	4%	2%	39%	1%	13%	3%
2011	3,111,531	2,164,587	30,673,422	920,206	10,368,127	1,598,026
	4%	3%	40%	1%	14%	2%
2012	3,100,536	2,197,394	25,576,188	810,798	10,620,873	2,077,860
	4%	3%	35%	1%	15%	3%
2013	3,201,925	2,254,471	27,594,183	781,880	10,918,573	2,369,743
	4%	3%	36%	1%	14%	3%
2014	3,323,552	2,417,192	29,596,211	758,648	11,736,976	3,541,782
	4%	3%	37%	1%	15%	4%
2015	3,226,706	3,072,069	29,472,957	863,577	12,018,150	5,120,151
	4%	4%	36%	1%	14%	6%
2016	3,796,645	2,322,473	29,008,857	954,911	12,558,342	4,610,217
	4%	3%	33%	1%	14%	5%
2017	4,923,047	2,052,095	39,074,208	1,727,610	17,305,271	6,333,778
	4%	2%	35%	1%	16%	6%
2018	3,618,600	2,774,376	36,792,292	1,604,135	16,690,659	6,380,709
	3%	3%	34%	1%	16%	6%

Pupil Support Services	Sites and Buildings	Fiscal and Other Fixed Cost Programs	Food Service	Community Service	Depreciation Not Allocated to Other Functions	Interest and Fiscal Charges	Total
$ 7,868,603	$ 7,633,246	$ 273,996	$ 3,961,742	$ 4,152,305	$ 2,208,316	$ 1,598,247	$ 75,302,663
11%	10%	–	5%	6%	3%	2%	100%
7,668,210	7,705,210	264,920	3,932,226	3,965,024	2,178,622	1,659,947	73,590,174
11%	11%	–	5%	6%	3%	2%	100%
8,948,191	7,157,893	281,925	3,888,660	4,073,291	2,194,397	1,565,753	76,946,009
12%	9%	–	5%	5%	3%	2%	100%
9,731,943	6,538,037	296,349	4,037,265	4,085,559	2,126,662	1,428,442	72,627,906
13%	9%	–	6%	6%	3%	2%	100%
9,928,802	7,684,483	317,174	3,891,749	4,113,757	2,098,391	1,275,898	76,431,029
13%	10%	1%	5%	5%	3%	2%	100%
10,017,084	7,639,633	351,205	3,959,013	4,007,281	2,535,075	1,158,034	81,041,686
12%	9%	1%	5%	5%	3%	1%	100%
10,278,319	7,444,141	379,529	4,138,798	4,321,014	2,488,510	1,019,716	83,843,637
12%	9%	–	5%	5%	3%	1%	100%
11,046,015	8,776,019	526,412	4,276,582	4,531,548	2,545,922	2,243,227	87,197,170
13%	10%	1%	5%	5%	3%	3%	100%
12,344,131	8,490,188	574,212	3,957,910	4,990,631	2,835,218	5,475,005	110,083,304
11%	8%	1%	4%	4%	3%	5%	100%
11,308,606	10,704,394	635,768	3,775,043	4,956,962	2,946,179	4,860,767	107,048,490
11%	10%	1%	3%	5%	3%	4%	100%

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INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund Revenue by Source
Last Ten Fiscal Years

Year Ended June 30,	Local Property Tax Levies	State Revenue	Federal Revenue	Other Local and Miscellaneous	Total
2009	$ 10,914,411	$ 51,121,188	$ 2,347,273	$ 1,487,289	$ 65,870,161
	17%	78%	3%	2%	100%
2010	10,431,320	43,539,037	7,374,372	1,668,808	63,013,537
	17%	69%	12%	2%	100%
2011	15,333,557	44,072,843	3,300,695	1,734,346	64,441,441
	24%	68%	5%	3%	100%
2012	10,361,414	50,606,450	2,975,539	1,531,090	65,474,493
	16%	77%	5%	2%	100%
2013	10,599,904	50,759,534	2,183,794	1,616,894	65,160,126
	16%	78%	4%	2%	100%
2014	5,017,095	57,937,865	1,944,413	2,032,995	66,932,368
	7%	87%	3%	3%	100%
2015	10,566,174	56,971,250	2,000,562	2,639,541	72,177,527
	14%	79%	3%	4%	100%
2016	10,143,433	57,995,977	1,833,859	2,255,801	72,229,070
	14%	80%	3%	3%	100%
2017	12,003,610	57,412,440	1,902,513	2,374,673	73,693,236
	16%	78%	3%	3%	100%
2018	13,421,398	57,201,749	1,953,798	2,589,135	75,166,080
	18%	76%	3%	3%	100%

Note: The change in "tax shift" as approved in legislation impacted the amount of tax revenue recognized in fiscal years 2011 and 2014. Changes in the amount of revenue recognized due to the tax shift are offset by an adjustment to state aid payments by an equal amount.

INDEPENDENT SCHOOL DISTRICT NO. 831

General Fund Expenditures by Function
Last Ten Fiscal Years

Year Ended June 30,	Administration	District Support Services	Elementary and Secondary Regular Instruction	Vocational Education Instruction	Special Education Instruction
2009	$ 3,613,965	$ 1,949,761	$ 31,798,935	$ 1,077,914	$ 9,691,245
	5%	3%	44%	2%	14%
2010	3,042,912	1,691,524	29,049,049	954,236	9,503,795
	5%	3%	46%	2%	15%
2011	3,051,637	2,147,647	29,779,750	917,836	10,293,896
	5%	3%	46%	1%	16%
2012	3,112,219	2,178,896	26,302,525	808,428	10,542,937
	5%	4%	42%	1%	17%
2013	3,159,778	2,232,860	27,755,921	779,510	10,809,283
	5%	3%	43%	1%	17%
2014	3,364,983	2,434,106	30,818,312	764,300	11,842,041
	5%	3%	43%	1%	16%
2015	3,298,590	3,085,780	29,877,813	872,825	12,139,538
	5%	4%	40%	1%	16%
2016	3,654,157	2,299,936	28,929,355	942,709	12,427,639
	5%	3%	41%	1%	18%
2017	3,706,541	1,981,718	27,796,600	1,331,649	13,191,811
	5%	3%	38%	2%	18%
2018	3,305,470	2,794,017	27,505,436	1,228,503	12,505,873
	4%	4%	37%	2%	17%

Instructional Support Services	Pupil Support Services	Sites and Buildings	Other Programs	Total
$ 5,877,717	$ 8,454,240	$ 8,937,592	$ 340,086	$ 71,741,455
8%	12%	12%	–	100%
2,300,442	7,410,014	8,335,957	334,789	62,622,718
4%	12%	13%	–	100%
1,581,361	8,661,991	8,023,299	342,586	64,800,003
2%	14%	12%	1%	100%
2,058,433	9,481,775	7,526,899	355,588	62,367,700
3%	15%	12%	1%	100%
2,345,242	9,699,810	8,058,856	394,099	65,235,359
3%	15%	12%	1%	100%
3,560,499	9,949,597	8,718,984	412,317	71,865,139
5%	14%	12%	1%	100%
5,312,438	10,214,856	8,657,555	692,148	74,151,543
7%	14%	12%	1%	100%
4,571,268	11,113,359	7,306,746	842,963	72,088,132
6%	15%	10%	1%	100%
4,875,659	11,214,282	8,252,564	899,378	73,250,202
7%	15%	11%	1%	100%
5,258,752	10,874,254	10,193,913	946,706	74,612,924
7%	14%	14%	1%	100%

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INDEPENDENT SCHOOL DISTRICT NO. 831

School Tax Levies and Tax Rates by Fund
Last Ten Fiscal Years

	Year Collectible	General Fund	Community Service Special Revenue Fund	Debt Service Fund	Total All Funds
Levies					
	2009	$ 11,003,562	$ 811,642	$ 3,863,851	$ 15,679,055
	2010	9,614,370	786,219	4,535,664	14,936,253
	2011	10,432,345	877,092	4,315,521	15,624,958
	2012	9,886,190	903,832	4,750,683	15,540,705
	2013	11,377,392	882,776	4,755,527	17,015,695
	2014	11,573,258	927,114	4,637,561	17,137,933
	2015	11,337,029	915,154	4,658,652	16,910,835
	2016	11,996,073	986,419	6,482,348	19,464,840
	2017	12,927,090	1,057,994	9,197,425	23,182,509
	2018	11,282,541	1,137,354	9,300,188	21,720,083
Tax rates					
Tax capacity rates					
	2009	5.730	1.341	6.384	13.455
	2010	3.745	1.352	7.798	12.895
	2011	5.497	1.676	8.238	15.411
	2012	5.458	1.901	9.972	17.331
	2013	8.949	2.050	11.020	22.019
	2014	11.328	2.097	10.471	23.896
	2015	9.898	1.849	9.398	21.145
	2016	10.145	1.952	12.806	24.903
	2017	11.781	2.005	17.427	31.213
	2018	8.426	1.940	15.864	26.230
Market value rates					
	2009	0.13385	–	–	0.13385
	2010	0.13710	–	–	0.13710
	2011	0.15293	–	–	0.15293
	2012	0.15390	–	–	0.15390
	2013	0.17389	–	–	0.17389
	2014	0.14626	–	–	0.14626
	2015	0.13351	–	–	0.13351
	2016	0.13979	–	–	0.13979
	2017	0.12865	–	–	0.12865
	2018	0.11395	–	–	0.11395

Note: A tax rate based on market value is used primarily for the District’s referendum, equity, and transition levies.

Source: State of Minnesota School Tax Report

INDEPENDENT SCHOOL DISTRICT NO. 831

Tax Capacities and Market Values
Last Ten Fiscal Years

For Taxes Collectible	Net Tax Capacities: Agricultural	Net Tax Capacities: Nonagricultural	Net Tax Capacities: Tax Increment	Fiscal Disparities: Contribution	Fiscal Disparities: Distribution
2009	$ 2,922,594	$ 57,485,174	$ (1,680,233)	$ (3,385,987)	$ 4,606,475
2010	1,925,510	56,734,951	(1,567,241)	(3,907,347)	4,960,891
2011	1,892,928	51,378,555	(1,383,497)	(3,871,485)	4,938,071
2012	1,739,170	46,408,764	(1,294,513)	(3,580,022)	4,830,499
2013	1,741,624	42,273,461	(1,232,190)	(3,176,279)	4,443,326
2014	1,798,181	42,261,513	(858,721)	(3,136,170)	4,528,567
2015	1,947,446	46,296,615	(828,748)	(3,089,582)	4,621,327
2016	1,958,007	48,029,784	(197,609)	(3,149,763)	4,689,654
2017	2,010,419	50,174,007	(316,163)	(3,216,864)	5,264,712
2018	2,083,679	53,722,499	(327,428)	(3,169,145)	5,521,366

Note: Market value is used primarily for extension of the District’s referendum levy.

Source: State of Minnesota School Tax Report

Total Taxable	Market Value
$ 59,948,023	$ 5,186,459,175
58,146,764	4,988,746,100
52,954,572	4,505,366,200
48,103,898	4,290,135,700
44,049,942	3,939,600,600
44,593,370	3,956,177,800
48,947,058	4,328,284,000
51,330,073	4,484,223,100
53,916,111	4,672,890,900
57,830,971	4,992,499,000

INDEPENDENT SCHOOL DISTRICT NO. 831

Property Tax Levies and Receivables
Last Ten Fiscal Years

For Taxes Collectible	Original Levy			
	Local Spread	Fiscal Disparities	Property Tax Credits	Total Spread
2009	$ 14,061,436	$ 1,295,342	$ 322,277	$ 15,679,055
2010	13,330,800	1,289,782	315,671	14,936,253
2011	13,968,510	1,265,177	391,271	15,624,958
2012	14,095,828	1,444,877	–	15,540,705
2013	15,567,747	1,447,948	–	17,015,695
2014	15,357,515	1,780,418	–	17,137,933
2015	15,139,104	1,771,731	–	16,910,835
2016	17,861,854	1,602,986	–	19,464,840
2017	21,163,913	2,018,596	–	23,182,509
2018	19,314,437	2,405,646	–	21,720,083

Note 1: A portion of the total spread levy is paid through various property tax credits, which are paid through state aids. Legislative changes, beginning with taxes collectible in 2012, significantly changed the calculation of tax credits applied and paid through state aids.

Note 2: Delinquent taxes are written off after seven years.

Source: State of Minnesota School Tax Report

Uncollected Taxes Receivable as of June 30, 2018			
Delinquent		Current	
Amount	Percent	Amount	Percent
$ –	– %	$ –	– %
–	–	–	–
–	–	–	–
65,345	0.42	–	–
36,630	0.22	–	–
18,396	0.11	–	–
17,747	0.10	–	–
52,794	0.27	–	–
226,029	0.97	–	–
–	–	11,988,517	55.20
$ 416,941		$ 11,988,517	

INDEPENDENT SCHOOL DISTRICT NO. 831

Student Enrollment
Last Ten Fiscal Years

	Adjusted Average Daily Membership (ADM)					
Year Ended June 30,	Handicapped and Pre-Kindergarten	Kindergarten	Elementary	Secondary	Total	Total Pupil Units
2009	96.13	461.43	3,035.87	3,405.05	6,998.48	8,118.90
2010	94.90	417.96	2,981.31	3,279.96	6,774.13	7,870.97
2011	94.25	467.22	2,980.06	3,209.66	6,751.19	7,808.82
2012	95.96	401.75	2,980.94	3,214.68	6,693.33	7,779.21
2013	102.14	394.47	2,962.30	3,202.66	6,661.57	7,741.35
2014	107.06	429.29	2,969.74	3,102.01	6,608.10	7,642.50
2015	116.37	384.90	2,960.46	3,164.73	6,626.46	7,259.42
2016	111.89	351.77	2,814.95	3,173.63	6,452.24	7,086.98
2017	109.78	389.39	2,701.60	3,091.89	6,292.66	6,911.03
2018	106.88	355.70	2,586.80	3,016.12	6,065.50	6,668.72

Note 1: Student enrollment numbers are estimated for the most recent fiscal year.

Note 2: ADM is weighted as follows in computing pupil units:

	Pre-Kindergarten	Handicapped Kindergarten	Half-Day Kindergarten	Full-Day Kindergarten	Elementary 1–3	Elementary 4–6	Secondary
Fiscal 2009 through 2014	1.250	1.000	0.612	0.612	1.115	1.060	1.300
Fiscal 2015 through 2018	1.000	1.000	0.550	1.000	1.000	1.000	1.200

Source: Minnesota Department of Education student reporting system

SINGLE AUDIT AND OTHER REQUIRED REPORTS

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INDEPENDENT SCHOOL DISTRICT NO. 831

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA No.	Federal Expenditures		Noncash Assistance
U.S. Department of Agriculture				
Passed through Minnesota Department of Education				
Child nutrition cluster				
School Breakfast Program	10.553	$ 189,548		
National School Lunch Program	10.555	1,168,942		$ 253,145
Total child nutrition cluster			$ 1,358,490	
U.S. Department of Education				
Direct				
Indian Education Grants to Local Educational Agencies	84.060		12,678	
Passed through Education Cooperative Service Unit of the Metropolitan Twin Cities				
Special education cluster				
Special Education Grants to States	84.027	12,733		
Passed through Minnesota Department of Education				
Special education cluster				
Special Education Grants to States	84.027	1,154,342		
Total CFDA No. 84.027		1,167,075		
Special Education Preschool Grants	84.173	36,285		
Total special education cluster			1,203,360	
Passed through Minnesota Department of Education				
Title I Grants to Local Educational Agencies	84.010		588,086	
Special Education – Grants for Infants and Families	84.181		32,120	
English Language Acquisition State Grants	84.365		5,463	
Supporting Effective Instruction State Grants	84.367		107,955	
Passed through Northeast Metropolitan Intermediate School District No. 916				
Career and Technical Education – Basic Grants to States	84.048		30,953	
Passed through Independent School District No. 622				
Adult Education – Basic Grants to States	84.002		2,924	
Total federal awards			$ 3,342,029	

Note 1: The Schedule of Expenditures of Federal Awards is prepared on the accrual basis of accounting. The information in this schedule is presented in accordance with the OMB's *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.* Therefore, some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the District's basic financial statements.

Note 2: 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: The District did not elect to use the 10 percent de minimis indirect cost rate.

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

To the School Board and Management of
Independent School District No. 831
Forest Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 831 (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 28, 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 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 and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2018-001 and 2018-002, that we consider to be material weaknesses.

(continued)

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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*.

DISTRICT'S RESPONSES TO FINDINGS

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

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 28, 2018

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

To the School Board and Management of
Independent School District No. 831
Forest Lake, Minnesota

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM

We have audited Independent School District No. 831's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the Summary of Audit Results section of the accompanying Schedule of Findings and Questioned Costs.

MANAGEMENT'S RESPONSIBILITY

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

AUDITOR'S RESPONSIBILITY

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

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

(continued)

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BASIS FOR QUALIFIED OPINION ON THE CHILD NUTRITION CLUSTER

As described in the accompanying Schedule of Findings and Questioned Costs, the District did not comply with the child nutrition cluster requirements for procurement reported as Finding 2018-003. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to this program cluster.

QUALIFIED OPINION ON THE CHILD NUTRITION CLUSTER

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on the child nutrition cluster program 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 on the previous page. 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 have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified one deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2018-003, that we consider to be a significant deficiency.

DISTRICT'S RESPONSE TO FINDING

The District's response to the internal control over compliance and noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

(continued)

PURPOSE OF THIS REPORT

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.

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 28, 2018

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CERTIFIED PUBLIC ACCOUNTANTS

PRINCIPALS
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INDEPENDENT AUDITOR'S REPORT

ON MINNESOTA LEGAL COMPLIANCE

To the School Board and Management of
Independent School District No. 831
Forest Lake, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 831 (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 28, 2018.

MINNESOTA LEGAL COMPLIANCE

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as described in the Schedule of Findings and Questioned Costs as items 2018-004, 2018-005, and 2018-006. 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.

DISTRICT'S RESPONSES TO FINDINGS

The District's responses to the legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The District's responses were not subject to the auditing procedures applied in our audit of the financial statements and, accordingly, we express no opinion on them.

PURPOSE OF THIS REPORT

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

Malloy, Montague, Karnowski, Radosevich & Co., P.A.

Minneapolis, Minnesota
December 28, 2018

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Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

A. SUMMARY OF AUDIT RESULTS

This summary is formatted to provide federal granting agencies and pass-through agencies answers to specific questions regarding the audit of federal awards.

Financial Statements

What type of auditor's report is issued?		X Unmodified ___ Qualified ___ Adverse ___ Disclaimer
Internal control over financial reporting:		
Material weakness(es) identified?	X Yes	___ No
Significant deficiencies identified?	___ Yes	X None reported
Noncompliance material to the financial statements noted?	___ Yes	X No

Federal Awards

Internal controls over major federal award programs:		
Material weakness(es) identified?	___ Yes	X No
Significant deficiencies identified?	X Yes	___ None reported
Type of auditor's report issued on compliance for major programs?		
U.S. Department of Agriculture – child nutrition cluster		Qualified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	X Yes	___ No

Programs tested as major programs:

Program or Cluster	CFDA No.
The U.S. Department of Agriculture – child nutrition cluster consisting of:	
– School Breakfast Program	10.553
– National School Lunch Program	10.555

Threshold for distinguishing between type A and B programs.	$ 750,000	
Does the auditee qualify as a low-risk auditee?	X Yes	___ No

B. FINANCIAL STATEMENT FINDINGS

MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

2018-001 Financial Statement Adjustments

Criteria – Internal control over financial reporting.

Condition – During the year ended June 30, 2018, we noted that Independent School District No. 831's (the District) construction accounts and contracts payable were understated, requiring a journal entry to keep the financial statements from being misstated by a material amount. Auditing standards consider the identification of a material misstatement that was not initially identified by the District to be a material weakness in the related internal control.

Questioned Costs – Not applicable.

Context – This condition applies to accounts and contracts payable as noted above.

Repeat Finding – This is a current year finding.

Cause – This was an oversight by the District.

Effect – The liabilities for accounts and contracts payable were understated prior to making the adjustment.

Recommendation – We recommend that the District continue to review its policies and procedures and make sure all account balances are fairly stated at the start of the annual financial audit.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District intends to review policies and procedures relating to accounts and contracts payable to make sure proper controls are in place to verify all disbursements are recorded in the correct fiscal year. The District has separately issued a Corrective Action Plan related to this finding.

B. FINANCIAL STATEMENT FINDINGS (CONTINUED)

MATERIAL WEAKNESSES IN INTERNAL CONTROL OVER FINANCIAL REPORTING (CONTINUED)

2018-002 Timeliness and Accuracy of Cash Reconciliations

Criteria – Internal controls over financial reporting are intended to allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. To be effective, control procedures such as periodic and year-end account and subledger reconciliations must be performed regularly, accurately, and in a timely manner.

Condition – During our audit, we noted that the monthly cash reconciliations prepared by district staff were not being performed in a timely manner and contained discrepancies when compared to the District's general ledger and underlying records. In previous audits of the District, we have generally found the District's internal controls in this area to be well designed, implemented, and functioning properly. In the current year, although the internal controls were still considered to be well designed, the effectiveness of some control procedures was diminished, due to a lack of timeliness and accuracy.

Questioned Costs – Not applicable.

Context – Monthly bank reconciliations were not being completed accurately in a timely manner.

Repeat Finding – This is a current year finding only.

Cause – The District transitioned to a new finance software mid-year, and inexperience with the new software caused some financial transaction activity to be posted to incorrect periods, making it very difficult to complete the monthly cash reconciliation process.

Effect – This condition subjects the District to a higher risk that misstatements could occur, due to errors or fraud, and not be prevented or detected in a timely manner.

Recommendation – We recommend that district management continue to provide training to employees to ensure all financial transactions are posting to the correct period in the general ledger, thereby facilitating the timely and accurate completion of monthly cash reconciliations.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. District management will continue to review its internal control procedures to ensure monthly cash reconciliations are accurately completed in a timely manner going forward. The District has separately issued a Corrective Action Plan related to this finding.

C. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

SIGNIFICANT DEFICIENCY IN INTERNAL CONTROL OVER COMPLIANCE AND REPORTABLE INSTANCES OF NONCOMPLIANCE – U.S. DEPARTMENT OF AGRICULTURE, PASSED THROUGH MINNESOTA DEPARTMENT OF EDUCATION, CHILD NUTRITION CLUSTER – CFDA NOS. 10.553 AND 10.555

2018-003 Internal Control and Compliance With Federal Procurement Requirements

Criteria – 2 CFR § 215.45 requires the District to establish and maintain effective internal control over compliance with requirements applicable to federal program expenditures, including procurement requirements applicable to the child nutrition cluster program.

Condition – During our audit, we noted that the District did not have sufficient controls in place within its child nutrition cluster federal program to assure compliance with federal procurement requirements, which resulted in noncompliance. For four of six vendors tested, the District had not awarded a contract based on sealed bids or quotations as required by the Uniform Guidance.

Questioned Costs – None noted.

Context – Four of six vendors tested were not in compliance. This was not a statistically valid sample.

Repeat Finding – This is a current year finding.

Cause – This was an oversight by district personnel.

Effect – Noncompliance with the procurement requirements could result in the District expending federal funds with vendors that are not eligible to be parties to such transactions, which could be viewed as a violation of the award agreement.

Recommendation – We recommend that the District review its internal control procedures relating to procurement for all federal programs. The District should verify compliance with federal procurement procedures, including awarding contracts based on sealed bids or quotations for the purchase of goods or services exceeding applicable federal dollar thresholds.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District intends to review its procedures relating to procurement for its federal programs, and will ensure that bids and/or quotations are obtained when required. The District has separately issued a Corrective Action Plan related to this finding.

D. MINNESOTA LEGAL COMPLIANCE FINDINGS

2018-004 Unclaimed Property Report

Criteria – Minnesota Statutes § 345.41 and § 345.43.

Condition – Minnesota Statutes require unclaimed property held for more than three years (or one year for unpaid compensation) to be reported and paid or delivered to the state Commissioner of Commerce each year. This requirement was not met by the District for the current audit year.

Questioned Costs – Not applicable.

Context – The District did not file the unclaimed property report to the state Commissioner of Commerce in the current audit year.

Repeat Finding – This is a current year finding.

Cause – This was an oversight by district personnel.

Effect – The District was not in compliance with state unclaimed property requirements.

Recommendation – We recommend that the District comply with state statutory unclaimed property requirements in the future.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District will review its procedures relating to unclaimed property laws to ensure compliance in the future. The District has separately issued a Corrective Action Plan related to this finding.

2018-005 Contracting and Bid Law Compliance

Criteria – Minnesota Statutes § 471.345, Subd. 4.

Condition – Minnesota Statutes require contracts for goods or services in excess of certain dollar thresholds to be awarded using sealed bids or quotations. For one of seven vendors tested to which this requirement applied, the District had not awarded a contract based on sealed bids or quotations.

Questioned Costs – Not applicable.

Context – One of seven vendors tested were not in compliance.

Repeat Finding – This is a current year finding.

Cause – This was an oversight by district personnel.

Effect – The District was not in compliance with state bid law requirements.

D. MINNESOTA LEGAL COMPLIANCE FINDINGS (CONTINUED)

2018-005 Contracting and Bid Law Compliance (continued)

Recommendation – We recommend that the District comply with state statutory contracting requirements for all applicable vendors.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District will review its procedures relating to contracting and bid laws to ensure compliance in the future. The District has separately issued a Corrective Action Plan related to this finding.

2018-006 Broker Acknowledgement Statement

Criteria – Minnesota Statutes § 118A.04, Subd. 9.

Condition – Minnesota Statutes require local governmental entities to annually provide to each broker used, a written statement of investment restrictions applicable to the local government. Before completing a transaction with the broker, the District must receive written acknowledgement that the broker has received the statement of investment restrictions, and agrees to abide by them when handling the District’s investments. For brokers used by the District in the current year, these requirements were not met.

Questioned Costs – Not applicable.

Context – The District did not obtain broker acknowledgement statements in the current year.

Repeat Finding – This is a current year finding.

Cause – This was an oversight by district personnel.

Effect – The District was not in compliance with state broker acknowledgement statement requirements.

Recommendation – We recommend that the District annually, prior to completing an initial investment transaction with each broker, provide to that broker a written statement of investment restrictions and retain documentation that each broker agrees to handle the District’s account in accordance with the restrictions.

View of Responsible Official and Planned Corrective Actions – The District agrees with the finding. The District will review its procedures relating to broker acknowledgement statement laws to ensure compliance in the future. The District has separately issued a Corrective Action Plan related to this finding.

INDEPENDENT SCHOOL DISTRICT NO. 831

Uniform Financial Accounting and Reporting Standards
Compliance Table
June 30, 2018

		Audit	UFARS	Audit – UFARS
General Fund				
Total revenue		$ 75,166,080	$ 75,166,080	$ –
Total expenditures		$ 74,612,924	$ 74,612,924	$ –
Nonspendable				
460	Nonspendable fund balance	$ 170,007	$ 170,007	$ –
Restricted				
403	Staff development	$ –	$ –	$ –
406	Health and safety	$ –	$ –	$ –
407	Capital projects levy	$ –	$ –	$ –
408	Cooperative revenue	$ –	$ –	$ –
413	Projects funded by COP	$ –	$ –	$ –
414	Operating debt	$ –	$ –	$ –
416	Levy reduction	$ –	$ –	$ –
417	Taconite building maintenance	$ –	$ –	$ –
423	Certain teacher programs	$ –	$ –	$ –
424	Operating capital	$ 626,446	$ 626,446	$ –
426	$25 taconite	$ –	$ –	$ –
427	Disabled accessibility	$ –	$ –	$ –
428	Learning and development	$ –	$ –	$ –
434	Area learning center	$ –	$ –	$ –
435	Contracted alternative programs	$ –	$ –	$ –
436	State approved alternative program	$ –	$ –	$ –
438	Gifted and talented	$ –	$ –	$ –
440	Teacher development and evaluation	$ –	$ –	$ –
441	Basic skills programs	$ –	$ –	$ –
445	Career and technical programs	$ –	$ –	$ –
448	Achievement and integration	$ –	$ –	$ –
449	Safe schools levy	$ –	$ –	$ –
450	Pre-Kindergarten	$ –	$ –	$ –
451	QZAB payments	$ –	$ –	$ –
452	OPEB liability not in trust	$ –	$ –	$ –
453	Unfunded severance and retirement levy	$ –	$ –	$ –
459	Basic skills extended time	$ –	$ –	$ –
467	Long-term facilities maintenance	$ 168,936	$ 168,936	$ –
472	Medical Assistance	$ –	$ –	$ –
464	Restricted fund balance	$ –	$ –	$ –
475	Title VII – Impact Aid	$ –	$ –	$ –
476	PILT	$ –	$ –	$ –
Committed				
418	Committed for separation	$ –	$ –	$ –
461	Committed fund balance	$ –	$ –	$ –
Assigned				
462	Assigned fund balance	$ 461,114	$ 461,114	$ –
Unassigned				
422	Unassigned fund balance	$ 710,967	$ 710,967	$ –
Food Service				
Total revenue		$ 3,893,810	$ 3,893,810	$ –
Total expenditures		$ 3,715,576	$ 3,715,575	$ 1
Nonspendable				
460	Nonspendable fund balance	$ 65,753	$ 65,753	$ –
Restricted				
452	OPEB liability not in trust	$ –	$ –	$ –
464	Restricted fund balance	$ 227,190	$ 227,190	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Community Service				
Total revenue		$ 4,794,219	$ 4,794,219	$ –
Total expenditures		$ 4,529,304	$ 4,529,304	$ –
Nonspendable				
460	Nonspendable fund balance	$ 6,667	$ 6,667	$ –
Restricted				
426	$25 taconite	$ –	$ –	$ –
431	Community education	$ 142,368	$ 142,368	$ –
432	ECFE	$ 259,855	$ 259,855	$ –
440	Teacher development and evaluation	$ –	$ –	$ –
444	School readiness	$ 369,048	$ 369,048	$ –
447	Adult basic education	$ –	$ –	$ –
452	OPEB liability not in trust	$ –	$ –	$ –
464	Restricted fund balance	$ 43,857	$ 43,857	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –

INDEPENDENT SCHOOL DISTRICT NO. 831

Uniform Financial Accounting and Reporting Standards
Compliance Table (continued)
June 30, 2018

		Audit	UFARS	Audit – UFARS
Building Construction				
Total revenue		$ 714,844	$ 714,844	$ –
Total expenditures		$ 52,238,516	$ 52,238,515	$ 1
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
407	Capital projects levy	$ –	$ –	$ –
413	Projects funded by COP	$ –	$ –	$ –
467	Long-term facilities maintenance	$ (164,491)	$ (164,491)	$ –
464	Restricted fund balance	$ 37,527,255	$ 37,527,255	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Debt Service				
Total revenue		$ 8,690,970	$ 8,690,970	$ –
Total expenditures		$ 9,054,200	$ 9,054,200	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
433	Max effort loan	$ –	$ –	$ –
451	QZAB payments	$ –	$ –	$ –
467	Long-term facilities maintenance	$ –	$ –	$ –
464	Restricted fund balance	$ 921,913	$ 921,913	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –
Trust				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
Internal Service				
Total revenue		$ 9,665,800	$ 9,665,800	$ –
Total expenditures		$ 9,353,926	$ 9,353,926	$ –
422	Net position	$ 3,678,908	$ 3,678,908	$ –
OPEB Revocable Trust Fund				
Total revenue		$ –	$ –	$ –
Total expenditures		$ –	$ –	$ –
422	Net position	$ –	$ –	$ –
OPEB Irrevocable Trust Fund				
Total revenue		$ 32,754	$ 32,754	$ –
Total expenditures		$ 267,386	$ 267,386	$ –
422	Net position	$ 2,158,161	$ 2,158,161	$ –
OPEB Debt Service Fund				
Total revenue		$ 533,000	$ 533,000	$ –
Total expenditures		$ 522,837	$ 522,837	$ –
Nonspendable				
460	Nonspendable fund balance	$ –	$ –	$ –
Restricted				
425	Bond refundings	$ –	$ –	$ –
464	Restricted fund balance	$ 252,693	$ 252,693	$ –
Unassigned				
463	Unassigned fund balance	$ –	$ –	$ –

Note: Statutory restricted deficits, if any, are reported in unassigned fund balances in the financial statements in accordance with accounting principles generally accepted in the United States of America.

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