INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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NORTHOME, MINNESOTA
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NORTHOME, MINNESOTA
ROSTER OF SCHOOL OFFICIALS
June 30, 2018

Bob Stueven	Chairperson
Ralph Lewis	Vice-Chairperson
Philip Dreher	Treasurer
Caroline Claybundy	Clerk
Shelly Patten	Director
Teresa Rud	Director
Steven Thomas	Superintendent

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Independent School District No. 363
Northome, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 363, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 363, 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 Note 2 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. As discussed in Note 2 to the financial statements, the District has retroactively restated the previously reported Net Position in accordance with this statement.

Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the District's total OPEB liability and related ratios, schedule of District contributions, schedule of District's share of net pension liability, and notes to required supplementary information as listed in the table of contents as required supplementary information 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 were unable to apply certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America because the District was unable to provide board approved budgets that agreed to the budgets set aside in the District's financial software. We do not express an opinion or provide any assurance on the information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining statements, schedule of changes in fund balances, and compliance table as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements, schedule of changes in fund balances, and compliance table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, schedule of changes in fund balances, and compliance table are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 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.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

October 23, 2018

This section of Independent School District No. 363's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

Financial Highlights

The general fund balance decreased $76,713 during the 2017-2018 school year.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplementary information. 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.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general fund budget for the year, and supplementary information that is presented for additional analysis.

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, liabilities, and deferred inflows/outflows of resources with the difference reported as net position. 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 it has changed. Net position – the difference between the District's assets, liabilities, and deferred inflows/outflows of resources – is one way to measure the District's financial health or *position*.

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

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

- *Governmental activities*: All of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues.

The District has one kind of fund:

Governmental funds: The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental 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, reconciliations have been provided following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance to help explain the relationship (or differences) between governmental funds and governmental activities.

The District maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, both of which are considered to be major funds. Data from the other four governmental funds are combined into a single, aggregated presentation. Individual fund data is provided in the form of combining statements elsewhere in this report.

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was $1,675,978 on June 30, 2018 (see details in Table A-1). This was a decrease of 46.4 percent from the prior year.

Table A-1
Statement of Net Position

	2018	2017	Total Percentage Change
Current and Other Assets	$ 6,233,400	$ 6,216,170	0.3 %
Capital Assets	3,319,073	3,534,108	(6.1)
Total Assets	9,552,473	9,750,278	(2.0)
Deferred Outflows of Resources	4,937,312	6,606,081	(25.3)
Long-Term Liabilities	9,905,995	11,880,238	(16.6)
Other Liabilities	760,475	664,441	14.5
Total Liabilities	10,666,470	12,544,679	(15.0)
Deferred Inflows of Resources	2,147,337	685,270	213.4
Net Position			
Net Investment in Capital Assets	2,388,407	2,426,307	(1.6)
Restricted	651,281	632,243	3.0
Unrestricted	(1,363,710)	67,860	(2,109.6)
Total Net Position	$ 1,675,978	$ 3,126,410	(46.4) %

Change in Net Position

Table A-2 presents the change in net position of the District.

Table A-2
Change in Net Position

	2018	2017	Total Percentage Change
Revenues			
Program Revenues			
Charges for Services	$ 70,984	$ 78,047	(9.0) %
Operating Grants and Contributions	1,242,800	1,220,725	1.8
Capital Grants and Contributions	123,727	70,833	74.7
General Revenues			
Property Taxes	1,281,206	1,125,106	13.9
Unrestricted State Aid	3,365,224	3,168,695	6.2
Other Sources	62,434	75,533	(17.3)
Total Revenues	6,146,375	5,738,939	7.1
Expenses			
Administration	339,943	278,376	22.1
District Support Services	168,549	148,905	13.2
Elementary & Secondary Regular Instruction	3,587,618	3,871,917	(7.3)
Vocational Education Instruction	75,729	87,222	(13.2)
Special Education Instruction	626,061	575,260	8.8
Community Education and Services	107,926	108,562	(0.6)
Instructional Support Services	56,044	57,068	(1.8)
Pupil Support Services	1,261,960	1,282,173	(1.6)
Sites and Buildings	609,871	567,251	7.5
Fixed Costs	46,426	50,831	(8.7)
Interest on Long-Term Debt	21,557	24,998	(13.8)
Depreciation - Unallocated	171,602	171,602	0.0
Total Expenses	7,073,286	7,224,165	(2.1)
Change in Net Position	(926,911)	(1,485,226)	37.6
Net Position - Beginning	3,126,410	4,611,636	(32.2)
Prior Period Adjustment - See Note 2	(259,206)		(100.0)
GASB 75 Adjustment - See Note 2	(264,315)		(100.0)
Net Position - Beginning, Restated	2,602,889	4,611,636	(43.6)
Net Position - Ending	$ 1,675,978	$ 3,126,410	(46.4) %

The District’s total revenues were $6,146,375 for the year ended June 30, 2018. Property taxes and state aid payments accounted for 93 percent of total revenue for the year.

The total cost of all programs and services was $7,073,286. The District's expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position $926,911 over last year. The net effect of the District's deferred inflows and outflows of resources and net pension liability related to TRA and PERA decreased net position by $797,518.

The net cost of governmental activities is their total costs less program revenues applicable to each category.

Table A-3 presents these net costs.

Table A-3
Net Cost of Governmental Activities

	Total Cost of Services		Total Percentage	Net Cost of Services		Total Percentage
	2018	2017	Change	2018	2017	Change
Expenses						
Administration	$ 339,943	$ 278,376	22.1 %	$ 339,024	$ 278,376	21.8 %
District Support Services	168,549	148,905	13.2	168,549	148,905	13.2
Elementary & Secondary						
Regular Instruction	3,587,618	3,871,917	(7.3)	3,239,304	3,398,452	(4.7)
Vocational Education Instruction	75,729	87,222	(13.2)	67,030	70,157	(4.5)
Special Education Instruction	626,061	575,260	8.8	103,433	157,132	(34.2)
Community Education and Services	107,926	108,562	(0.6)	72,375	71,234	1.6
Instructional Support Services	56,044	57,068	(1.8)	18,431	21,974	(16.1)
Pupil Support Services	1,261,960	1,282,173	(1.6)	842,185	930,589	(9.5)
Sites and Buildings	609,871	567,251	7.5	560,534	538,887	4.0
Fixed Costs	46,426	50,831	(8.7)	31,751	42,254	(24.9)
Interest on Long-Term Debt	21,557	24,998	(13.8)	21,557	24,998	(13.8)
Depreciation - Unallocated	171,602	171,602	0.0	171,602	171,602	0.0
	$ 7,073,286	$ 7,224,165	(2.1) %	$ 5,635,775	$ 5,854,560	(3.7) %

Financial Analysis of the District's Funds

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

Table A-4
Major Funds

	Fund Balance			Percentage
	6/30/18	6/30/17	Decrease	Decrease
Governmental Funds				
General	$ 4,940,242	$ 5,016,955	$ (76,713)	(1.5) %
Debt Service Fund	53,308	70,644	(17,336)	(24.5)

General Fund

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

Table A-5 presents a summary of general fund revenue.

Table A-5
General Fund Revenue

	2018	2017	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	$ 1,091,278	$ 911,062	$ 180,216	19.8 %
Interest Earnings	11,119	12,379	(1,260)	(10.2)
Other	58,016	68,768	(10,752)	(15.6)
State Sources	4,354,727	3,999,423	355,304	8.9
Federal Sources	151,636	143,566	8,070	5.6
Other		11,504	(11,504)	(100.0)
Total General Fund Revenue	$ 5,666,776	$ 5,146,702	$ 520,074	10.1 %

Total general fund revenue increased by $520,074 or 10.1 percent from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue.

Table A-6 presents a summary of general fund expenditures.

Table A-6
General Fund Expenditures

	2018	2017	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 3,025,622	$ 2,894,499	$ 131,123	4.5 %
Employee Benefits	839,867	850,082	(10,215)	(1.2)
Purchased Services	1,247,186	1,053,974	193,212	18.3
Supplies and Materials	362,752	300,409	62,343	20.8
Capital Expenditures	109,623	39,680	69,943	176.3
Other Expenditures	43,386	53,196	(9,810)	(18.4)
Total General Fund Expenditures	$ 5,628,436	$ 5,191,840	$ 436,596	8.4 %

Total general fund expenditures increased $436,596 or 8.4 percent from the previous year.

General Fund Budgetary Highlights

The District adopted its original budget in June 2017. During the year ended June 30, 2018, the District revised its budget.

The District's final budget for the general fund anticipated that expenditures and other financing uses would exceed revenues and other financing sources by $995,072, the actual results for the year show a $76,713 deficit. The actual expenditures were less than the budget due to administration monitoring and controlling costs.

Capital Assets and Debt Administration

Capital Assets

Note 4 to the financial statements presents an analysis of capital assets transactions occurring during the year ended June 30, 2018. Additions totaling $74,146 consisted of a floor scrubber, a snow plow, two kitchen ovens, and a vehicle. The District did not dispose of any capital assets.

Long-Term Debt

At year-end, the District had $1,194,304 of long-term debt consisting of bonded indebtedness net of related premiums. Note 7 to the financial statements presents details and payment provisions of these items.

Factors Bearing on the District's Future

At the time these financial statements were prepared and audited, the District was aware of the existing circumstances that could significantly affect its financial health in the future:

- Declining enrollment coupled with inflation will undoubtedly have a negative impact on the District's financial outlook.
- As the building ages, the District expects the cost of maintaining the building to increase significantly over the years.
- Weakening economic conditions in local economy.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administration Offices, Independent School District No. 363, P.O. Box 465, Northome, MN 56661.

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
STATEMENT OF NET POSITION
June 30, 2018

GOVERNMENTAL ACTIVITIES		
ASSETS		
Cash and Investments	$	5,314,917
Property Taxes Receivable, Net of Allowance		197,433
Accounts Receivable		11,771
Due From Other MN School Districts		7,964
Due From Department of Education		664,013
Due From Federal Govt. - DOE		32,838
Inventory		4,464
Capital Assets		
Land		193,500
Other Capital Assets, Net of Depreciation		3,125,573
TOTAL ASSETS		9,552,473
DEFERRED OUTFLOWS OF RESOURCES		
Cost Sharing Defined Benefit Pension Plan		4,868,644
Other Postemployment Benefit		68,668
TOTAL DEFERRED OUTFLOWS OF RESOURCES		4,937,312
LIABILITIES		
Accounts Payable		51,647
Salaries Payable		196,406
Due to Other MN School Districts		153,259
Payroll Deductions		168,007
Interest Payable		9,021
Long-Term Liabilities Due Within One Year		182,135
Long-Term Liabilities		
Bonds, Net Unamortized Premium		930,666
Severance Payable		263,638
Total Other Postemployment Benefit Liability		361,894
Net Pension Liability		8,531,932
Less Amounts Due Within One Year		(182,135)
Total Long-Term Liabilities		9,905,995
TOTAL LIABILITIES		10,666,470
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied - Subs. Years		386,087
Cost Sharing Defined Benefit Pension Plan		1,761,250
TOTAL DEFERRED INFLOWS OF RESOURCES		2,147,337
NET POSITION		
Net Investment in Capital Assets		2,388,407
Restricted		
Long-Term Facilities Maint.		121,281
Operating Capital		193,260
Community Service		2,831
Debt Service		44,284
Building		29,184
Permanent Fund - Nonexpendable		100,000
Permanent Fund - Expendable		160,441
Unrestricted		(1,363,710)
TOTAL NET POSITION	$	1,675,978

The notes to the basic financial statements are an integral part of this statement

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
GOVERNMENTAL ACTIVITIES					
Administration	$ 339,943	$	$	$ 919	$ (339,024)
District Support Services	168,549				(168,549)
Elementary & Secondary Regular Instruction	3,587,618	3,939	319,135	25,240	(3,239,304)
Vocational Education Instruction	75,729		8,699		(67,030)
Special Education Instruction	626,061	5,835	516,793		(103,433)
Community Education and Services	107,926	9,917	25,634		(72,375)
Instructional Support Services	56,044		37,613		(18,431)
Pupil Support Services	1,261,960	51,293	320,251	48,231	(842,185)
Sites and Buildings	609,871			49,337	(560,534)
Fixed Costs	46,426		14,675		(31,751)
Interest on Long-Term Debt	21,557				(21,557)
Depreciation - Unallocated	171,602				(171,602)
TOTAL GOVERNMENTAL ACTIVITIES	$ 7,073,286	$ 70,984	$ 1,242,800	$ 123,727	(5,635,775)

General Revenues	
Taxes	
Property Taxes, Levied for General Purposes	1,093,109
Property Taxes, Levied for Community Education and Services	14,770
Property Taxes, Levied for Debt Services	173,327
Unrestricted State Aid	3,365,224
Unrestricted Investment Earnings	11,119
Gain on Sale of Capital Assets	500
Other General Revenue	50,815
TOTAL GENERAL REVENUES	4,708,864
Change in Net Position	(926,911)
Net Position - Beginning	3,126,410
Prior Period Adjustment - See Note 2	(259,206)
GASB 75 Adjustment - See Note 2	(264,315)
Net Position - Beginning, Restated	2,602,889
Net Position - Ending	$ 1,675,978

The notes to the basic financial statements are an integral part of this statement

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments	$ 4,876,394	$ 139,174	$ 299,349	$ 5,314,917
Current Property Taxes Receivable	89,411	113,030	3,004	205,445
Delinquent Property Taxes Receivable	6,863	7,169	956	14,988
Accounts Receivable	11,716		55	11,771
Due From Other MN School Districts	7,964			7,964
Due From Department of Education	660,323	1,036	2,654	664,013
Due From Federal Govt. - DOE	31,782		1,056	32,838
Due From Other Funds	4,915			4,915
Inventory			4,464	4,464
TOTAL ASSETS	$ 5,689,368	$ 260,409	$ 311,538	$ 6,261,315
LIABILITIES				
Accounts Payable	$ 51,647	$	$	$ 51,647
Salaries Payable	190,419		5,987	196,406
Due To Other MN School Districts	153,259			153,259
Payroll Deductions	168,007			168,007
Due To Other Funds			4,915	4,915
TOTAL LIABILITIES	563,332		10,902	574,234
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue - Delinquent Taxes	6,863	7,169	956	14,988
Property Taxes Levied - Subs. Years	178,931	199,932	7,224	386,087
TOTAL DEFERRED INFLOWS OF RESOURCES	185,794	207,101	8,180	401,075
FUND BALANCES				
Fund Balance:				
Nonspendable: Inventory			4,464	4,464
Nonspendable: Scholarships			100,000	100,000
Restricted for Long-Term Facilities Maint.	121,281			121,281
Restricted for Operating Capital	193,260			193,260
Restricted for Community Service			2,831	2,831
Restricted for Debt Service		53,308		53,308
Restricted for Scholarships			160,441	160,441
Restricted for Building Fund			29,184	29,184
Committed for Severance	255,000			255,000
Unassigned	4,370,701		(4,464)	4,366,237
TOTAL FUND BALANCES	4,940,242	53,308	292,456	5,286,006
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 5,689,368	$ 260,409	$ 311,538	$ 6,261,315

The notes to the basic financial statements are an integral part of this statement

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2018

Total fund balances - governmental funds	$ 5,286,006
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 the governmental funds.	
Cost of capital assets	11,349,077
Less accumulated depreciation	(8,030,004)
Deferred outflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	4,937,312
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Bonds	(920,000)
Premium on bonds	(10,666)
Severance payable	(263,638)
Total other postemployment benefit liability	(361,894)
Net pension liability	(8,531,932)
Deferred inflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(1,761,250)
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.	14,988
An allowance has been set up for taxes receivable in the government-wide financial statements.	(23,000)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.	(9,021)
Net position - governmental activities	$ 1,675,978

The notes to the basic financial statements are an integral part of this statement

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Local Property Tax Levies	$ 1,091,278	$ 172,905	$ 14,631	$ 1,278,814
Other Local & County Revenues	69,135		24,592	93,727
Revenue From State Sources	4,354,727	10,359	41,990	4,407,076
Revenue From Federal Sources	151,636		162,341	313,977
Sale/Other Conversion of Asset			51,194	51,194
TOTAL REVENUES	5,666,776	183,264	294,748	6,144,788
EXPENDITURES				
Current				
Administration	339,943			339,943
District Support Services	168,549			168,549
Elementary & Secondary Regular Instruction	2,700,983			2,700,983
Vocational Education Instruction	75,729			75,729
Special Education Instruction	626,061			626,061
Community Education and Services			107,926	107,926
Instructional Support Services	56,044			56,044
Pupil Support Services	955,062		257,059	1,212,121
Sites and Buildings	573,028			573,028
Fixed Costs	23,414		22,563	45,977
Debt Service				
Principal		175,000		175,000
Interest and Fees		25,600		25,600
Capital Outlay	109,623		30,247	139,870
TOTAL EXPENDITURES	5,628,436	200,600	417,795	6,246,831
Revenues Over (Under) Expenditures	38,340	(17,336)	(123,047)	(102,043)
OTHER FINANCING SOURCES (USES)				
Sale of Capital Asset	500			500
Transfers In			115,553	115,553
Transfers Out	(115,553)			(115,553)
TOTAL OTHER FINANCING SOURCES (USES)	(115,053)		115,553	500
Net Change in Fund Balances	(76,713)	(17,336)	(7,494)	(101,543)
Fund Balances - Beginning	5,016,955	70,644	299,950	5,387,549
Fund Balances - Ending	$ 4,940,242	$ 53,308	$ 292,456	$ 5,286,006

The notes to the basic financial statements are an integral part of this statement

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Total net change in fund balances - governmental funds	$ (101,543)
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 are allocated over the estimated useful lives as depreciation expense.	
Capital Outlay	74,146
Depreciation expense	(289,181)
Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	175,000
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Also, governmental funds report the effect of premiums when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	3,592
Change in net pension liability	2,355,848
Change in deferred outflows and inflows of resources related to net pension liability	(3,153,366)
Change in deferred outflows and inflows of resources related to other postemployment benefit liability	(38,189)
Recognition of additional pension expense and grant revenue for the District's proportionate share of the State of Minnesota's contribution to the PERA and TRA.	
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid).	
Other postemployment benefit liability	48,820
Severance payable	(4,432)
Revenue in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.	2,394
Change in net position - governmental activities	$ (926,911)

The notes to the basic financial statements are an integral part of this statement

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 363 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separated entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

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

C. Basic Financial Statement Presentation

The district-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

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

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

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

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing or related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for advance amounts recognized in accordance with a statutory "tax shift." Grants and similar items are recognized when 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. Under this basis of accounting transactions are recorded in the following manner:

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

<u>Recording of Expenditures</u> – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements.

Description of Funds

The existence of the various District funds has been established by the State of Minnesota, Department of Education. Each fund is accounted for as an independent entity. A description of the funds included in this report are as follows:

Major Governmental Funds

<u>General Fund</u> – Accounts for all financial resources and transactions except those required to be accounted for in other funds including pupil transportation and capital outlay activities, which were previously (prior to July 1, 1996) accounted for in separate special revenue funds.

<u>Debt Service Fund</u> – Accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

GASB No. 34 also requires that budget vs. actual information be presented for the general fund and all major special revenue funds.

Nonmajor Governmental Funds

Special Revenue Funds – Accounts for proceeds of specific revenue sources (other than permanent fund and major capital projects) that are legally restricted to expenditures for specified purposes. The District's special revenue funds and its purpose is as follows:

Food Service – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches, or snacks in connection with school activities.

Community Service – Accounts for all resources designated for programs other than those for elementary and secondary students.

Building Fund – Accounts for resources used for the acquisition and construction of major capital facilities.

Permanent Fund – Accounts for resources legally restricted such that only the earnings it generates, and not the principal, may be used to finance operations.

E. Specific Account Information

Cash and Investments – Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Investments are carried at fair value. The District considers certificates of deposit to be cash.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data
Level 3: Unobservable market inputs that are not corroborated by market data

Taxes Receivable – Taxes receivable represents taxes levied in 2017 which are not payable until 2018, net of the amount received prior to June 30.

Property Taxes – 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 year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as the taxes are collected.

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

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as unavailable revenue (property taxes levied for subsequent years).

The majority of the revenue in the general fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between property taxes and state aids by the legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

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 based financial statements because it is not known to be available to finance the operations of the District in the current year. The allowance for uncollectible taxes is $23,000.

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

Capital Assets – Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated capital assets are recorded at acquisition value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 25 years for equipment.

Capital assets not being depreciated include land and construction in process, if any.

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

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued in the future, bond premiums and discounts will be deferred and amortized over the life of the bonds using the effective interest method. Bonds payable will be reported net of the applicable bond premium or discount. Bond issuance costs will be expensed in the period incurred.

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

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

PERA has a special funding situation created by direct aid contributions of $6,000,000 made by the State of Minnesota to the fund in 2017.

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net 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(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. The District has two items that qualify for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* and *Other Postemployment Benefits* which represents actuarial differences within PERA and TRA pension plans as well as amounts paid to the plans after the measurement date.

In addition to liabilities, the statement of net 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(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – delinquent taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The item, *property taxes levied – subs. years,* is reported as a deferred inflow of resources for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent property tax revenue levied for a subsequent period. The third item, *Cost Sharing Defined Benefit Pension Plan*, represents actuarial differences within PERA and TRA pension plans.

Net Position – 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 balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance – The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the Minnesota Department of Education.

Committed – Consists of amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned – Consists of amounts a government intends to use for a specific purpose. These constraints are established by the Board of Education and/or management. The Board of Education delegates the authority to assign fund balances to the Superintendent.

Unassigned – Consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the District's policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District's policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

The school district will strive to maintain a minimum unassigned general fund balance of three months of operating expenses.

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. Ultimate results could differ from those estimates.

NOTE 2 ACCOUNTING CHANGES

A. Restatement of Net Position

The District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This statement requires the District to record their total OPEB liability on the Statement of Net Position. Liabilities are calculated using the Entry Age actuarial cost method.

As a result, beginning net position has been restated as of July 1, 2017 as follows:

OPEB Balance as of June 30, 2017 (GASB 75)	$	(432,964)
Net OPEB Liability (GASB 45)		61,792
Deferred Outflow of Resources, Contribution After Measurement Date		106,857
Decrease in Net Position as of July 1, 2017	$	(264,315)

B. Prior Period Adjustment

During the year ended June 30, 2018, the District made a change to its postemployment benefits plan and how those benefits are to be paid. Benefits for teachers, principals, and staff with individual contracts are now covered under GASB 16 instead of GASB 45 as previously reported. Severance payable is now required to be included on the statement of net position. This change decreased net position by $259,206.

NOTE 3 DEPOSITS AND INVESTMENTS

The District maintains a cash account at its depository bank. Investments are carried at fair value. The District considers certificates of deposit to be cash.

The District's interest income for the year ended June 30, 2018, was $11,017.

The pooled cash and investment account is comprised of the following:

Cash	$1,443,645
Investments	3,871,272
Total	$5,314,917

As of June 30, 2018, the District's investments were in the Minnesota School District Liquid Asset Fund external investment pool.

Investment	Fair Value (Level 1)
Minnesota School District Liquid Asset Fund	$3,871,272

The Minnesota School District Liquid Asset Fund is a common law trust organized and existing under the laws of the State of Minnesota, in accordance with the provisions of the Minnesota Joint Powers Act. The general objective of the Fund is to provide a high yield for the participants while maintaining liquidity and preserving capital by investing only in instruments authorized by Minnesota Statutes, which govern the temporary investment of school district monies. In addition, the fixed rate/fixed term portion of the program is also structured with safety of principal as the major objective.

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

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 idle funds as authorized in Minnesota Statutes, as follows:

(a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
(b) General obligations and revenue obligations of any state or local government with taxing powers rated "A" and "AA", respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated "A" or better.
(c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.

(d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
(e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
(f) Repurchase or reverse repurchase agreements with banks that are qualified as a “depository” of public funds of the government entity, any other financial institution which is a member of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
(g) Guaranteed investment contracts (GIC’s) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC’s issued by Minnesota banks.
(h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

The Minnesota School District Liquid Asset Fund is rated AAA by Standard & Poor’s.

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk - Deposits - The District does not have a policy for custodial credit risk. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of which 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 percent of the deposits not covered by insurance or bonds. As of June 30, 2018, the District was not exposed to custodial credit risk.

Custodial Credit Risk - Investments - The investment in the Minnesota School District Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets, Not Being Depreciated:				
Land	$ 193,500	$	$	$ 193,500
Capital Assets, Being Depreciated:				
Land Improvements	510,080			510,080
Buildings	9,091,867			9,091,867
Equipment	1,479,484	74,146		1,553,630
Total Capital Assets, Being Depreciated	11,081,431	74,146		11,155,577
Less Accumulated Depreciation For:				
Land Improvements	407,064	7,854		414,918
Buildings	6,218,036	193,931		6,411,967
Equipment	1,115,723	87,396		1,203,119
Total Accumulated Depreciation	7,740,823	289,181		8,030,004
Total Capital Assets, Being Depreciated, Net	3,340,608	(215,035)		3,125,573
Governmental Activities Capital Assets, Net	$ 3,534,108	$ (215,035)	$	$ 3,319,073

In the statement of activities, depreciation expense was charged to the following governmental functions:

Elementary & Secondary Regular Instruction	$ 7,246
Pupil Support Services	76,852
Sites and Buildings	33,481
	117,579
Unallocated	171,602
Total Depreciation Expense	$ 289,181

NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE

Substantially, all employees of the District are required by state law to belong to 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:

A. Public Employees Retirement Association

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

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))
All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan. General Employees Plan members belong to the Coordinated Plan. Coordinated Plan members are covered by Social Security.

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

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

Contributions – 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 6.50% of pay in fiscal year 2018. The District was required to contribute 7.50% of pay for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2018, were $71,131. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2018, the District reported a liability of $906,519 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 $6,000,000 to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $11,411. 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 0.0142% which was a decrease of 0.0018% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $66,374 for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized an additional $330 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6,000,000 to the General Employees Fund.

At June 30, 2018, the District reported its proportionate share of 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	$ 29,876	$ 66,930
Difference between projected and actual investment earnings		28,844
Changes in actuarial assumptions	169,579	90,879
Changes in proportion		132,798
Contributions paid to PERA subsequent to the measurement date	71,131	
Total	$ 270,586	$ 319,451

$71,131 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2019	$ (63,735)
2020	21,547
2021	(39,329)
2022	(38,479)

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: 1% 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:

- 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 Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Cash	2%	0.00%

<u>Discount Rate</u> – The discount rate used to measure the total pension liability in 2017 was 7.50%. 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.

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

District Proportionate Share of NPL		
1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
$ 1,406,078	$ 906,519	$ 497,539

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

B. Teachers Retirement Association

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

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

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

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

Tier I Benefits:

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

With these provisions:

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

or

Tier II Benefits:

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

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

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

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

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

	Employee	Employer
Basic	11.00%	11.50%
Coordinated	7.50%	7.50%

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

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

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

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 – 9.25% thereafter
Cost of Living Adjustment	2.0%

Mortality Assumption

Pre-retirement	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability	RP-2014 disabled retiree mortality table, without adjustment.

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

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

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year is 2016 is 6 years. The “Difference Between Expected and Actual Experience” and “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.

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

Net Pension Liability - On June 30, 2018, the District reported a liability of $7,625,413 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. District proportionate share was 0.0382% at the end of the measurement period and 0.0402% 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	$	7,625,413
State's proportionate share of the net pension liability associated with the District	$	737,253

For the year ended June 30, 2018, the District recognized pension expense of $1,297,439. It also recognized $14,140 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 experience	$	68,854	$	53,558
Net difference between projected and actual earnings on plan inv.				57,770
Changes in actuarial assumptions		4,367,832		1,068,200
Changes in proportion				262,271
Contributions paid to TRA subsequent to the measurement date		161,372		
Total	$	4,598,058	$	1,441,799

$161,372 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 ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ending June 30		Pension Expense Amount
2019	$	771,477
2020		930,638
2021		854,108
2022		692,927
2023		(254,263)

Pension Liability Sensitivity - The following presents the district's proportionate share of the net pension liability calculated using the discount rate of 5.12 percent as well as the liability measured using one percent lower and one percent higher.

District Proportionate Share of NPL					
	1% Decrease (4.12%)		Current (5.12%)		1% Increase (6.12%)
$	10,064,076	$	7,625,413	$	5,569,324

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

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

The District recognized total pension expense of $1,363,813 for all of the pension plans in which it participates.

NOTE 6 OTHER POSTEMPLOYMENT BENEFITS

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups.

Benefits Provided – The District provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan.

Funding Policy - Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. The District provides postemployment healthcare benefits to qualifying retirees.

Employees Covered by Benefit Term – At June 30, 2018, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	10
Active plan members	77
Total Members	87

Total OPEB Liability – The District's total OPEB liability of $361,894 was measured as of July 1, 2017 and was determined by an actuarial valuation as of that date.

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

Inflation	2.5 percent
Salary increases	3.0 percent, average, including inflation
Healthcare Cost Trend Rates	6.5 percent decreasing to 5.0 percent over 6 years

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

The discount rate is based on the estimated yield of 20-year AA-rated municipal bonds. The overall single discount rate is 3.40%.

In the July 1, 2017 actuarial valuation, the entry age, level percentage of pay actuarial cost method was used.

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 6/30/2017	$ 432,964
Changes for the year:	
Service Cost	22,116
Interest Cost	13,671
Benefit Payments	(106,857)
Net Changes	(71,070)
Balance at 6/30/2018	$ 361,894

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate – 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 that is one percentage point lower (2.4 percent) or one percentage point higher (4.4 percent) than the current rate:

District Total OPEB Liability		
1% Decrease (2.4%)	Current (3.4%)	1% Increase (4.4%)
$ 377,055	$ 361,894	$ 347,151

Sensitivity of the Total OPEB Liability to Changes in 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 healthcare cost trend rates that are one percentage point lower (5.5 percent decreasing to 4.0 percent over 6 years) or one percentage point higher (7.5 percent decreasing to 6.0 percent over 6 years) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.5% decreasing to 4.0% over 6 years)	(6.5% decreasing to 5.0% over 6 years)	(7.5% decreasing to 6.0% over 6 years)
$ 381,692	$ 361,894	$ 344,551

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the District recognized OPEB expense of $35,787. At June 30, 2018, the District reported 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 paid subsequent to the measurement date	$ 68,668	$
Total	$ 68,668	$

$68,668 reported as deferred outflows of resources related to OPEB resulting from District contributions to OPEB subsequent to the measurement date will be recognized as a reduction of the total other postemployment benefit liability in the year ending June 30, 2019.

NOTE 7 LONG-TERM LIABILITIES

Changes in the District's long-term liabilities for the year ended June 30, 2018 are as follows:

Summary of Long-Term Liabilities

	Beginning Balance, Restated	Additions	Retired	Ending Balance	Due Within One Year
G.O. Bonds	$ 1,095,000	$	$ 175,000	$ 920,000	$ 180,000
Premium on Bonds	12,801		2,135	10,666	2,135
Severance Payable	259,206	4,432		263,638	
Total Long-Term Liabilities	$ 1,367,007	$ 4,432	$ 177,135	$ 1,194,304	$ 182,135

Severance payable is generally liquidated by the general fund.

The District's interest expense for the year ended June 30, 2018 was $25,150.

A. G.O. School Building Refunding Bond

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/18	Amounts Due in 2018-2019 Principal	Amounts Due in 2018-2019 Interest
2012	2.0-2.5%	2019/23	$ 2,090,000	$ 175,000	$ 920,000	$ 180,000	$ 21,650

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2019	$ 180,000	$ 21,650
2020	180,000	18,050
2021	190,000	14,000
2022	190,000	9,250
2023	180,000	4,500
	$ 920,000	$ 67,450

NOTE 8 SEVERANCE PAYABLE

The District has a severance plan for employees. The plan calls for employees to be paid for unused portions of their sick leave upon termination of employment. At June 30, 2018, the estimated liability under this plan was $263,638.

NOTE 9 INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2018, is as follows:

Due to / from other funds:

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental	$4,915

The purpose of the interfund loan is to cover the cash shortage in the food service fund.

Interfund Transfers:

Transfer In	Transfer Out	Amount
Nonmajor Governmental	General	$115,553

The purpose of the transfers is to cover the operating deficits in the food service and community service funds.

NOTE 10 CONTINGENCIES

The District receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and aids. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2018.

NOTE 11 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; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

The District has joined together with other school districts in Minnesota in the Northwest Service Cooperative's Minimum Premium Funding Plan (Plan). The Plan is a public entity risk pool established as a health insurance purchasing pool for its members. The agreement for the formation of the Plan provides that the Plan will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of $300,000. The pool and its members purchase reinsurance, currently with a $300,000 specific stop loss attachment point and 110% aggregate stop loss attachment point. If the assets of the Plan were to be exhausted, members would not be responsible for the Plan's liabilities. The Northwest Service Cooperative retains the risk of the Plan's liabilities.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 12 NEW PRONOUNCEMENTS

GASB Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). This Statement establishes criteria for determining the timing and pattern of recognition of a liability and corresponding deferred outflow of resources for AROs. It also establishes disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 84, *Fiduciary Activities*, provides guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

GASB Statement No. 87, Leases, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements, 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. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This Statement is effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Over (Under) Final Budget
REVENUES				
Local Property Tax Levies	$ 767,184	$ 767,184	$ 1,091,278	$ 324,094
Other Local & County Revenues	58,125	58,125	69,135	11,010
Revenue From State Sources	4,047,404	4,047,404	4,354,727	307,323
Revenue From Federal Sources	140,621	140,621	151,636	11,015
TOTAL REVENUES	5,013,334	5,013,334	5,666,776	653,442
EXPENDITURES				
Current				
Administration	505,080	505,080	339,943	(165,137)
District Support Services	120,699	120,699	168,549	47,850
Elementary & Secondary				
Regular Instruction	2,594,709	2,594,709	2,700,983	106,274
Vocational Education Instruction	7,165	7,165	75,729	68,564
Special Education Instruction	843,370	844,370	626,061	(218,309)
Instructional Support Services	113,182	113,182	56,044	(57,138)
Pupil Support Services	917,113	917,113	955,062	37,949
Sites and Buildings	548,799	548,799	573,028	24,229
Fixed Costs	124,754	124,754	23,414	(101,340)
Capital Outlay	78,344	78,344	109,623	31,279
TOTAL EXPENDITURES	5,853,215	5,854,215	5,628,436	(225,779)
Revenues Over (Under) Expenditures	(839,881)	(840,881)	38,340	879,221
OTHER FINANCING SOURCES (USES)				
Sale of Capital Assets	1,000	1,000	500	(500)
Transfer Out	(155,191)	(155,191)	(115,553)	39,638
TOTAL OTHER FINANCING SOURCES (USES)	(154,191)	(154,191)	(115,053)	39,138
Net Change in Fund Balances	(994,072)	(995,072)	(76,713)	918,359
Fund Balances - Beginning	5,016,955	5,016,955	5,016,955	
Fund Balances - Ending	$ 4,022,883	$ 4,021,883	$ 4,940,242	$ 918,359

The notes to the required supplementary information are an integral part of this schedule.

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS
Last 10 Years

		2018
Total OPEB Liability		
Service Cost	$	22,116
Interest		13,671
Benefit Payments		(106,857)
Net Change in Total OPEB Liability		(71,070)
Total OPEB Liability - Beginning		432,964
Total OPEB Liability - Ending	$	361,894
Covered Payroll	$	2,877,191
District's Total OPEB Liability as a Percentage of a Covered Payroll		12.58%

The District implemented GASB No. 75 for the fiscal year ended June 30, 2018. Information from prior years is not available.

The notes to the required supplementary information are an integral part of this schedule.

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST 10 YEARS

	Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
PERA						
	2015	$ 76,698	$ 76,698	$	$ 1,022,100	7.50 %
	2016	74,280	74,280		990,396	7.50
	2017	69,546	69,546		927,280	7.50
	2018	71,131	71,131		948,411	7.50
TRA						
	2015	$ 157,926	$ 157,926	$	$ 2,105,689	7.50 %
	2016	155,310	155,310		2,070,810	7.50
	2017	153,014	153,014		2,040,187	7.50
	2018	161,372	161,372		2,144,299	7.53

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

The notes to the required supplementary information are an integral part of this schedule.

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
SCHEDULE OF DISTRICT'S SHARE OF NET PENSION LIABILITY
LAST 10 YEARS

	Fiscal Year Ended June 30	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)	Total	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA								
	2014	0.0184 %	$ 864,340	$	$ 864,340	$ 964,681	89.60 %	78.70 %
	2015	0.0174	901,758		901,758	1,022,100	88.23	78.19
	2016	0.0160	1,299,121	16,958	1,316,079	990,396	131.17	68.90
	2017	0.0142	906,519	11,411	917,930	927,280	97.76	75.90
TRA								
	2014	0.0459 %	$ 2,115,039	$ 148,702	$ 2,263,741	$ 2,094,512	100.98 %	81.50 %
	2015	0.0416	2,573,371	315,631	2,889,002	2,105,689	122.21	76.80
	2016	0.0402	9,588,659	961,689	10,550,348	2,070,810	463.04	44.88
	2017	0.0382	7,625,413	737,253	8,362,666	2,040,187	373.76	51.57

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

The notes to the required supplementary information are an integral part of this schedule.

NOTE 1 BUDGETARY DATA

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the District.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level. The annual appropriated budget is not legally binding on the District unless the District has a deficit fund balance which exceeds 2.5% of expenditures.

NOTE 2 DEFINED BENEFIT PLANS

PERA

2017 Changes
Changes in Actuarial Assumptions:
- The Combined Service Annuity (CSA) loads were changed from 0.8 percent for active members and 60 percent for vested and non-vested deferred members. The revised CSA loads are now 0.0 percent for active member liability, 15.0 percent for vested deferred member liability and 3.0 percent for non-vested deferred member liability.

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year for all years to 1.0 percent per year through 2044 and 2.5 percent per year thereafter.

2016 Changes
Changes in Actuarial Assumptions:
- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all years.

- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.

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

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

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

TRA

<u>Changes in Actuarial Assumptions Since the 2016 Valuation:</u>

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

NOTE 3 OTHER POSTEMPLOYMENT BENEFITS

Plan Changes:

- The Teachers' and Principals' post-employment subsidies based on unused sick leave are now paid to a VEBA as a lump sum instead of being held by the District to pay medical premiums. Therefore, these benefits are covered under GASB 16 instead of GASB 75 so they are not included in this report.
- We previously thought several employees with individual contracts were entitled to a GASB 75 post-employment subsidy based on unused sick leave (the same as Classified employees, etc.). According to recent contracts and discussions with the District, we no longer believe the Nurse, Computer Technicians, Superintendent, and Administrative Secretary (Indus) are entitled to GASB 75 post-employment subsidies.

Assumption Changes:

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

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

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018

	Special Revenue Funds				
	Food Service Fund	Community Service Fund	Building Fund	Permanent Fund	Total Nonmajor Governmental Funds
ASSETS					
Cash and Investments	$	$ 9,724	$ 29,184	$ 260,441	$ 299,349
Current Property Taxes Receivable		3,004			3,004
Delinquent Property Taxes Receivable		956			956
Accounts Receivable		55			55
Due From Department of Education		2,654			2,654
Due From Federal Govt. - DOE	1,056				1,056
Inventory	4,464				4,464
TOTAL ASSETS	$ 5,520	$ 16,393	$ 29,184	$ 260,441	$ 311,538
LIABILITIES					
Salary Payable	$ 605	$ 5,382	$	$	$ 5,987
Due To Other Funds	4,915				4,915
TOTAL LIABILITIES	5,520	5,382			10,902
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Delinquent Taxes		956			956
Property Taxes Levied - Subs. Years		7,224			7,224
TOTAL DEFERRED INFLOWS OF RESOURCES		8,180			8,180
FUND BALANCES					
Fund Balance:					
Nonspendable: Inventory	4,464				4,464
Nonspendable: Scholarships				100,000	100,000
Restricted for Community Service		2,831			2,831
Restricted for Scholarships				160,441	160,441
Restricted for Building Fund			29,184		29,184
Unassigned	(4,464)				(4,464)
TOTAL FUND BALANCES		2,831	29,184	260,441	292,456
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 5,520	$ 16,393	$ 29,184	$ 260,441	$ 311,538

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	Special Revenue Funds				Total
	Food Service Fund	Community Service Fund	Building Fund	Permanent Fund	Nonmajor Governmental Funds
REVENUES					
Local Property Tax Levies	$	$ 14,631	$	$	$ 14,631
Other Local & County Revenues		9,917		14,675	24,592
Revenue From State Sources	15,473	26,517			41,990
Revenue From Federal Sources	162,341				162,341
Sale/Other Conversion of Asset	51,194				51,194
TOTAL REVENUES	229,008	51,065		14,675	294,748
EXPENDITURES					
Current					
Community Education and Services		107,926			107,926
Pupil Support Services	257,059				257,059
Fixed Costs				22,563	22,563
Capital Outlay	30,112		135		30,247
TOTAL EXPENDITURES	287,171	107,926	135	22,563	417,795
Revenues Under Expenditures	(58,163)	(56,861)	(135)	(7,888)	(123,047)
OTHER FINANCING SOURCES					
Transfers In	58,163	57,390			115,553
TOTAL OTHER FINANCING SOURCES	58,163	57,390			115,553
Net Change in Fund Balances		529	(135)	(7,888)	(7,494)
Fund Balances - Beginning		2,302	29,319	268,329	299,950
Fund Balances - Ending	$	$ 2,831	$ 29,184	$ 260,441	$ 292,456

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
SCHEDULE OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2018

	UFARS Balance Beginning of Year	Revenues	Expenditures	Transfers	Sale of Capital Asset	UFARS Balance End of Year	Reclassify	Balance End of Year
General Fund								
Restricted for:								
Long-Term Facilities Maint.	$ 62,000	$ 81,514	$ 22,233	$	$	$ 121,281	$	$ 121,281
Health and Safety	(36,243)	(1,354)				(37,597)	37,597	
Operating Capital	210,131	68,700	85,571			193,260		193,260
Safe Schools		9,504	9,504					
Committed for Severance	255,000					255,000		255,000
Unassigned	4,526,067	5,508,412	5,511,128	(115,553)	500	4,408,298	(37,597)	4,370,701
Food Service Fund								
Nonspendable	6,765			(2,301)		4,464		4,464
Restricted: Food Service		229,008	287,171	58,163				
Unassigned	(6,765)			2,301		(4,464)		(4,464)
Community Service Fund								
Restricted for:								
Community Education		19,516	26,873	7,357				
ECFE		21,354	59,450	38,096				
School Readiness		9,666	21,603	11,937				
Community Service	2,302	529				2,831		2,831
Building Fund								
Restricted: Building Fund	29,319		135			29,184		29,184
Debt Service Fund								
Restricted: Debt Service	70,644	183,264	200,600			53,308		53,308
Permanent Fund								
Nonspendable	100,000					100,000		100,000
Restricted: Scholarships	168,329	14,675	22,563			160,441		160,441

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Education
Independent School District No. 363
Northome, 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. 363 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 October 23, 2018.

Legal Compliance

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 audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as described in the Schedule of Findings as items 2018-003 and 2018-004. 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.

Purpose of the Report

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

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

October 23, 2018

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BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

To the Board of Education
Independent School District No. 363
Northome, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 363, 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 October 23, 2018.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be a material weakness and a significant deficiency.

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 deficiency described in the accompanying schedule of findings as item 2018-002 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings as item 2018-001 to be a significant deficiency.

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.*

The District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and corrective action plan. 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 result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

October 23, 2018

2018-001 FINDING

Criteria
Generally, a system of internal control contemplates separation of duties that no individual has responsibility to execute a transaction, have physical access to the related assets, and have responsibility or authority to record the transaction.

Condition
Lack of sufficient segregation of duties.

Cause
Size and budget constraints limiting the number of personnel within the accounting department.

Effect
The design of the internal control over financial reporting that could adversely affect the ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Recommendation
The areas should be reviewed periodically and consideration given to improving the segregation of duties.

Views of Responsible Officials and Planned Corrective Actions
The District will review segregation of duties on an annual basis.

2018-002 FINDING

Criteria
The District does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP).

Condition
The District's payroll liability accounts were not reconciled during the year. The District's personnel prepare periodic financial information for internal use that meets the needs of management and the Board of Education. For the year ended June 30, 2018, the District's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the District does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements for external reporting. The Board of Education is aware of this significant deficiency and addresses it by obtaining our assistance in the preparation of the District's annual financial statements.

Cause
Payroll liabilities were not reconciled due to oversight by the staff. The District does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect
Failure to reconcile payroll liability accounts could result in misstatement of liabilities and expenses. The Superintendent is aware of the financial reporting deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Recommendation
The District's staff should reconcile payroll liability accounts on a monthly basis. The District's financial statement preparation should be reviewed on an annual basis.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will review the payroll liabilities on a monthly basis. The financial statement preparation will be reviewed on an annual basis.

2018-003 FINDING

Criteria
MN Statute 123B.77 requires the Board of Education to adopt a revenue and expenditure budget. Budgets also provide an internal control tool to monitor District operations.

Condition
The District was unable to prove the board adopted budget was entered in the financial accounting software.

Cause
Oversight by the District

Effect
Accounting errors may not be detected or corrected timely.

Recommendation
The District should document the board adopted budget for each fund in the minutes. The District should reconcile the board adopted budget to the budget entered into the financial accounting software.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will review immediately.

2018-004 FINDING

Criteria
MN Statute 345.41-43 requires the District to report and pay unclaimed property or payroll checks that have been held for more than three years or one year, respectively, to the state Commissioner of Commerce.

Condition
The District did not report and pay unclaimed property to the state Commissioner of Commerce that is older than three years.

Cause
Oversight by the District

Effect
The District was not in compliance with the Statute.

Recommendation
The District should review outstanding checks and other property to determine if any items need to be paid and reported to the state.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will review immediately.

2018-001 FINDING

Contact Person – Superintendent

Corrective Action Plan – The following steps are being taken to mitigate the risk: the Superintendent will review and approve all journal entries, the board will approve checks, and the Superintendent will review all bank statements before turning the statements over to the business office for reconciliation.

Completion Date – Ongoing

2018-002 FINDING

Contact Person – Superintendent

Corrective Action Plan – Payroll and accounting staff will reconcile payroll liability accounts monthly. School district personnel will receive additional training to better prepare personnel to understand the financial statements and to work more closely with an accounting firm in the preparation of the financial statements. The District staff will review the prior year journal entries to determine training needs. The District staff has worked with their auditors and the ESV Accounting Office and is in the process of identifying required year end journal entries.

Completion Date – Reconciliation of the payroll liabilities will be reviewed monthly. The financial statement recommendation will be ongoing.

2018-003 FINDING

Contact Person – Superintendent

Corrective Action Plan –The board adopted budget will be documented in the minutes. In additions, the District will reconcile the board adopted budget to the budget in the financial accounting software.

Completion Date – Immediately

2018-004 FINDING

Contact Person – Superintendent

Corrective Action Plan – The District will review outstanding checks and other property to determine if any items need to be paid and reported to the state.

Completion Date – Immediately

INDEPENDENT AUDITOR'S REPORT ON THE STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS OF THE STUDENT ACTIVITY ACCOUNTS

Members of the School Board, Advisors, and Students
Independent School District No. 363
Northome, Minnesota

We have audited the accompanying statement of cash receipts and disbursements of the student activity accounts of Independent School District No. 363, for the year ended June 30, 2018, and the related note to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, 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 statement in order to design audit procedures that are appropriate in the circumstances, but not for the purposes 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 statement.

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

Basis for Qualified Opinion

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practicable for us to extend our audit of such cash collections beyond the amounts recorded. The financial statement impact cannot be reasonably determined.

Qualified Opinion

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the cash collections referred to above been susceptible to satisfactory audit tests, the financial statement referred to above presents fairly, in all material respects, the cash transactions of the District's student activity accounts for the year ended June 30, 2018, and the cash balances at that date, in accordance with the cash basis of accounting as described in Note 1.

Basis of Accounting

We draw attention to Note 1 to the Student Activity Accounts Financial Statement, which describes the basis of accounting; this financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

October 23, 2018

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS OF THE STUDENT ACTIVITY ACCOUNTS
For the Year Ended June 30, 2018

	Fund Balance 6-30-17	Receipts	Disbursements	Transfer In (Out)	Fund Balance 6-30-18
Indus School					
5K Race	$ 1,140	$ 496	$ 1,405	$	$ 231
After School Blue Grass	105		53		52
After School Reading	2,306	3,664	2,553		3,417
After School Rec.	264	632	652		244
Annual	17,813	5,365	11,047		12,131
Art Club	356	181			537
Athletics	2,757	200	798		2,159
Boise Safety	1,805	4,881	2,766		3,920
Calendars	3,211	1,650	1,482		3,379
Drama	219				219
Elementary Field Trip	70	25	50		45
F.A.C.S.	602	2,094	961		1,735
Music	2,787		50		2,737
Nat'l Honor Society	1,121		764		357
Post Prom Party	1				1
Pre-School	145				145
Pro-Start	1,329	849	1,318		860
Research	10				10
School Store	9,524	1,828	1,224		10,128
Science Club	356				356
Sixth Grade	1,687	4,289	3,177		2,799
Spanish Activity	3				3
Speech Activity	264				264
Student Council	484	3,515	3,602		397
Super Mile	771				771
Technology Club	291		200		91
Class of 2017	(16)			16	
Class of 2018	1,859	3,021	4,777	(16)	87
Class of 2019	714	2,853	1,824		1,743
Class of 2020	747	267	205		809
Class of 2021	373	44			417
Class of 2022		90	13		77
Total Indus School	53,098	35,944	38,921		50,121

cont.

The note to student activity accounts financial statement is an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS OF THE STUDENT ACTIVITY ACCOUNTS (Continued)
For the Year Ended June 30, 2018

	Fund Balance 6-30-17	Receipts	Disbursements	Transfer In (Out)	Fund Balance 6-30-18
Northome School					
Art Club	$ 1,628	$	$	$	$ 1,628
Band/Choir	7,209	14,285	14,571	750	7,673
Boys Basketball	349	8,536	6,822		2,063
Cheerleaders	856			(856)	
Drama	1,456			(1,456)	
Exercise Science	154				154
FFA	1,602	14			1,616
Field Trips	578	22			600
Football Camp	124			(124)	
Golf	75				75
Nat'l Honor Society	880	532	430		982
Kids Plus	1,695				1,695
Kindergarten	505	239	43		701
Mustang Gear	611	2,331	2,138		804
Outdoor Arts and Crafts	574	899	920	200	753
Post Prom	335	3,187	3,678	300	144
Robotics	4,835	3,648	2,444		6,039
Science Club	1,551	770	15	350	2,656
Sew 4 You	1,752	1,970	3,297		425
Spanish/German Club	13,914	9,485	3,184	200	20,415
Student Council	1,823	1,065	3,020	761	629
Student Equipment Account	880			2,436	3,316
Track	9,465	5,470	4,425		10,510
Trap Shooting Club	328	347	284	1,000	1,391
Volleyball	2,547	9,412	8,632		3,327
Yearbook	4,433	3,680	2,926	240	5,427
Class of 2017	986	75		(1,061)	
Class of 2018	2,472	431	2,356	(240)	307
Class of 2019	401	16,782	9,820	(2,500)	4,863
Class of 2020	128	38			166
Class of 2021	67	37			104
Class of 2022	1,224	21			1,245
Class of 2023	128	46	18		156
Class of 2024	362				362
Class of 2025		6,429	5,411		1,018
Total Northome School	65,927	89,751	74,434		81,244
Total All Funds	$ 119,025	$ 125,695	$ 113,355	$	$ 131,365

The note to student activity accounts financial statement is an integral part of this statement.

NOTE 1 STUDENT ACTIVITY ACCOUNTS

Student activity fund transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by the students, under the guidance of a staff member or other adult.

Student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fund raising events.

The accounts of the student activity funds are maintained, and the accompanying financial statement has been prepared on the cash basis of accounting. Consequently, receipts are recognized when received rather than when earned and disbursements are recognized when paid rather than when the obligations are incurred.

BRADY MARTZ
CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the School Board, Advisors, and Students
Independent School District No. 363
Northome, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the student activity accounts of Independent School District 363, for the year ended June 30, 2018, and the related note to the financial statement, and have issued our report thereon dated October 23, 2018, which was qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records, therefore, we were unable to audit the cash collections beyond the amounts recorded.

Compliance

The *Manual for Activity Fund Accounting*, issued by the Minnesota Department of Education, pursuant to Minnesota Statutes, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual.

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 *Manual for Activity Fund Accounting,* except for item 2018-001(a) in the schedule of findings – student activity accounts. 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.

Purpose of the Report

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

Brady Martz

BRADY, MARTZ & ASSOCIATES, P.C.
Thief River Falls, Minnesota

October 23, 2018

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2018-001(a) FINDING

Criteria
The *Manual for Activity Fund Accounting* states that “any student activity account, which has been inactive for a maximum of one fiscal year, must be disposed of, unless the advisor submits a plan to the building principal (or designee) indicating why the activity has been inactive and why it should not be terminated.”

Condition
There are eight student activity accounts that did not have activity in the current year which have not been disposed of.

Cause
Oversight by the District staff.

Effect
The student activity account is not in compliance with the Minnesota *Manual for Activity Fund Accounting.*

Recommendation
Staff overseeing student activity funds should review student activity accounts that are to be disposed of each year and dispose of the accounts in the manner indicated on the student activity purpose form.

Views of Responsible Officials and Planned Corrective Actions
The District agrees with the recommendation and will dispose of inactive student activity accounts.

2018-001(a) FINDING

Contact Person – Superintendent

Corrective Action Plan – The District will dispose of inactive student activity accounts.

Completion Date – Immediately

INDEPENDENT SCHOOL DISTRICT NO. 363
NORTHOME, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2018

District Name: INDEPENDENT SCHOOL DISTRICT NO. 363 **District Number:** 363

	Audit	UFARS	Variance
01 GENERAL FUND			
Total Revenue	5,666,776	5,666,775	1
Total Expenditures	5,628,436	5,628,436	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
403 Staff Development			
406 Health & Safety	(37,597)	(37,599)	2
407 Capital Projects Levy			
408 Cooperative Revenue			
413 Project Funded by COP			
414 Operating Debt			
416 Levy Reduction			
417 Taconite Building Maintenance			
423 Certain Teacher Programs			
424 Operating Capital	193,260	193,259	1
426 $25 Taconite			
427 Disabled Accessibility			
428 Learning & Development			
434 Area Learning Center			
435 Contracted Alt Programs			
436 State Approved Alt Program			
438 Gifted & Talented			
440 Teacher Development and Eval			
441 Basic Skills Programs			
445 Career and Technical Programs			
448 Achievement and Integration			
449 Safe Schools Levy			
450 Prekindergarten			
451 QZAB Payments			
452 OPEB Liab Not In Trust			
453 Unfunded Sev & Retiremt Levy			
467 LTFM	121,281	121,279	2
472 Medical Assitance			
Restricted			
464 Restricted Fund Balance			
Committed			
418 Committed for Separation	255,000	255,000	
461 Committed			
Assigned			
462 Assigned Fund Balance			
Unassigned:			
422 Unassigned Fund Balance	4,408,298	4,408,307	(9)
Reconciliation of General	16,235,454	16,235,457	(3)
02 FOOD SERVICE			
Total Revenue	229,008	229,007	1
Total Expenditures	287,171	287,170	1
Non Spendable			
460 Non Spendable Fund Balance	4,464	4,464	
Restricted/Reserved:			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance			
Unassigned			
463 Unassigned Fund Balance	(4,464)	(4,464)	
Reconciliation of Food Service	516,179	516,177	2
04 COMMUNITY SERVICE			
Total Revenue	51,065	51,064	1
Total Expenditures	107,926	107,926	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
426 $25 Taconite			
431 Community Education			
432 E.C.F.E.			
440 Teacher Development and Eval			
444 School Readiness			
447 Adult Basic Education			
452 OPEB Liab Not In Trust			
Restricted			
464 Restricted Fund Balance	2,831	2,830	1
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of Community Service	161,822	161,820	2

	Audit	UFARS	Variance
06 BUILDING CONSTRUCTION			
Total Revenue			
Total Expenditures	135	135	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
407 Capital Projects Levy			
413 Projects Funded By COP			
467 LTFM			
Restricted			
464 Restricted Fund Balance	29,184	29,185	(1)
Unassigned:			
463 Unassigned Fund Balance			
Reconciliation of Building Construction	29,319	29,320	(1)
07 DEBT SERVICE			
Total Revenue	183,264	183,264	
Total Expenditures	200,600	200,600	
Non Spendable			
460 Non Spendable Fund Balance			
Restricted/Reserved:			
425 Bond Refundings			
451 QZAB Payments			
Restricted			
464 Restricted Fund Balance	53,308	53,305	3
Unassigned:			
463 Unassigned Fund Balance			
	437,172	437,169	3
08 TRUST			
Total Revenue	14,675	14,675	
Total Expenditures	22,563	22,563	
Unassigned:			
422 Unassigned Fund Balance	260,441	260,440	1
Reconciliation of Trust	297,679	297,678	1
20 INTERNAL SERVICE			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of Internal Service			
25 OPEB REVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Revocable Trust			
45 OPEB IRREVOCABLE TRUST FUND			
Total Revenue			
Total Expenditures			
Unassigned:			
422 Unassigned Fund Balance			
Reconciliation of OPEB Irrevocable Trust			
47 OPEB DEBT SERVICE FUND			
Total Revenue			
Total Expenditures			
Non Spendable			
460 Non Spendable Fund Balance			
Restricted			
425 Bond Refunding			
464 Restricted Fund Balance			
Unassigned			
463 Unassigned Fund Balance			
Reconciliation of OPEB Debt Service			