Financial Statements
June 30, 2018

Independent School District No. 108

Norwood Young America, Minnesota

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School Board

Name	Position	Term Expires
Elroy Latzig	Chairperson	2022
Dean Lind	Vice Chairperson	2020
Rich Schug	Clerk	2022
Scott Knight	Treasurer	2020
Sara Eischens	Member	2020
Nicole Evenski	Member	2022
Craig Pexa	Member	2020

Administration

Brian Corlett	Superintendent
JoAn Carlson	Business Manager

CPAs & BUSINESS ADVISORS

Independent Auditor's Report

Members of the School Board
Independent School District No. 108
Norwood Young America, 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 the Independent School District No. 108 (District), Norwood Young America, Minnesota, 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 an opinion 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 entity'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 entity'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.

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Opinions
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Notes 1 and 9 to the financial statements, the District has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which has resulted in a restatement of the net position as of July 1, 2017. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the District's total OPEB liability and related ratios, schedule of changes in supplemental benefits liability and supplemental benefits liability, budgetary comparison information, schedule of Employer's share of net pension liability and schedule of Employer's contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquires, 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 financial statements. The introductory section, combining fund schedules, the Uniform Financial Accounting and Reporting Standards Compliance Table and the student activity treasurer's report are presented for purposes of additional analysis and are not a required part of the financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 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, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Eide Bailly LLP

Mankato, Minnesota
November 21, 2018

This section of Independent School District No. 108 – Central Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

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

- Overall revenues were $13,185,271 while overall expenses totaled $14,562,050, decreasing Net Deficit by $1,376,779.
- The District's overall fund balance increased by $246,031.
- The District's net outstanding long-term debt decreased by $792,781 or 7.78 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

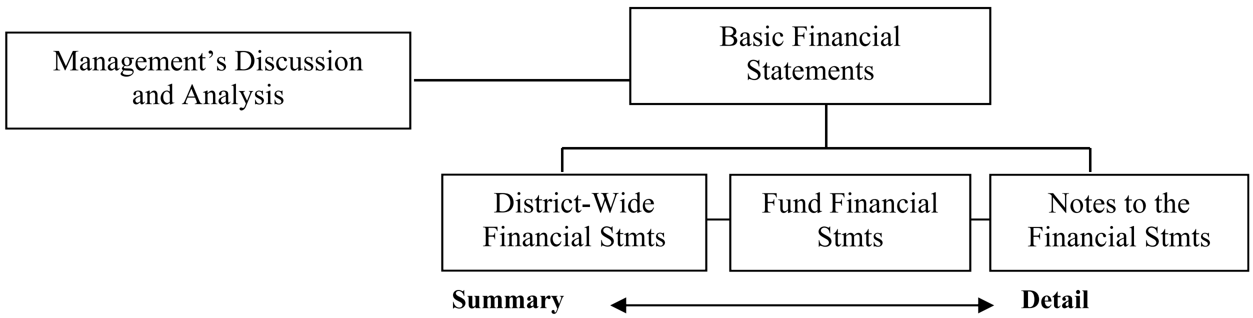
The financial section of the annual report consists of four parts – Independent Auditor's Report, required supplementary information, which includes the management's discussion and analysis (this section), the basic financial statements, and other required reports. The basic financial statements include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

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The diagram below shows how the various parts of this annual report are arranged and relate to one another.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain, are summarized below. The remainder of the overview section of the MD&A highlights the structure and content of each of the statements.



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

District-wide Statements

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

The two District-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets, deferred outflows/inflows of resources, and liabilities – are one way to measure the District's financial health or position.

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

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

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

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

Fund Financial Statements

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

The District has two kinds of funds:

Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or difference) between them.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (DISTRICT-WIDE FINANCIAL STATEMENTS)

Net Position

The District's net deficit was $4,115,853 on June 30, 2018. This represents a decrease when compared to the $914,836 deficit balance on June 30, 2017.

Statement of Net Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current assets	$ 5,685,501	$ 5,067,250
Capital assets	15,705,909	16,343,888
Total assets	21,391,410	21,411,138
Deferred outflows of Resources	11,008,813	14,387,828
Liabilities		
Other liabilities	523,541	548,843
Long-term liabilities	29,734,797	33,426,690
Total liabilities	30,258,338	33,975,533
Deferred Inflows of Resources	6,257,738	2,738,269
Net Position		
Net investment in capital assets	6,355,436	6,193,297
Restricted for specific purposes	891,228	1,014,713
Unrestricted	(11,362,517)	(8,122,846)
Total net position	$ (4,115,853)	$ (914,836)

Due to the implementation of GASB Statement No. 75 in the current year, figures may not be comparable to prior year for some areas of the financial statements.

Statement of Revenues, Expenses and Changes in Net Position
June 30, 2018 and 2017

	2018	2017
Revenues		
Program revenues		
Charges for service	$ 1,196,555	$ 1,106,656
Operating grants and contributions	1,433,687	1,611,961
Capital grants and contributions	24,873	115,640
General		
Property taxes	2,601,991	2,299,077
Aids and payments from state and other	7,725,700	7,524,028
Miscellaneous revenues	202,465	205,625
Total revenues	13,185,271	12,862,987
Expenses		
Administration	767,383	805,797
District support services	304,456	285,208
Regular instruction	5,402,018	8,847,079
Vocational instruction	155,711	121,685
Special education instruction	3,810,827	1,603,206
Community education and services	887,595	859,662
Instructional support services	361,884	381,164
Pupil support services	1,370,005	1,337,701
Sites and buildings	1,191,387	1,443,960
Fiscal and other fixed-cost programs	310,784	50,468
Interest and fiscal charges	-	190,667
Total expenses	14,562,050	15,926,597
Change in Net Position	(1,376,779)	(3,063,610)
Net Position - Beginning, as restated on July 1, 2017	(2,739,074)	2,148,774
Net Position - Ending	$ (4,115,853)	$ (914,836)

Due to the implementation of GASB Statement No. 75 in the current year, figures may not be comparable to prior year for some areas of the financial statements.

Changes in Net Position. The District's total revenues were $13,185,271 for the year ended June 30, 2018.

Unallocated federal and state aid along with property taxes accounted for 78.33 percent of the total revenue for the year. Operating and capital grants and contributions for specific programs contributed 11.06 percent and the remaining revenue was from fees charged for services and miscellaneous sources.

The total cost of all programs and services was $14,562,050. The District's expenses are predominantly related to student education and student educational support, 82.32 percent. The District's administrative activities accounted for 5.27 percent of the total costs. Total expenses were more than total revenues, decreasing net position by $1,376,779 from last year.

General Fund

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

The following schedule presents a summary of General Fund Revenues.

	Year Ended June 30, 2018	Year Ended June 30, 2017	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local property taxes	$ 1,443,976	$ 1,310,372	$ 133,604	10.2%
Other local sources	357,007	283,083	73,924	26.1%
State sources	8,529,587	8,476,546	53,041	0.6%
Federal sources	311,119	343,579	(32,460)	-9.4%
Miscellaneous	700	1,520	(820)	-53.9%
Total General Fund revenues	$ 10,642,389	$ 10,415,100	$ 227,289	2.2%

Total General Fund revenue increased by $227,289 or 2.2% from the previous year. Basic general education revenue is determined by a state per student funding formula and consists of an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change on revenue. The increase is the result of a settle-up of prior year health and safety funds, increase in 3rd party medical assistance revenues, increase in interest earned, and a slight increase in state aid basic formula.

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30, 2018	Year Ended June 30, 2017	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries and benefits	7,590,414	7,322,374	$ 268,040	3.7%
Purchased services	2,318,084	2,009,390	308,694	15.4%
Supplies and materials	442,374	411,935	30,439	7.4%
Capital expenditures	121,139	97,560	23,579	24.2%
Other expenditures	58,584	361,407	(302,823)	-83.8%
Total General Fund expenditures	$ 10,530,595	$ 10,202,666	$ 327,929	3.2%

Total General Fund expenditures increased by $327,929 or 3.2% from the previous year. The overall increase in the current fiscal year resulted from salary/benefit increases and building maintenance costs.

General Fund Budgetary Highlights

The District's general fund results when compared to the final budget are:

- Actual revenues were approximately $351,000 *more than* budget as a result of the health and safety prior year adjustment and unbudgeted Q-Comp.

- Actual expenditures were approximately $283,800 *more than* budget as a result of LTFM projects and unbudgeted Q-Comp.

Debt Service Fund

The Debt Service Fund revenues were approximately $1,034,000 and expenditures were approximately $987,600, thereby increasing fund balance by approximately $46,400 as revenues exceeded expenditures. This resulted in an ending fund balance in the debt service fund of $192,867.

Community Service Fund

The Community Service Fund revenues were approximately $988,400 and expenditures were approximately $887,600, thereby increasing fund balance by approximately $100,800. The increase in fund balance is a result of not fully spending all revenues received and resizing the staffing needs of program offerings.

Other Non-Major Fund

The Food Service Fund incurred a decrease in the fund balance of approximately $27,100. The decrease in fund balance is a result of purchasing a new steamer for the Elementary School kitchen.

Enrollment

Enrollment is a critical factor in determining revenue with approximately 90% of General Fund revenue being determined by enrollment. The following shows the trend in enrollment for the District:

Grade	2014	2015	2016	2017	2018
ECSE	14.00	13.00	19.00	17.28	16.36
Hcp. Kdgt.	10.00	10.00	7.00	10.30	11.00
Kdgt.	57.00	55.00	56.00	62.93	54.24
1-3	224.00	213.00	230.00	201.92	209.40
4-6	195.00	213.00	214.00	239.24	223.65
7-12	472.00	470.00	485.00	478.65	496.11
Total	972.00	974.00	1,011.00	1,010.32	1,010.76
ADM Change		2.00	37.00	(0.68)	0.44
% Change		0%	4%	0%	0%

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

By the end of fiscal year 2018, the District had invested $27,008,973 in a broad range of capital assets, including school buildings, land, computer and audio-visual equipment, and other equipment for various instructional programs. Total depreciation expense for the year was $725,767. More detailed information about capital assets can be found in the notes to the financial statements.

Capital Assets Governmental Activities
June 30, 2018 and 2017

	2018	2017
Land	$ 25,000	$ 83,710
Buildings	24,894,441	24,899,270
Improvements	140,214	140,214
Equipment	1,949,318	1,894,282
Accumulated Depreciation	(11,303,064)	(10,673,588)
Total capital assets	$ 15,705,909	$ 16,343,888

Long-Term Liabilities

At year-end the District had $9,402,790 of long term debt consisting of bonds payable of $9,325,000, bond premium of $39,148, bond discount of $13,675 and compensated absences of $52,317.

The District has $18,496,021 in multi-employer plans net pension liability at June 30, 2018.

The District has $266,530 in single-employer plan net pension liability at June 30, 2018.

The District has $1,569,456 in total OPEB liability at June 30, 2018.

See notes to the financial statements for additional details on the District's long term liabilities.

Factors Bearing on the District's Future:

- Enrollment continues to be an area of concern weighing on the District's financial future. Since Minnesota school districts are paid on pupil units served, any decline in enrollment results in less revenue.

- For years, many Minnesota school district referendums for facilities maintenance projects did not pass. The Legislature, recognizing an important need to maintain district facilities, requested input on how to create a more equitable and sustainable financing process for public school facilities. As a result, the School Facilities Financing Working Group was created and provided recommendations. New legislation was passed during a special session in July 2015 that provides revenue increases for school districts not currently eligible to participate in the Alternative Facilities Bonding and Levy program. The new program, referred to as Long Term Facilities Maintenance (LTFM) Revenue, includes a three year phased approach beginning in FY 2017. Districts will receive up to $193 per pupil of revenue the first year, then in FY 2018, districts can obtain up to $292 per pupil and up to $380 per pupil in FY 2019. These figures are prorated for districts with an average building age of 35 years or less. This replaces the former Health and Safety and Deferred Maintenance revenue programs and associated funding. This additional funding will provide dollars for our district to pay for ongoing deferred maintenance expenditures.

- Labor costs account for over 80% of the District expenses. As cost of benefits continue to skyrocket, it becomes more important during the negotiations of labor contracts that the District be cognizant to this potential unknown long-term liability. The District must continue to follow enrollment trends and maintain a responsible balance between staffing and student enrollment.

Contacting the District's Financial Management:

This financial report is designed to provide the District's citizens, taxpayers, customers 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 any questions about this report or would like additional information, contact the District Office, ISD No. 108, 531 Morse Street, Norwood Young America, MN 55368.

Statement of Net Position

June 30, 2018

Assets	
Cash and investments	$ 3,401,028
Receivables:	
Current property taxes	1,530,956
Delinquent property taxes	25,598
Accounts	11,466
Due from Minnesota Department of Education	636,187
Due from Federal through Minnesota Department of Education	55,766
Inventories	14,179
Prepaid items	10,321
	5,685,501
Capital assets not being depreciated:	
Land	25,000
Capital assets, net of accumulated depreciation:	
Land improvements	72,228
Buildings and improvements	15,231,179
Equipment	377,502
Total capital assets, net of depreciation	15,705,909
Total assets	21,391,410
Deferred Outflows of Resources	
Other postemployment benefit plans	230,934
Single-employer plan	53,588
Multi-employer pension plans	10,724,291
Total deferred outflows of resources	11,008,813
Liabilities	
Salaries payable	39,056
Accounts payable	49,106
Interest payable	74,079
Due to other Minnesota school districts	90,436
Due to other governmental units	903
Payroll deductions	226,384
Unearned revenue	43,577
Noncurrent liabilities:	
Due in more than one year - multi-employer plans net pension liability	18,496,021
Due in more than one year - single-employer plan net pension liability	266,530
Due in more than one year - total other postemployment benefits obligation	1,569,456
Due within one year - bonds and related premium and discount and compensated absences	810,118
Due in more than one year - bonds and related premium and discount and compensated absences	8,592,672
Total liabilities	30,258,338
Deferred Inflows of Resources	
Unavailable revenue - property taxes	2,687,766
Multi-employer pension plans	3,569,972
Total deferred inflows of resources	6,257,738
Net Position (Deficit)	
Net investment in capital assets	6,355,436
Restricted	891,228
Unrestricted	(11,362,517)
Total net deficit	$ (4,115,853)

		Program Revenues			Net (Expense)
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Deficit
Governmental Activities					
Administration	$ 767,383	$ -	$ -	$ -	$ (767,383)
District support services	304,456	-	-	-	(304,456)
Regular instruction	5,402,018	208,609	1,263,773	-	(3,929,636)
Vocational instruction	155,711	-	-	-	(155,711)
Special education instruction	3,810,827	-	-	-	(3,810,827)
Community education and services	887,595	689,393	146,687	-	(51,515)
Instructional support services	361,884	-	-	-	(361,884)
Pupil support services	1,370,005	298,553	23,227	-	(1,048,225)
Sites and buildings	1,191,387	-	-	24,873	(1,166,514)
Fiscal and other fixed cost programs	310,784	-	-	-	(310,784)
Total Governmental Activities	$ 14,562,050	$ 1,196,555	$ 1,433,687	$ 24,873	(11,906,935)
General Revenues					
Property taxes and other county sources					2,601,991
State aid not restricted to specific purposes					7,725,700
Earnings on investments					40,532
Miscellaneous					161,933
Total general revenues					10,530,156
Changes in Net Deficit					(1,376,779)
Net Deficit - Beginning, as restated (Note 9)					(2,739,074)
Net Deficit - Ending					$ (4,115,853)

	General	Community Service	Debt Service	Nonmajor Food Service	Total Governmental Funds
Assets					
Cash and investments	$ 2,086,355	$ 606,028	$ 597,473	$ 111,172	$ 3,401,028
Receivables					
Current property taxes	881,392	73,510	576,054	-	1,530,956
Delinquent property taxes	14,269	1,220	10,109	-	25,598
Accounts	4,133	540	-	6,793	11,466
Due from Minnesota Department of Education	620,305	12,745	3,025	112	636,187
Due from Federal through Minnesota Department of Education	55,144	-	-	622	55,766
Inventories	-	-	-	14,179	14,179
Prepaid items	10,096	225	-	-	10,321
Total assets	$ 3,671,694	694,268	$ 1,186,661	$ 132,878	$ 5,685,501
Liabilities					
Salaries payable	$ -	$ 39,056	$ -	$ -	$ 39,056
Accounts payable	27,888	21,218	-	-	49,106
Due to other Minnesota School Districts	90,436	-	-	-	90,436
Due to other governmental units	903	-	-	-	903
Payroll deductions	226,384	-	-	-	226,384
Unearned revenue	14,728	14,852	-	13,997	43,577
Total liabilities	360,339	75,126	-	13,997	449,462
Deferred Inflows of Resources					
Unavailable revenue - delinquent taxes	14,269	1,220	10,109	-	25,598
Unavailable revenue - property taxes	1,567,800	136,281	983,685	-	2,687,766
Total deferred inflows of resources	1,582,069	137,501	993,794	-	2,713,364
Fund Balances					
Nonspendable	10,096	225	-	14,179	24,500
Restricted	174,993	481,416	192,867	104,702	953,978
Unassigned	1,544,197	-	-	-	1,544,197
Total fund balances	1,729,286	481,641	192,867	118,881	2,522,675
Total liabilities, deferred inflows of resources, and fund balances	$ 3,671,694	$ 694,268	$ 1,186,661	$ 132,878	$ 5,685,501

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position

June 30, 2018

Total Fund Balances for Governmental Funds		$	2,522,675
Amounts reported for governmental activities in the statement of net position are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.			15,705,909
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures, and therefore, are reported as unavailable revenue in the funds.			25,598
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.			(74,079)
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the governmental funds.			7,438,841
Long-term liabilities that pertain to governmental funds are not due and payable in the current period, and therefore are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year end are:			
General Obligation Bonds Payable	$ 9,350,473		
OPEB Obligation	1,569,456		
Compensated Absences Payable	52,317		
Multi-Employer Plans Net Pension Liability	18,496,021		
Single-Employer Plan Net Pension Liability	266,530		
			(29,734,797)
Total Net Deficit for Governmental Activities		$	(4,115,853)

	General	Community Service	Debt Service	Nonmajor Food Service	Total Governmental Funds
Revenues					
Local property tax levies	$ 1,443,976	$ 120,438	$ 998,624	$ -	$ 2,563,038
Other local and county sources	357,007	717,523	5,122	16,771	1,096,423
State sources	8,529,587	150,459	30,246	23,227	8,733,519
Federal sources	311,119	-	-	172,444	483,563
Sales and conversion of assets	700	-	-	288,317	289,017
Total revenues	10,642,389	988,420	1,033,992	500,759	13,165,560
Expenditures					
Administration	767,383	-	-	-	767,383
District support services	304,456	-	-	-	304,456
Regular instruction	5,193,646	-	-	-	5,193,646
Vocational instruction	155,515	-	-	-	155,515
Special education instruction	1,616,122	-	-	-	1,616,122
Community education and services	-	887,594	-	-	887,594
Instructional support services	361,809	-	-	-	361,809
Pupil support services	855,959	-	-	528,459	1,384,418
Sites and buildings	1,223,990	-	-	-	1,223,990
Fiscal and other fixed cost programs	51,715	-	-	-	51,715
Debt service:					
Principal	-	-	800,000	-	800,000
Interest and fiscal charges	-	-	187,606	-	187,606
Total expenditures	10,530,595	887,594	987,606	528,459	12,934,254
Excess (deficiency) of revenues over (under) expenditures	111,794	100,826	46,386	(27,700)	231,306
Other Financing Sources (Uses)					
Sale of equipment	14,725	-	-	-	14,725
Operating transfers in (out)	(561)	-	-	561	-
Total Other Financing Sources (Uses)	14,164	-	-	561	14,725
Net Change in Fund Balances	125,958	100,826	46,386	(27,139)	246,031
Fund Balances - Beginning	1,603,328	380,815	146,481	146,020	2,276,644
Fund Balances - Ending	$ 1,729,286	$ 481,641	$ 192,867	$ 118,881	$ 2,522,675

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2018

Total Net Change in Fund Balances for Governmental Funds	$	246,031
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In the current period those amounts are:		
Capital outlay		198,477
Depreciation expense		(725,767)
In the statement of activities, only the net gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increases financial resources. Thus, the change in net position differs from the change in fund balances by the cost of the capital assets less the accumulated depreciation.		(110,689)
In governmental funds, OPEB and Compensated Absences liabilities are measured by the amount of resources used. However, in the statement of activities, a change is based on the amount earned (used) by the employees during the period. This amount is the net of these differences.		402,804
Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences.		118
The governmental funds report repayment of long-term liabilities as expenditures. In the statement of net position, however, repayment of principal reduces the liability.		800,000
Interest on long-term debt is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due.		2,315
In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.		(2,194,489)
Property taxes levied and due in previous fiscal years that have not been received as of the end of the current fiscal year are recorded as deferred inflows - delinquent taxes (not considered available revenues) in the governmental funds. In the statement of activities, these taxes are considered revenue in the period for which they are levied.		4,421
Change in Net Deficit of Governmental Activities	$	(1,376,779)

	Agency Fund	Private Purpose Trust Fund
Assets		
Cash	$ 96,020	$ 26,857
Liabilities		
Accounts payable	$ 682	$ -
Due to student activities	95,338	-
Total liabilities	$ 96,020	-
Net Position		
Restricted for scholarships		$ 26,857

	Private Purpose Trust Fund
Additions	
Other local and county revenues	$ 3,828
Deductions	
Pupil support services	1,850
Change in Net Position	1,978
Net Position - Beginning of Year	24,879
Net Position - End of Year	$ 26,857

Note 1 - Summary of Significant Accounting Policies

The Independent School District No. 108 (District) is a school district governed by a board elected by eligible voters of the District. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant District accounting policies are described below.

A. Financial Reporting Entity

The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The District does not have any blended or discretely presented component units.

The District is the basic level of government which has oversight responsibility and control over all activities related to the public school education in the District's area. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB pronouncements, since board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements.

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

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers most revenues to be available if they are collected within 60 days of the end of the current fiscal period, except as stated below. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for the following: (1) commodity inventory items are recorded when received, (2) interest and principal on long-term debt are recorded when paid, and (3) claims and judgments, group health claims, and compensated absences are recorded as expenditures when paid with expendable available financial resources. Prepaid items are recorded for approved disbursements made in advance of the year in which the item is budgeted.

Property tax revenues for all funds, which are payable by property owners in a calendar year, are recognized in the fiscal year beginning July 1 of that calendar year. State revenues are recognized in the year to which they apply according to Minnesota Statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or Federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year. Revenue from other school districts is generally recognized when related expenditures occur. All other revenue items are considered to be measurable and available as stated above.

The District reports unavailable revenue on its governmental fund financial statements when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the revenue is recognized. Unearned revenues arise when resources are received by the District before it has legal claim to them, as when property tax levies, food service revenue, or grant monies are received prior to the incurrence of qualifying expenditures. This type of unearned revenue is recorded on the District’s government-wide and governmental fund financial statements.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is used to account for educational activities, district, instructional and student support programs, expenditures for the superintendent, district administration, normal operations and maintenance, pupil transportation, capital expenditures, and legal school district expenditures not specifically designated to be accounted for in any other fund.

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

The special revenue *community service fund* is used to record all financial activities of the community service program. The community service funds is comprised of five components, each with its own fund balance (community service, community education, early childhood and family education, school readiness, and adult basic education) as authorized in Minnesota State Statutes. The significant revenues in this fund are local taxes, federal aid and state aid.

The District reports the following non-major governmental fund:

The special revenue *food service fund* is used to account for specific revenues that are legally restricted to expenditures for particular purposes.

Additionally, the government reports the following fund types:

The *fiduciary funds* are used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

The *private-purpose trust fund* is used to account for resources legally held in trust by agreements where the School Board has accepted the responsibility to serve as trustee. This fund is used for student scholarships.

The *agency fund* is used to account for the extracurricular student activities, not under board control. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurements of results of operations.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

1. Cash and Investments

Cash balances of the District's funds are combined (pooled) and invested to the extent available in various deposits authorized by Minnesota State Statutes. Each fund shares in the earnings according to its average cash balance. Cash includes amounts in demand deposits, money market accounts, certificates of deposit, as well as short-term investments, with an original maturity date within three months of the date acquired by the District. The District's investments are in MNTrust. MNTrust includes amounts in a money market account and tradable certificates of deposits which are available to service the District's financial needs immediately.

2. Receivables

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, state and federal aids, and revenue from other Minnesota school districts. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible. The District has estimated no amounts are expected to be uncollectible.

On or before September 15th of each year, the School Board certifies to the county auditor the dates it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date. All school districts must hold public hearings on their proposed property tax levies. Also, at this time the School Board certifies its proposed property tax levy to the county auditor for collection in the following year.

Beginning on November 29th and through December 20th of each year, the District is required by State Law to hold its public hearing on its proposed budgets and proposed property tax levies for the taxes payable in the following year. On or before five business days after December 20th, the School Board certifies its final adopted property taxes payable the following year to the county auditor. If the District has not certified its final property tax by this time, its property tax will be the amount levied by it in the preceding 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 January 1 and are recorded as receivables by the District at that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Agricultural land taxes may be paid on May 15 and November 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to Districts three times a year, in January, June, and November.

Property tax revenue is recorded under the intact levy concept whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning with the year of collection. Current taxes receivable represent taxes levied in 2017 which are not payable until 2018 less amounts received before June 30, 2018. Delinquent taxes receivable represent levies collectible during 2017 and prior years. Delinquent taxes are recorded as unearned revenue in the fund financial statements. Taxes levied for subsequent years represent current taxes receivable, which are levied in 2017, but not payable until 2018 and are not expendable by the District until the 2018-2019 school year, adjusted for the property tax shift amount.

3. Inventories, Commodities, and Prepaid Items

All inventories are expended when consumed rather than when purchased and are valued at the lower of cost or market using the first-in first-out (FIFO) method. United States Department of Agriculture commodities received are recorded as revenue at the fair market value of such commodities and included in the food service fund revenue and expenditures when received. Unused commodities at year end are included in inventories of food.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than $1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	50
Plumbing and Electrical	30
Building Improvements Interior, Portable Classrooms, and Fire System	25
Heating and Ventilation System, Long-term Admin Software, Furniture and Fixtures, Outdoor Equipment, Roofing, and Site Improvements	20
Custodial Equipment, Grounds Equipment, Kitchen Equipment, and Machinery and Tools	15
All Other Equipment, Short-term Admin Software, and Long-term Instructional Software	10
Vehicles and Buses	8
Carpet Replacement	7
Computer Hardware, Copiers, Short-term Instructional Software, and Library Books	5

5. 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. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

Bond premiums and discounts are deferred and amortized over the life of the bonds and issuance costs are expensed in the period incurred. In the fund financial statements, governmental fund types recognize premiums received on debt issuances as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Compensated Absences

It is the District's policy to permit employees to accumulate earned but unused vacation benefits. Vacation leave is accrued as a liability and recorded as an expense of those funds as the benefits are earned by the employees.

7. Implementation of GASB Statement No. 75

As of July 1, 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The implementation of this standard improves the usefulness of information about and improves accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). The effect of the implementation of this standard on net position is disclosed in Note 9 and the additional disclosures required by this standard are included in Note 4.

8. Pensions

a. Other Post Employment Benefits

Under the provisions of the various employee contracts the District provides a lump sum payment (maximum $42,000) to retirees if certain criteria are met. The amount to be incurred is limited as specified by contract. All premiums are funded on a pay-as-you-go basis and plan members are not required to contribute. This amount was actuarially determined, in accordance with GASB 73, at July 1, 2017. The plan does not issue a stand-alone financial report. Additional information can be found in Note 5.

b. Defined Benefit 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 PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA.

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 6.

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.

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District has three items that qualify for reporting in this category. They are the contributions made to pension plans and other postemployment benefit plans after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position that applies to a future period and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category. The District reports unavailable revenues from property taxes on the government-wide statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

10. Net Position and Fund Balances

Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District's financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned.

- Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either: a) not in spendable form or b) legally or contractually required to be maintained intact.
- Restricted fund balances represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which is the School Board through an ordinance or resolution. The School board also has the power to rescind committed amounts through an ordinance or resolution.
- Assigned fund balance represents amounts constrained by the District's intent to be used for specific purposes, but neither restricted nor committed. The School Board has the authority to assign a fund balance and the School Board has also delegated the authority to assign fund balances to the superintendent.
- Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The District will strive to maintain a minimum unassigned general fund balance of seven percent of the annual budget. If resources from more than one fund balance classification could be spent, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

E. Inter-Fund Transactions

Quasi-external transactions are accounted for as revenues, expenditures or expenses in the government-wide financial statements and fund financial statements. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Transfers have been removed from the government-wide financial statements.

F. Use of Estimates

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

G. Property Taxes

The majority of district revenue 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. The remaining portion of the taxes collectible in 2017 is recorded as deferred inflows of resources (property taxes levied for subsequent years).

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 general remits taxes to the District at periodic intervals as they are collected. A portion of the property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

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

Note 2 - Stewardship, Compliance, and Accountability

A. Budgetary Information

The District adopts an annual budget for all funds in accordance with Minnesota State Statutes. The budget is prepared on the modified accrual basis of accounting. Before July 1, the proposed budget is presented to the School Board for review. The School Board holds public hearings and a final budget must be prepared and adopted no later than one week after the School Board approves the audited financial statements and has published the final budget in the local newspaper. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal yearend. The actual revenues, expenditures, and transfers for the year ended June 30, 2018, have been compared to the District's budget for the year where applicable. Variances in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Any revisions that alter total expenditures of any fund must be approved by the School Board.

Budgetary control is maintained by fund, at the object of expenditure category level within each program, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (1) adequate funds were appropriated; (2) the expenditure is still necessary; and (3) funds are available. Budgeted amounts are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year end. The School Board made several supplemental budgetary appropriations throughout the year.

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2018, expenditures exceeded appropriations in the general fund by $283,785. These over expenditures were funded by greater than anticipated revenues.

Note 3 - Detailed Notes on All Funds

A. Cash and Investments

1. Cash

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the School Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing the collateral.

Custodial Credit Risk–Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk. As of June 30, 2018, none of the District's bank balances were exposed to custodial credit risk.

2. Investments

As of June 30, 2018, the District had an investment in MNTrust with a value of $2,271,256. MNTrust is a money market account and is available to service the District's financial needs immediately. MNTrust is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool's shares.

Custodial Credit Risk–Investments. The investment in the MNTrust is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40. The District does not have an investment policy for custodial credit risk.

Interest Rate Risk. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The District may invest funds as authorized by Minnesota Statutes Section 118A.04. All funds in MNTrust are invested in accordance with Minnesota Statutes Section 475.66. Each Minnesota School District owns a pro-rata share of each investment which is held in the name of the Funds. The District has no investment policy that would further limit its investment choices. The District's MNTrust accounts were rated AAA by S&P.

Concentration of Credit Risk. The District places no limit on the amount the District may invest in any one issuer. More than 5% of the District's investments are invested in the MNTrust (100.0%).

The following table presents the District's deposit and investment balances at June 30, 2018:

		Investment Maturities (in Years)	
Type	Fair Value	N/A	1 - 5
Cash and cash equivalents			
Minnesota School District Liquid Asset Fund	$ 2,558,355	$ 2,558,355	$ -
Deposits	940,327	940,327	-
Investments			
Certificates of Deposit	25,223	25,223	-
	$ 3,523,905	$ 3,523,905	$ -

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

Cash and investments - Statement of Net Position	$	3,401,028
Cash and investments - Statement of Fiduciary Net Position		122,877
	$	3,523,905

B. Capital Assets

Depreciation expense was charged to functions/programs of the primary government as follows:

Regular instruction	$	631,983
Vocational instruction		196
Special education instruction		216
Instructional support services		75
Pupil support services		14,360
Sites and buildings		5,724
Fiscal and other fixed costs		73,213
Total Depreciation Expense	$	725,767

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, not being Depreciated:				
Land	$ 83,710	$ -	$ 58,710	$ 25,000
Capital Assets, being Depreciated:				
Land improvements	140,214			140,214
Buildings and improvements	24,899,270	130,960	135,789	24,894,441
Equipment	1,894,282	67,517	12,481	1,949,318
Total Capital Assets, being Depreciated	26,933,766	198,477	148,270	26,983,973
Less Accumulated Depreciation for:				
Land improvements	60,976	7,010		67,986
Buildings and improvements	9,088,278	658,794	83,810	9,663,262
Equipment	1,524,334	59,963	12,481	1,571,816
Total Accumulated Depreciation	10,673,588	725,767	96,291	11,303,064
Total Capital Assets, being Depreciated, net	16,260,178	(527,290)	51,979	15,680,909
Governmental Activities Capital Assets, net	$ 16,343,888	$ (527,290)	$ 110,689	$ 15,705,909

C. Long-Term Debt

General Obligation Bonds. The District issued general obligation bonds to provide funds for the improvement and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District and are paid from the debt service fund. General obligation bonds currently outstanding are as follows:

Bond Description	Final Maturities	Annual Installments	Interest Rate	Original Issue	Outstanding Balance
General Obligation School Building Bonds of 2010A	01/15/26	$710,000 - $790,000	1.26%	$ 10,200,000	$ 6,040,000
General Obligation School Building Bonds of 2014A	02/01/29	$55,000 - $895,000	2.0% - 3.13%	3,330,000	3,055,000
General Obligation School Building Bonds of 2014B	02/02/24	$35,000 - $45,000	1.50% - 2.50%	375,000	230,000
				$ 13,905,000	$ 9,325,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

Years Ending June 30,	Governmental Activities Principal	Governmental Activities Interest
2019	$ 810,000	$ 171,760
2020	820,000	160,888
2021	835,000	149,803
2022	845,000	138,479
2023	855,000	126,654
2024 - 2028	4,265,000	441,114
2029	895,000	27,969
Total	$ 9,325,000	$ 1,216,667

Compensated Absences Payable. The liability consists of unused vacation as of June 30, 2018. Vacation expense is recorded in the fund in which the compensated absence was earned. The compensated absences will be liquidated from the same fund from which they were earned.

Changes in Long-Term Debt. During the year ended June 30, 2018, the following changes occurred in liabilities reported in the government-wide financial statements:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Bonds Payable					
General Obligation Bonds Payable	$ 10,125,000	$ -	$ 800,000	$ 9,325,000	$ 810,000
Bond Premium	42,707	-	3,559	39,148	3,559
Bond Discount	(17,116)	-	(3,441)	(13,675)	(3,441)
Total Bonds Payable	10,150,591	-	800,118	9,350,473	810,118
Compensated Absences Payable	44,980	93,397	86,060	52,317	-
	$ 10,195,571	$ 93,397	$ 886,178	$ 9,402,790	$ 810,118

Legal Debt Margin. Minnesota State Statutes do not allow net debt (as defined in Minn. Stat. Para. 475.51 subd. 4) to exceed 15 percent of the actual market value of all taxable property within the District. The District's market value per the School Tax Report 2017 Payable 2018 was $715,916,000.

D. Fund Balances

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

The following is a summary of fund balances as of June 30, 2018:

	General	Community Service	Debt Service	Nonmajor Food Service	Totals
Nonspendable					
Inventories	$ -	$ -	$ -	$ 14,179	$ 14,179
Prepaid items	10,096	225	-	-	10,321
Total nonspendable	10,096	225	-	14,179	24,500
Restricted					
Operating capital	26,902	-	-	-	26,902
Disabled accessibility	1,078	-	-	-	1,078
Long-term facilities maintenance	77,761	-	-	-	77,761
Medical assistance	69,252	-	-	-	69,252
Community education	-	266,821	-	-	266,821
ECFE	-	69,459	-	-	69,459
School readiness	-	87,864	-	-	87,864
Community service	-	57,272	-	-	57,272
Debt service	-	-	192,867	-	192,867
Food service	-	-	-	104,702	104,702
Total restricted	174,993	481,416	192,867	104,702	953,978
Unassigned	1,544,197		-	-	1,544,197
Total fund balance	$ 1,729,286	$ 481,641	$ 192,867	$ 118,881	$ 2,522,675

The Uniform Financial Accounting and Reporting Standards (UFARS) fund balance reporting standards are slightly different than the reporting standards under GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions.* Below is a reconciliation between the fund balances reported following GASB standards and UFARS reporting standards:

	GASB Balance	Reconciling Transfer	UFARS Balance
Nonspendable			
Inventories	$ 14,179	$ -	$ 14,179
Prepaid items	10,321	-	10,321
Total Nonspendable	24,500	-	24,500
Restricted			
Health and safety	-	(12,793)	(12,793)
Operating capital	26,902	-	26,902
Disabled accessibility	1,078	-	1,078
Long-term facilities maintenance	77,761	-	77,761
Medical assistance	69,252		69,252
Community education	266,821		266,821
ECFE	69,459	-	69,459
School readiness	87,864	-	87,864
Community service	57,272	-	57,272
Debt service	192,867	-	192,867
Food service	104,702	-	104,702
Total Restricted	953,978	(12,793)	941,185
Unassigned	1,544,197	12,793	1,556,990
Total Fund Balances	$ 2,522,675	$ -	$ 2,522,675

Note 4 - Other Postemployment Benefits

A. Plan Description

All employees are allowed, upon meeting the eligibility requirements under Minn. Stat. 471.61 subd, 2b, to participate in the District's health insurance plan after retirement. This plan covers active and retired employees. Benefit provisions are established through negotiations between the District and the union representing District employees and are renegotiated at the end of each contract period. The implicit rate subsidy is only until Medicare eligibility. The retiree health plan does not issue a publicly available financial report. Contract groups receive other post-retirement benefits as follows:

- *Teachers*- For retirees reaching age 55 with 10 years of service and a hire date prior September 1, 2009. The District will pay the Board Contribution for medical insurance coverage for 10 years or Medicare eligibility, whichever is earlier. For retirees reaching age 55 with 10 years of service, the District will pay $20.20 towards dental insurance.

- *District Office Confidential Employees*- For retirees with 10 years of service, the District will pay a percentage of the employee's annual salary for medical coverage. This percentage is based on a sliding scale based on years of service (10 years of service- 16%, 15 years of service- 38% and 20 years of service -52%.) Payments are paid in a lump sum to a Health Care Savings Plan.

B. Benefits Provided

The contract groups have access to other post-retirement benefits of blended medical premiums of $670 for single and $1,998 for family coverage. There are no subsidized post-employment life insurance benefits.

C. Employees Covered by Benefit Terms

At the valuation date of July 1, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	21
Spouses receiving payments	2
Active employees	111
	134

D. Total OPEB Liability

The District's total OPEB liability of $1,569,456 was measured as of July 1, 2017, and the total OPEB liability used to calculate the total OPEB liability was determined by an actuarial valuation as of that date.

E. Actuarial Assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.00 percent
Discount rate	3.40 percent
Healthcare cost trend rates	6.50 percent as of July 1, 2017 grading to 5.00% over 6 years
Dental cost trend rates	4.00 percent
Retiree plan participation	
Future retirees electing coverage:	
Pre-65 subsidy available	100%
Pre-65 subsidy not available	50%
Percent of married retirees electing spouse subsidy available:	
Teachers	50%
All others	100%
spouse subsidy not available	10%

Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-Year Municipal Bond Yield.

Mortality rates were based on the RP-2014 White Collar Mortality Tables (de-trended to 2006) and then projected beyond the valuation date using scale MP-2016.

The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study as of July 1, 2017.

F. Changes in Total OPEB Liability

Balance at June 30, 2017	$ 1,723,757
Changes from the Prior Year:	
Service Cost	54,658
Interest Cost	56,000
Benefit Payments	(264,959)
Net Change	(154,301)
Balance at June 30, 2018	$ 1,569,456

G. Sensitivity of the Total OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower and 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount rate	2.40%	3.40%	4.40%
Total OPEB Liability	$ 1,648,295	$ 1,569,456	$ 1,493,194

The following represents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a healthcare cost trend rate 1 percentage point lower and 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease in Healthcare Trend Rate	Selected Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
Total OPEB Liability	$ 1,503,237	$ 1,569,456	$ 1,647,012
Medical 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
Dental trend rate	N/A	N/A	N/A

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

For the year ended June 30, 2018, the District recognized OPEB expense of $110,658. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made after the measurement date	$ 230,934	$ -

$230,934 reported as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019.

Note 5 - Supplemental Benefit Plans

A. Plan Description

The District provides a defined contribution supplemental pension benefit to certain eligible employees and report them following the guidance of GASB Statement No. 73. All of the pension benefits are based on contractual agreements that are ratified by the approval of School Board and are between the District and employee groups. Contract groups receive other supplement benefits as follows:

Benefit 1:

Teachers – For retirees that reach 55 years of age and 10 years of service, the District will make an early retirement incentive payment based on the pay scale below. This payment is made monthly for two years subsequent to retirement.

Payment made based on pay scale: (Monthly for two years)	
BA	$ 63
BA + 15	125
BA + 30	188
BA + 45	250
BA + 60	313
MA	375
MA + 15	438
MA + 30	500
MA + 45	563
MA + 60	625

Non-Certified Employees – Do not receive Benefit 1 for early retirement incentive

All Other Employees – One retired Principal receives the same benefit as Teachers, all others do not receive Benefit 1 for early retirement incentive.

Benefit 2:

Teachers – For retirees reaching 55 years of age and 10 years of service and hired prior to July 1, 1994, the District will make a severance payment per the schedule below:

Teachers:	
With 8-14 years of service before July 1, 2002	$ 8,000
With 15-21 years of service before July 1, 2002	20,000
With 25+ years of service before July 1, 2002	25,000

Minus accumulated District contributions to the Matching Annuity Program

Years of Service	Amount
0 - 7	$ 100
8 - 14	500
15 - 21	1,000
22 +	1,500
Up to a lifetime maximum of	25,000

Non-Certified Employees – For retirees reaching 50 years of age and 15 years of service and hired prior to July 1, 1998, the District will make a severance payment per the schedule below, not to exceed 50% of annual salary.

Non-certified EE's
With 15 years of service: 36% of annual salary
With 20 years of service: 50% of annual salary
Minus accumulated District contributions to the Matching Annuity Program

Years of Service	Amount
0 - 5	$ -
6 - 10	300
11 - 15	350
16 - 20	400
21 +	450

B. Employees Covered by Benefit Terms

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	5
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	82
	87

C. Contributions

At July 1, 2017, the District reported its deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Liability losses	$ 6,740	$ -
Changes in assumptions	7,245	-
District's contributions subsequent to the measurement date	39,603	-
Total	$ 53,588	$ -

For the year ended June 30, 2018, the District recognized pension expense of $22,256.

$39,603 reported at deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date with be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions with be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2019	$ 811
2020	811
2021	811
2022	811
2023	811
Thereafter	3,190

D. Supplemental Benefits Liability

The District’s supplemental benefits liability was measured as of July 1, 2017.

Since the last actuarial valuation as of July 1, 2015, the following actuarial assumptions have changed:

- The mortality table was updated from RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.
- The discount rate was changed from 2.90% to 3.40%.

E. Actuarial Assumptions

The supplemental benefits liability in the June 30, 2018 actuarial valuation was determined using a measurement date of July 1, 2017, an actuarial valuation date of July 1, 2017. The actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.00 percent
Discount Rate	3.40 percent
20-Year Municipal Bond Yield	3.40 percent

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.

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

F. Discount Rate

The discount rate used to measure the supplemental benefits liability was 3.40 percent. The projection of cash flows used to determine the discount rate assumed that the District contributions will be made at rates equal to the actuarially determined contribution rates.

G. Changes in the Supplemental Benefits Liability

Service cost	$ 13,975
Interest cost	8,281
Assumption changes	(7,229)
Plan changes	(1,698)
Differences between expected and actual experience	7,302
Supplemental benefits cost	20,631
Benefit payments	(50,973)
Change in supplemental benefits obligation	(30,342)
Supplemental benefits liability, beginning of year	296,872
Supplemental benefits liability, end of year	$ 266,530

There are no assets accumulated in a trust to be used for the supplemental benefits liability.

H. Sensitivity of the Supplemental Benefits Liability to Changes in Discount Rate

The following presents the supplemental benefits liability of the District, as well as what the District's supplemental benefits liability would be if it were calculated using a discount rate 1 percentage point lower and 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount rate	2.40%	3.40%	4.40%
Supplemental Benefits Liability	$ 280,410	$ 266,530	$ 253,069

Note 6 - Defined Benefit Pension Plans

Substantially all employees of the Districts are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis. Disclosures relating to these plans follow:

1. Public Employees Retirement Association (PERA)

A. Plan Description

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

All full-time and certain part-time employees of the District, other than teachers, are covered by General Employees Retirement Fund (GERF). GERF members belong the Coordinated Plan. Coordinated Plan members are covered by Social Security. All new members must participate in the Coordinated Plan.

B. Benefits Provided

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

GERF benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7 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 66.

Benefit recipients will receive a future annual increase equal to 50 percent of the Social Security Cost of Living Adjustment, not less than 1.0 percent and not more than 1.5 percent, beginning January 1, 2019. For retirements on or after January 1, 2024, the first benefit increase is delayed until the retiree reaches Normal Retirement Age (not applicable to Rule of 90 retirees, disability benefit recipients, or survivors). A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30 will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30 will receive a pro rata increase.

C. Contribution Rate

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2018. The District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the GERF for the year ended June 30, 2018, were $75,507. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

At June 30, 2018, the District reported a liability of $989,510 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $12,419. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was 0.0155% which was a decrease of 0.0011% from the prior year.

For the year ended June 30, 2018, the District recognized pension expense of $18,259 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional $359 as pension expense (and grant revenue) for it 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 General Employees Plan's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 32,611	$ 69,046
Changes in actuarial assumptions	175,939	99,198
Difference between projected and actual investment earnings	21,221	-
Change in proportion and differences between contributions made and District's proportionate share of contributions	-	133,131
District's contributions to GERF subsequent to the measurement date	75,507	-
Total	$ 305,278	$ 301,375

$75,507 reported at deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date with be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions with be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2019	$ 6,896
2020	22,225
2021	(41,976)
2022	(58,749)
2023	-

E. Actuarial Assumptions

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

Assumptions	GERF
Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50% per year

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan and Correctional Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years.

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

The following changes in actuarial assumptions occurred in 2017:

General Employee fund

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

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

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

F. Discount Rate

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

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate disclosed in the preceding paragraph, as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate one percent lower and one percent 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	$ 1,534,803	$ 989,510	$ 543,088

H. Pension Plan Fiduciary Net Position

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

2. Teachers Retirement Association (TRA)

A. Plan Descriptions

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

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

B. Benefits Provided

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

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

Tier 1 Benefits

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

With these provisions:

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

or

Tier II Benefits

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

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

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

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

C. Contribution Rate

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2015, 2017 and June 30, 2018 were:

	Employees	Employers
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

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

Employer contributions reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position	$ 367,791,000
Add employer contributions not related to future contribution efforts	810,000
Deduct TRA's contributions not included in allocation	(456,000)
Total employer contributions	368,145,000
Total non-employer contributions	35,588,000
Total contributions reported in *Schedule of Employer and Non-Employer Allocations*	$ 403,733,000

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

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation date	July 1, 2017
Experience study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	5.12%, from the Single Equivalent Interest Rate calculation
Price inflation	2.50%
Wage growth rate	2.85% for 10 years and 3.25%, thereafter
Projected salary increase	2.85 to 8.85% for 10 years and 3.25 to 9.25%, thereafter
Cost of living adjustment	2.00%
Mortality assumptions	
Pre-retirement:	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability:	RP-2014 disabled retiree mortality table, without adjustment.

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

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

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

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The "Difference Between Expected and Actual Experience," "Changes of Assumptions," and "Changes in Proportion" use the amortization period of 6 years in the schedule presented. The amortization period for "Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of 5 years as required by GASB 68.

E. Discount Rate

The discount rate used to measure the total pension liability was 5.12 percent. This is a decrease 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 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 was applied to periods before 2052 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. Based on Fiduciary Net Position at prior year measurement date, the discount rate 4.66 percent was used and it was not necessary to calculate the SEIR.

F. Net Pension Liability

At June 30, 2018, the District reported a liability of $17,506,511 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on The District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.0905% at the end of the measurement period and 0.0877% for the beginning of the year.

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

District's proportionate share of net pension liability	$ 17,506,511
State's proportionate share of the net pension liability associated with the district	$ 1,692,691

For the year ended June 30, 2018, the District recognized pension expense of $345,957. It also recognized $32,465 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 3,101	$ 122,949
Changes in actuarial assumptions	9,827,148	2,452,386
Difference between projected and actual investment earnings	219,318	-
Change in proportion and differences between contributions made and District's proportionate share of contributions	-	693,262
District's contributions to TRA subsequent to the measurement date	369,446	-
Total	$ 10,419,013	$ 3,268,597

The $369,446 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2019	$ 2,013,750
2020	2,013,750
2021	1,857,732
2022	1,522,020
2023	(626,282)

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 5.12% as well as the liability measured using one percent lower and one percent higher:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
TRA discount rate	4.12%	5.12%	6.12%
District's proportionate share of the TRA net pension liability	$ 23,105,221	$ 17,506,511	$ 12,786,117

The Central Public Schools ISD #108's proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA's total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis and Minneapolis School District.

H. Pension Plan Fiduciary Net Position

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

Note 7 - 403(b) Plan

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the "Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Some employees are eligible to receive a match of employee contributions up to the qualifying amounts set forth in their Wage and Benefit Guidelines. Contributions are invested in tax deferred annuities hosted by a vendor from whom the District has obtained. The District's contributions for the years ended June 30, 2018, 2017, and 2016, were $48,993, $49,830, and $50,123, respectively. The related employee contributions were $92,192, $96,211, and $105,851, for the years ended June 30, 2018, 2017, and 2016, respectively.

Note 8 - Other Information

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters; and workers' compensation for which the District has joined together with other governments (school districts) in self-insured insurance plans and public entity risk pools.

The District continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Contingent Liabilities

The District participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant. Based on past experience, the District believes that any disallowed costs as a result of such audits will be immaterial.

C. Affiliated Organization

Southwest Metro Educational Cooperative (SMEC) is an affiliated organization comprised of nine member districts to provide specialized services to the participating school districts. Separate financial statements of the affiliated organization may be obtained from the SMEC. The District had purchases from SMEC of $207,512 for the year ended June 30, 2018, and a balance due to SMEC of $77,732 at June 30, 2018. The SMEC is not experiencing financial difficulties and is not anticipated to be a burden on the District.

Note 9 - Adoption of New Standard

As of July 1, 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments calculate and report the cost and obligations associated with other postemployment benefits other than pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position for governmental activities was restated to retroactively remove the prior OPEB asset reported under GASB Statement No. 45 and adopt the provisions of GASB Statement No. 75 to report the beginning total OPEB liability as follows:

Net Deficit - June 30, 2017, as previously reported	$	(914,836)
Remove previously reported OPEB asset previously reported under GASB Statement No. 45		(100,481)
Add total OPEB liability under GASB Statement No. 75 at June 30, 2017		(1,723,757)
Net Deficit - July 1, 2017, as restated	$	(2,739,074)

Note 10 - Interfund Transfers

During the year, the District made a transfer of $561 from the food service fund to the general fund for the purpose of covering uncollectible accounts.

Note 11 - Issued But Non-Effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. The first statement issued but not yet implemented that will significantly affect the District is Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. This statement will be implemented at the District in the year ended June 30, 2019.

The second statement issued but not yet implemented that will significantly affect the District is Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. This statement will be implemented at the District in the year ended June 30, 2020.

The third statement issued but not yet implemented that will significantly affect the District is Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This statement will be implemented at the District in the year ended June 30, 2021.

The final statement issued but not yet implemented that will significantly affect the District is Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period. This statement will be implemented at the District in the year ended June 30, 2021.

Management has not yet determined the effect these pronouncements will have on the District's financial statements.

Required Supplementary Information
June 30, 2018

Independent School District No. 108
Norwood Young America, Minnesota

Schedule of Changes in the District's Total OPEB Liability and Related Ratios, Last 10 Fiscal Years*

	2018
Service cost	$ 54,658
Interest	56,000
Benefit payments	(264,959)
Net change in total OPEB liability	(154,301)
Total OPEB liability - beginning	1,723,757
Total OPEB liability - ending	$ 1,569,456
Covered-employee payroll	$ 5,455,389
Total OPEB liability as a percentage of covered-employee payroll	28.77%

Notes to the Schedule of Changes in the District's Total OPEB Liability and Related Ratios

- No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

*GASB Statement No. 75 requires ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Schedule of Changes in Supplemental Benefits Liability
Last 10 Fiscal Years *

	2018	2017
Supplemental benefits liability, beginning of year	$ 296,872	$ 325,036
Service cost	13,975	16,177
Interest cost	8,281	10,832
Assumption changes	(7,229)	8,857
Plan changes	(1,698)	-
Employer contributions	-	-
Projected investment return	7,302	-
Differences between expected and actual experience	-	-
Benefit payments	(50,973)	(64,030)
Administrative expenses	-	-
Other changes	-	-
Supplemental benefits liability, end of year	$ 266,530	$ 296,872

Schedule of Supplemental Benefits Liability
Last 10 Fiscal Years *

	2018	2017
Supplemental benefits liability	$ 266,530	$ 296,872
Covered-employee payroll	$ 4,264,982	$ 5,719,467
Supplemental benefits liability as a percentage of covered-employee payroll	6.25%	5.19%

There are no assets accumulated in an irrevocable trust to pay plan benefits.

* GASB Statement No. 73 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Schedule of Employer's Share of Net Pension Liability
Last 10 Fiscal Years *

Pension Plan	Measurement Date	District's Proportion (Percentage) of the Net Pension Liability (Asset)	District's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b)	Total (d) (a+b)	District's Covered - Payroll (e)	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of it's Covered - Payroll (a/e)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	06/30/17	0.0155%	$ 989,510	$ 12,419	$ 1,001,929	$ 996,533	99.3%	75.9%
	06/30/16	0.0166%	1,347,838	17,586	1,365,424	1,056,773	127.5%	68.9%
	06/30/15	0.0176%	912,123	N/A	912,123	1,015,987	89.8%	78.2%
	06/30/14	0.0197%	925,407	N/A	925,407	1,036,762	89.3%	78.8%
TRA	06/30/17	0.0877%	$ 17,506,511	$ 1,692,691	$ 19,199,202	$ 4,722,933	370.7%	51.6%
	06/30/16	0.0905%	21,586,409	2,167,064	23,753,473	4,711,507	458.2%	44.9%
	06/30/15	0.0915%	5,660,180	694,117	6,354,297	4,646,493	121.8%	76.8%
	06/30/14	0.0994%	4,580,280	322,239	4,902,519	4,625,216	99.0%	81.5%

Schedule of Employer's Contributions
Last 10 Fiscal Years *

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered - Payroll (d)	Contributions as a Percentage of Covered - Payroll (b/d)
PERA	06/30/18	$ 75,507	$ 75,507	$ -	$ 1,006,760	7.5%
	06/30/17	74,740	74,740		996,533	7.5%
	06/30/16	79,258	79,258	-	1,056,773	7.5%
	06/30/15	76,199	76,199	-	1,015,987	7.5%
TRA	06/30/18	$ 369,446	$ 369,446	$ -	$ 4,925,947	7.5%
	06/30/17	354,220	354,220	-	4,722,933	7.5%
	06/30/16	353,363	353,363	-	4,711,507	7.5%
	06/30/15	348,487	348,487	-	4,646,493	7.5%

* GASB Statement No. 68 requires ten years of information to be presented in these tables. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

- PERA's CAFR may be obtained on the PERA's website at www.mnpera.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.
- TRA's CAFR may be obtained on the PERA's website at www.MinnesotaTRA.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.

	Budgeted Amounts		Actual	Variance With
	Original	Final	Amounts	Final Budget
Revenues				
Local property tax levies	$ 1,440,681	$ 1,440,681	$ 1,443,976	$ 3,295
Other local and county sources	225,347	225,767	357,007	131,240
State sources	8,378,518	8,278,518	8,529,587	251,069
Federal sources	415,445	344,487	311,119	(33,368)
Local sales and insurance recovery	1,700	1,700	700	(1,000)
Total revenues	10,461,691	10,291,153	10,642,389	351,236
Expenditures				
Administration	799,227	799,212	767,383	31,829
District support services	303,192	303,191	304,456	(1,265)
Regular instruction	4,900,505	5,033,469	5,193,646	(160,177)
Vocational instruction	88,409	110,676	155,515	(44,839)
Special education instruction	1,825,156	1,783,393	1,616,122	167,271
Instructional support services	289,245	290,524	361,809	(71,285)
Pupil support services	801,671	796,423	855,959	(59,536)
Sites and buildings	1,099,922	1,079,922	1,223,990	(144,068)
Fiscal and other fixed cost programs	50,000	50,000	51,715	(1,715)
Total expenditures	10,157,327	10,246,810	10,530,595	(283,785)
Excess (deficiency) of revenues over (under) expenditures	304,364	44,343	111,794	67,451
Other Financing Sources (Uses)				
Sale of equipment	-	-	14,725	14,725
Operating transfers out	-	-	(561)	(561)
Total Other Financing Sources (Uses)	-	-	14,164	14,164
Net Change in Fund Balances	$ 304,364	$ 44,343	125,958	$ 81,615
Fund Balances - Beginning			1,603,328	
Fund Balances - Ending			$ 1,729,286	

1. Budgetary Information

The District adopts an annual budget for all funds in accordance with Minnesota State Statutes. The budget is prepared on the modified accrual basis of accounting. Before July 1, the proposed budget is presented to the School Board for review. The School Board holds public hearings and a final budget must be prepared and adopted no later than one week after the School Board approves the audited financial statements and has published the final budget in the local newspaper. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year-end. The actual revenues, expenditures, and transfers for the year ended June 30, 2018, have been compared to the District's budget for the year where applicable. Variances in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Any revisions that alter total expenditures of any fund must be approved by the School Board.

Budgetary control is maintained by fund, at the object of expenditure category level within each program, and in compliance with State requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (1) adequate funds were appropriated; (2) the expenditure is still necessary; and (3) funds are available. Budgeted amounts are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year end. The School Board made several supplemental budgetary appropriations throughout the year.

2. Excess of Expenditures over Appropriations

For the year ended June 30, 2018, expenditures exceeded appropriations (the legal level of budgetary control) in the general fund by $283,785. These over expenditures were funded by greater than anticipated revenues.

Supplementary Information
June 30, 2018

Independent School District No. 108

Norwood Young America, Minnesota

Activity Account	Beginning Balance	Receipts	Disbursements	Ending Balance
Band	$ 416	$ 6,037	$ 5,964	$ 489
C-Club	4,204	-	3,433	771
Baseball	4,919	12,711	15,040	2,590
Cheerleading	707	2,286	1,896	1,097
Cross Country	4,001	10,695	8,963	5,733
Dance	361	1,106	861	606
Golf	1,117	-	-	1,117
Speech	1,854	3,070	3,700	1,224
Track	3,711	1,471	1,097	4,085
Volleyball	3,828	2,550	2,118	4,260
Choir	330	5,867	5,965	232
Class of 2018	4,806	378	5,184	-
Class of 2019	737	13,512	11,625	2,624
Class of 2020	350	780	151	979
Class of 2021	-	618	40	578
Drama	2,607	4,424	141	6,890
DCD Program	-	262	147	115
Elem Student Council	20,463	23,805	24,940	19,328
Elem Fall Festival	483	747	489	741
Elem Field Day	1,185	-	-	1,185
Elem Field Trip	424	10,108	10,532	387
Elem Media	4,343	5,224	6,056	3,511
Elem Yearbook	6,631	2,368	2,292	6,707
FFA	780	32,858	31,145	2,493
FCCLA	1,780	-	-	1,780
H.S. Science	366	-	-	366
H.S. Yearbook	6,168	10,635	10,335	6,468
Interest	10	163	173	-
International	73	1,598	1,044	627
M.S. St. Council	12,956	7,447	10,493	9,910
M.S. Student Recognition	271	-	271	-
M.S. Yearbook	247	-	42	205
Misc.	347	362	358	351
N.H.S.	1,696	1,991	2,292	1,395
SSSR	262	2,103	515	1,850
Student Council	4,595	5,885	8,361	2,119
Student R.A.K.	3,813	1,195	1,801	3,207
	$ 100,841	$ 172,256	$ 177,464	$ 96,020

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Minnesota Legal Compliance

Members of the School Board
Independent School District No. 108
Norwood Young America, 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 Independent School District No. 108 as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated November 21, 2018.

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

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

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

Eide Bailly LLP

Mankato, Minnesota
November 21, 2018

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	Audit	UFARS	Audit - UFARS
01 GENERAL FUND			
Total Revenue	$10,642,389	$10,642,389	$0
Total Expenditures	$10,530,595	$10,530,597	($2)
Non Spendable:			
4.60 Non Spendable Fund Balance	$10,096	$10,096	$0
Restricted / Reserved:			
4.03 Staff Development	$0	$0	$0
4.06 Health and Safety	($12,793)	($12,793)	$0
4.07 Capital Projects Levy	$0	$0	$0
4.08 Cooperative Revenue	$0	$0	$0
4.13 Project Funded by COP	$0	$0	$0
4.14 Operating Debt	$0	$0	$0
4.16 Levy Reduction	$0	$0	$0
4.17 Taconite Building Maint	$0	$0	$0
4.24 Operating Capital	$26,902	$26,902	$0
4.26 $25 Taconite	$0	$0	$0
4.27 Disabled Accessibility	$1,078	$1,078	$0
4.28 Learning & Development	$0	$0	$0
4.34 Area Learning Center	$0	$0	$0
4.35 Contracted Alt. Programs	$0	$0	$0
4.36 State Approved Alt. Program	$0	$0	$0
4.38 Gifted & Talented	$0	$0	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.41 Basic Skills Programs	$0	$0	$0
4.45 Career Tech Programs	$0	$0	$0
4.48 Achievement and Integration	$0	$0	$0
4.49 Safe School Crime - Crime Levy	$0	$0	$0
4.50 Pre-Kindergarten	$0	$0	$0
4.51 QZAB Payments	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
4.53 Unfunded Sev & Retiremt Levy	$0	$0	$0
4.59 Basic Skills Extended Time	$0	$0	$0
4.67 LTFM	$77,761	$77,761	$0
4.72 Medical Assistance	$69,252	$69,252	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
4.75 Title VII Impact Aid	$0	$0	$0
4.76 Payments in Lieu of Taxes	$0	$0	$0
Committed:			
4.18 Committed for Separation	$0	$0	$0
4.61 Committed Fund Balance	$0	$0	$0
Assigned:			
4.62 Assigned Fund Balance	$0	$0	$0
Unassigned:			
4.22 Unassigned Fund Balance	$1,556,990	$1,556,988	$2
02 FOOD SERVICES			
Total Revenue	$500,759	$500,759	$0
Total Expenditures	$528,459	$528,461	($2)
Non Spendable:			
4.60 Non Spendable Fund Balance	$14,179	$14,179	$0
Restricted / Reserved:			
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$104,702	$104,702	$0
Unassigned:			
4.63 Unassigned Fund Balancee	$0	$0	$0
04 COMMUNITY SERVICE			
Total Revenue	$988,420	$988,420	$0
Total Expenditures	$887,594	$887,595	($1)
Non Spendable:			
4.60 Non Spendable Fund Balance	$225	$225	$0
Restricted / Reserved:			
4.26 $25 Taconite	$0	$0	$0
4.31 Community Education	$266,821	$266,821	$0
4.32 E.C.F.E	$69,459	$69,459	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.44 School Readiness	$87,864	$87,864	$0
4.47 Adult Basic Education	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$57,272	$57,271	$1
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

	Audit	UFARS	Audit - UFARS
06 BUILDING CONSTRUCTION			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.07 Capital Projects Levy	$0	$0	$0
4.13 Project Funded by COP	$0	$0	$0
4.67 LTFM	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0
07 DEBT SERVICE			
Total Revenue	$1,033,992	$1,033,992	$0
Total Expenditures	$987,606	$987,606	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.25 Bond Refundings	$0	$0	$0
4.33 Maximum Effort Loan Aid	$0	$0	$0
4.51 QZAB Payments	$0	$0	$0
4.67 LTFM	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$192,867	$192,866	$1
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0
08 TRUST			
Total Revenue	$3,828	$3,828	$0
Total Expenditures	$1,850	$1,850	$0
4.22 Unassigned Fund Balance (Net Assets)	$26,857	$26,857	$0
20 INTERNAL SERVICE			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0
25 OPEB REVOCABLE TRUST			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0
45 OPEB IRREVOCABLE TRUST			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0
47 OPEB DEBT SERVICE			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted:			
4.25 Bond Refundings	$0	$0	$0
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

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

Members of the School Board
Independent School District No. 108
Norwood Young America, 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. 108 (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 November 21, 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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of District's internal control.

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying summary of findings to be material weaknesses: 2018-A, 2018-B, and 2018-C.

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.

Compliance and Other Matters

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

District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying summary of audit findings and the District's Corrective Action Plan, which is contained in a separate document. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Eide Bailly LLP

Mankato, Minnesota
November 21, 2018

EideBailly
CPAs & BUSINESS ADVISORS

Independent Auditor's Report on Compliance over
Financial Reporting of the Student Activity Accounts

The School Board of
Independent School District No. 108
Norwood Young America, Minnesota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 108, Central Public Schools (District) for the year ended June 30, 2018, and have issued our report thereon dated November 21, 2018. 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, and the provisions of the Manual for Activity Fund Accounting (MAFA).

Compliance
As part of obtaining reasonable assurance about whether the District's student activity accounts are free of material misstatement, we performed tests of the District's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of student activity 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 the following instance of noncompliance or other matters that is required to be reported under the Manual for Activity Fund Accounting: 2018-D, 2018-E, 2018-F as described in the accompanying summary of audit findings.

Response to Finding
The District's response to the findings identified in our audit are described in the accompanying summary of audit findings and the District's Corrective Action Plan, which is contained in a separate document. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the School Board, and the Minnesota Department of Education and other state agencies and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Mankato, Minnesota
November 21, 2018

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Section I – Financial Statement Findings

2018-A **Segregation of Duties**
Material Weakness

Criteria: A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Condition: The District has a lack of segregation of duties in certain areas due to limited staff. The District has limited segregation of duties in many accounting and financial reporting internal control areas. The areas involved are receipts and receivables, disbursements and payables, payroll, deposits, and reconciliations of these areas.

Cause: The District does not have the economic resources to hire additional qualified accounting staff in order to segregate duties.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions. School Board oversight will mitigate some of the effect.

Recommendation: While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District.

Views of Responsible Officials: There is no disagreement with this audit finding.

**2018-B Preparation of Financial Statements
Material Weakness**

Criteria: A good system of internal control contemplates an adequate system for drafting of the financial statements.

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we are requested to draft the financial statements, accompanying notes to the financial statements, and certain required supplementary information.

Cause: The District does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to draft financial statements.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: This control deficiency is not unusual in a District of your size. It is the responsibility of the management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Views of Responsible Officials: There is no disagreement with this audit finding.

**2018-C Significant Journal Entries
Material Weakness**

Criteria: A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

Condition: During the course of our engagement, we proposed material audit adjustments to the trial balance that would not have been identified as a result of the District's existing internal controls.

Cause: The District does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to make all of the necessary year-end adjustments to the trial balance.

Effect: This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

Views of Responsible Officials: There is no disagreement with this audit finding.

Section II – Minnesota Legal Compliance Findings

None reported

Section III – Student Activity Findings

2018-D Lack of Proper Authorization for Expenditures

Criteria: The Minnesota Department of Education requires compliance with the MAFA manual for financial management of student activity accounts not under board control. Per the MAFA, page 15, check requests must be approved by a student representative, the advisor, and the building principal.

Condition: During the course of our engagement, we discovered one instance where the advisor's approval was not obtained for a student activity expenditure.

Cause: The District did not follow the requirements for student activity expenditures not under board control.

Effect: This control deficiency could allow improper use of student activity funds.

Recommendation: The District should review the MAFA guidelines for student activity expenditures not under board control.

Views of Responsible Officials: Management agrees with this finding.

2018-E Lack of Proper Documentation and Authorization for Deposits

Criteria: The Minnesota Department of Education requires compliance with the MAFA manual for financial management of student activity accounts not under board control. Per the MAFA, page 19, there should be proper supporting documentation for all deposits including signatures of the student representative, advisor and/or individual counting funds.

Condition: During the course of our engagement, we discovered for all deposits tested there was no formal documentation or approval retained.

Cause: The District did not follow the requirements for student activity deposits not under board control.

Effect: This control deficiency could allow improper use of student activity funds.

Recommendation: The District should review the MAFA guidelines for student activity deposits not under board control.

Views of Responsible Officials: Management agrees with this finding.

2018-F Inactive Accounts with Remaining Balances

Criteria: The Minnesota Department of Education requires compliance with the MAFA manual for financial management of student activity accounts not under board control. Per the MAFA, page 18, any student activity account with no activity throughout the year, but having balances, need to be disposed of if they are inactive for a maximum of one year unless there is a plan submitted by the advisor and signed by the principal as to why it is inactive and should not be closed.

Condition: During the course of our engagement, we discovered multiple inactive accounts with remaining balances for which there was no plan submitted.

Cause: The District did not follow the requirements for student activity accounts with no activity during the year that had a remaining balance.

Effect: This control deficiency could allow improper use of student activity funds.

Recommendation: The District should review the MAFA guidelines for student activity accounts with no activity to ensure proper treatment and compliance with MAFA guidelines.

Views of Responsible Officials: Management agrees with this finding.