Independent School District No. 14
Fridley, Minnesota

Financial Statements

June 30, 2018

bergan KDV
CPAS | ADVISORS

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Independent School District No. 14
Board of Education and Administration
June 30, 2018

Board of Education	Position	Term Expires
Mary Kay Delvo	Chair	January 1, 2022
Chris Riddle	Vice Chair	January 1, 2020
Donna Prewedo	Clerk	January 1, 2020
Kim Sampson	Treasurer	January 1, 2020
Carol Thornton	Director	January 1, 2022
Avonna Starck	Director	January 1, 2022

Ex Officio Member		
Peggy Flathmann	Superintendent	

Independent Auditor's Report

To the School Board
Independent School District No. 14
Fridley, 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. 14, Fridley, Minnesota, as of and for the year ended June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

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

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

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

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

BerganKDV, Ltd.
bergankdv.com

Opinions
In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 14, Fridley, Minnesota, as of June 30, 2018, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of GASB 75

As discussed in Note 11 to the financial statements, the District has adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. 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, which follows this report letter, and the Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Other Matters (Continued)

Other Information (Continued)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2018, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Bergan KDV Ltd.

Minneapolis, Minnesota
September 25, 2018

Independent School District No. 14
Management's Discussion and Analysis

This section of Independent School District No. 14 (the "District") annual financial report presents its Management's Discussion and Analysis (MD&A) of the District's financial performance during the fiscal year ending June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

KEY POINTS OF INTEREST

- The District's Governmental Funds Balance Sheet reflects an Unassigned General Fund balance of $2,258,450. This is an increase from the prior year of $$264,230.

- The total General Fund balance of $5,127,291 is a decrease of $225,896 from the prior year.

- The government-wide Statement of Activities shows a decrease in net position of $8,150,423.

- The net position value on the government-wide Statement of Net Position is a deficit of $40,274,187. Net position value is similar to the Balance Sheet's Equity for Private Sector businesses.

- Total government wide long-term liabilities, excluding OPEB and pension liabilities, are $64,556,445 and are comprised of $59,076,730 in General Obligation (G.O.) Bonds, $4,399,009 in capital leases and $1,080,706 of severance and compensated absences payable.

- The District's investment in capital assets, net of depreciation, is $53,485,966. The increase from the prior year of $3,705,422 is primarily due to construction taking place with the funds from the passage of the November 2015 referendum. The G.O. bonds plus the capital leases (the debt related to investment in capital assets) exceeds the investment in capital assets by $4,291,553.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of two parts: MD&A (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

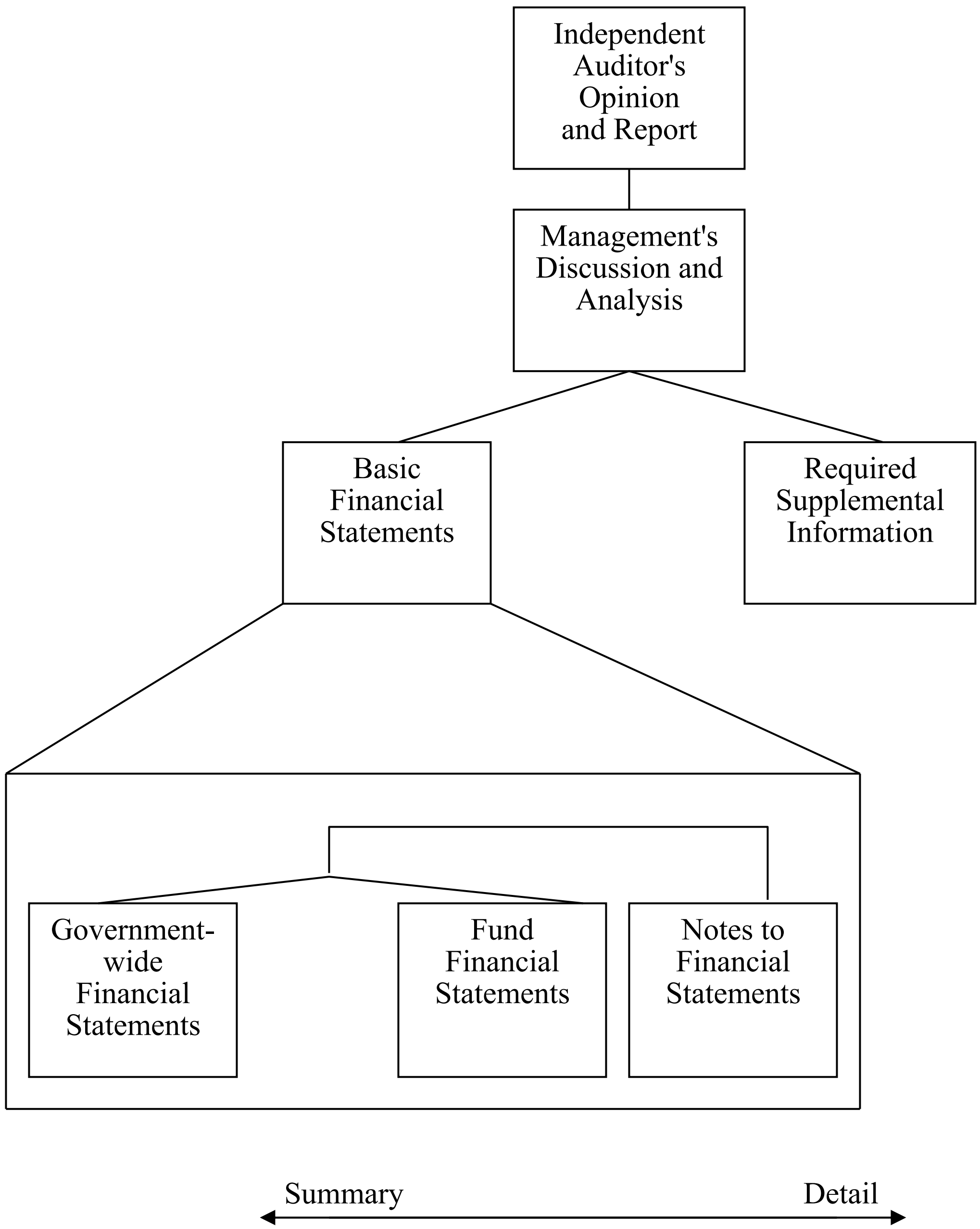
The first two statements are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations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

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.

Figure A-1 on the next page shows how the various parts of this annual report are arranged and related to one another.

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Figure A-1
Organization of Independent School District No. 14 Annual Financial Report



OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

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

	District-Wide Statements	**Fund Financial Statements**	
		Governmental Funds	**Proprietary Funds**
Scope	Entire District (except fiduciary funds)	The activities of the District that are not fiduciary, such as special education and building maintenance	Activities of the District operates similar to private business - Internal Service Fund
Required Financial Statements	- Statement of Net Position - Statement of Activiteis	- Balance Sheet - Statement of Revenues, Expenditures, and Changes in Fund Balances	- Statement of Net Position - Statement of Revenues, Expenses and Changes in Fund Net Position - Statement of cash Flows
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accural accounting and current financial focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All Assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities both financial and capital, and short-term and long-term
Type of Inflow/Outflow Information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when good or services have been received and related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Statements

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

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

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

Fund Financial Statements

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

The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets 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 indicates whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs and obligations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The Statement of Net Position identifies current assets and liabilities from noncurrent assets and long-term debt respectively. The ratio of these current assets of $33.2 million to current liabilities of $10.5 million is 3.2. A "current ratio" greater than 1.0 indicates that sufficient assets are available that can be converted to cash to meet District obligations payable over the next 12-month period.

The Statement of Net Position includes noncurrent assets not reported on the governmental funds balance sheet. These noncurrent assets include the total acquisition cost of the District's capital assets less accumulated depreciation. During the year, the District acquired $7,144,139 of additional capital assets. The majority of this increase is comprised of work in progress related to the completion of the remodel and renovation of the Middle School as well as the initial costs of the remodel and renovation of the High School and the Fridley Community Center. The remaining capital asset additions consist of purchases associated with the District's Long-Term Facilities Maintenance program. Depreciation expense for the year equaled $3,402,993. The current year depreciation expense was less than the increase in new investment in capital equipment resulting in an increase in the net capital asset total to $53,485,966 compared to $49,780,544 for the prior year.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Related to the noncurrent assets are the general obligation bonds. On February 15, 2017, the District issued $1,960,000 G.O. Tax Abatement Bonds, Series 2017A. The proceeds will fund parking lot construction projects throughout the District. The District issued $25,890,000 G.O. School Building bonds, Series 2016A in the February of 2016. The voters of the District authorized the school building issue in November of 2015. Over the course of 3 years, the proceeds will fund safety and security upgrades, deferred maintenance, building renovations, technology improvements, and building additions. Other general obligations include an OPEB bond issued in 2009 with a 15-year maturity to fund the districts obligation for retiree insurance benefits. The remaining liability on these bonds, net of unamortized premiums, as of June 30, 2018, is $59.1 million. The capital asset additions and the amortization of the general obligation resulted in an increase of $124,139 in the net investment in capital assets total compared to the prior year.

Additional long-term debt for severance pay (employee separation pay based on unused sick time) is $0.7 million. This includes $0.2 million owed to employees who have retired prior to June 30 and an estimate of $0.5 million for employees who qualify or will qualify for retirement at a future date.

With the implementation of GASB 75, the District reported an OPEB liability of $3,412,533.

Due to changes, primarily in actuarial assumptions used by the State of Minnesota's public pensions, the District reported a total net pension liability of $71.7 million, a decrease of $10.7 million from the previous year. As a result of the changes in actuarial assumptions, the District also reported a decrease related deferred outflows of resources related to pensions of $5.6 million.

Overall, the District's net position decreased $8,150,423 during the year from current year operations and total net position decreased to a deficit of $40.3 million.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-3
Condensed Statement of Net Position (in Thousands of Dollars)

	2018	2017	Percent Change
Current and OPEB assets	$ 33,246	$ 38,121	(12.8%)
Capital assets	53,486	49,781	7.4%
Total assets	86,732	87,902	(1.3%)
Deferred outflows of resources	41,493	51,428	(19.3%)
Current liabilities	10,548	10,690	(1.3%)
Long-term liabilities	135,629	146,526	(7.4%)
Total liabilities	146,177	157,216	(7.0%)
Deferred inflows of resources	22,322	10,924	104.3%
Net investment in capital assets	(4,292)	(4,415)	2.8%
Restricted for debt service	247	226	100.0%
Restricted for other purposes	1,461	1,377	6.1%
Unrestricted net position	(37,690)	(25,998)	45.0%
Total net position	$ (40,274)	$ (28,810)	(39.8%)

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-4
Changes in Net Position from Operating Results (in Thousands of Dollars)

	2018	2017	Percent Change
Revenues			
Program revenues			
Charges for services	$ 2,709.6	$ 2,708.3	0.0%
Operating grants and contributions	19,120.3	18,725.1	2.1%
Capital grants and contributions	631.7	595.3	6.1%
General revenues			
Property taxes	9,754.6	9,111.9	7.1%
State formula aid	21,057.2	21,419.0	(1.7%)
Other	291.4	257.5	13.2%
Total revenues	53,564.8	52,817.1	1.4%
Expenses			
Administration and district support	4,476.1	4,633.7	(3.4%)
Instruction, pupil support, student food, and transportation services	45,280.8	44,398.3	2.0%
Sites and buildings	3,373.1	2,913.3	15.8%
Community services	3,222.4	2,980.5	8.1%
Interest and fiscal charges on long-term debt	1,904.8	2,464.7	(22.7%)
Fiscal and other fixed cost programs	171.1	166.1	3.0%
Unallocated depreciation (buildings)	3,286.9	2,738.0	20.0%
Total expenses	61,715.2	60,294.6	2.4%
Increase (decrease) in net position	$ (8,150.4)	$ (7,477.5)	9.0%

The Statement of Activities is government-wide and, like the Statement of Net Position, the first year it was prepared was 2003. Figure A-4 illustrates that a decrease in net position of $8,150,423 is attributable to activity during the year.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The pie chart in Figure A-5 on the following page shows the sources of District revenues. Program revenues include operating grants and contributions which totals 36% of total revenue. Operating grants and contributions consists mostly of state and federal funding of special education and other state and federal categorical spending. Charges for services, comprised of mostly special education tuition billings, food service and community center receipts make up 5% of revenue. Capital Grants consisting of state aid for operating capital is 1% of revenue.

General revenues include the state aid formula which accounts for 39% of the District's total funding. Property taxes make up 18% of the total funding.

Revenues for the year increased by $747,700, or 1.4%. State categorical aids decreased compared to the prior year by 1.7%, or $361,800. Property tax levy revenues increased 7.1%, or $642,700. The decrease in state aids is due to a decline in enrollment, while property taxes increased due to an increase in the levy. Operating grants and contributions increased $395,300 due to an increase in compensatory revenue received by the District.

Expenses for the year were $1,420,600, or 2.4%, higher than the previous year. Sites and buildings expenses increased 15.8%, or $459,800, due to the increase in long-term facilities maintenance funding received. Depreciation costs increased 20% due to the capitalization and depreciation of the first phase of significant construction assets. In the previous year, the district incurred costs for refunding a bond, leading to a decrease in fiscal and other fixed cost programs of 22.7%, or $559,900.

The pie chart illustrated in Figure A-6 on the following page indicates the costs of the District's programs and services. The District's expenses predominantly related to instructing students and pupil support (including food service and student transportation) accounted for 73% of the government-wide expenditures, which is consistent with the percentage of government-wide expenditures in prior years. Sites and buildings were 5%, administration and district support services accounted for 7%, community services expenditures were 5% and less than 1% was spent on fiscal and other fixed programs. Interest expense on the District's outstanding long-term debt was 3% and 5% of expense was attributable to unallocated depreciation (buildings).

Independent School District No. 14
Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-5
Sources of Revenue for Fiscal Year 2018

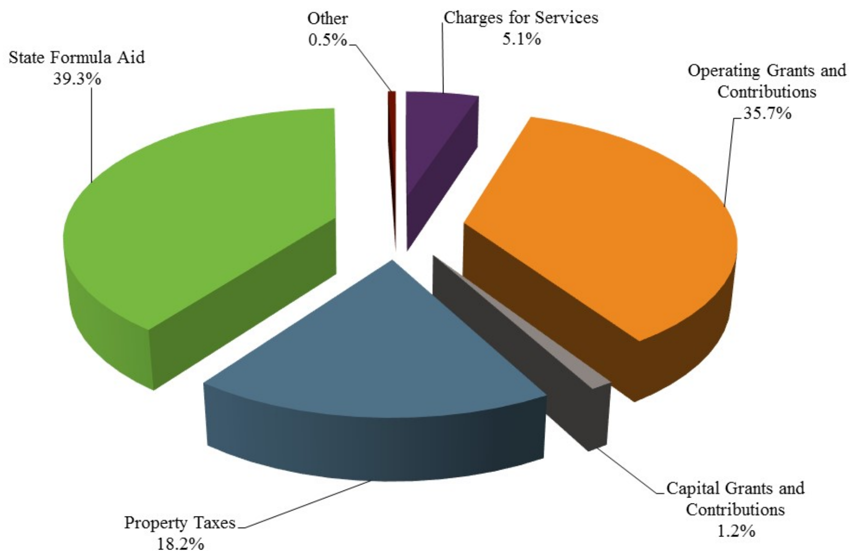
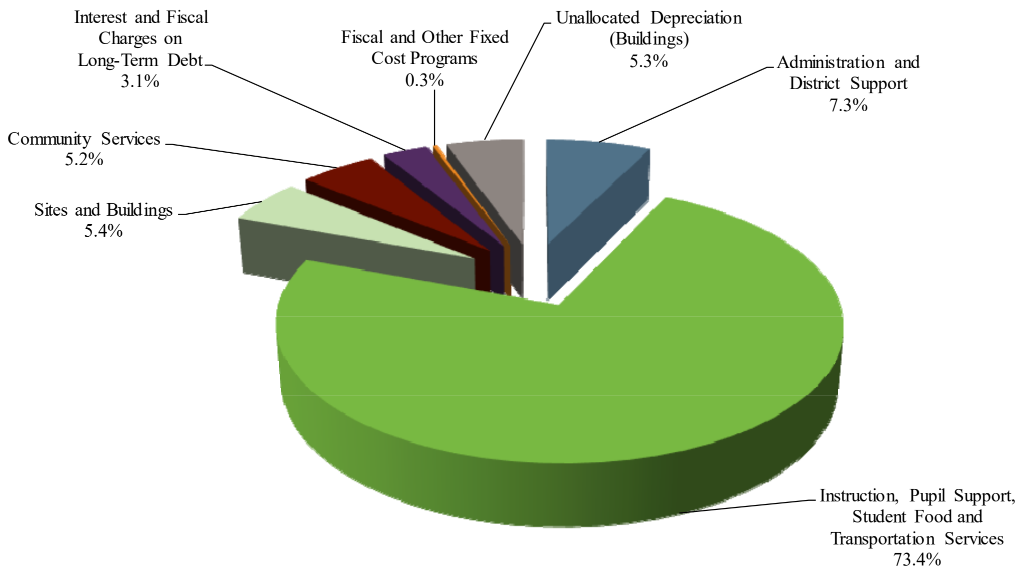


Figure A-6
Expenses for Fiscal Year 2018



FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Figure A-7 presents the cost of the major District activities. The table also shows each activity's net cost (total cost less fees generated by the activities and intergovernmental aid provided for the specific programs). The net cost shows the financial burden placed on the District's taxpayers by each of these functions.

Figure A-7
Net Cost of Activities (in thousands of dollars)

	Total Cost of Services			Net Cost of Services		
	2018	2017	Percent Change	2018	2017	Percent Change
Administration/district support	$ 4,476	$ 4,634	(3.4%)	$ 4,465	$ 4,616	(3.3%)
Regular instruction	22,940	22,768	0.8%	14,580	14,230	2.5%
Vocational instruction	377	540	(30.2%)	335	515	(35.0%)
Special instruction	11,082	10,738	3.2%	4,098	4,408	(7.0%)
Instructional support	3,798	3,465	9.6%	2,842	2,557	11.1%
Pupil support services	5,155	5,041	2.3%	4,297	4,092	5.0%
Sites and buildings	3,373	2,913	15.8%	2,728	2,277	19.8%
Fiscal and other fixed programs	171	166	3.0%	171	166	3.0%
Food service	1,929	1,847	4.4%	(116)	(283)	(59.0%)
Community services	3,222	2,980	8.1%	662	485	36.5%
Unallocated depreciation	3,287	2,738	20.1%	3,287	2,738	20.1%
Interest on long-term debt	1,905	2,465	(22.7%)	1,905	2,465	(22.7%)
Total	$ 61,715	$ 60,295	2.4%	$ 39,254	$ 38,266	2.6%

The cost of all District activities this year was $61.7 million.

- Users of the District's programs financed some of the costs ($2.7 million).
- The federal and state governments subsidized certain programs with operating and capital grants and contributions ($19.8 million).
- District and state taxpayers financed most of the District's activity, $21.1 million from unrestricted state aid and $9.8 million from property taxes.
- Investment and other income increased slightly from the previous year, but remains insignificant in comparison to other revenue sources.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of $9,917,577. This is a decrease of $6,232,236 from last year. This decrease largely resides in the capital projects fund, with the District spending down bond proceeds for the third year of remodeling and reconstruction projects in the District.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

The General Fund unassigned fund balance at June 30, 2018, increased $264,230 to a balance of $2,258,450 is due to operations and releasing assignments of fund balance from the previous years in Separation/Retirement Benefits due to retirements of District staff and in Self-Funding Health Insurance Startup assignment due to the health of the recently-formed Health Insurance Internal Service Fund. Restricted fund balance decreased slightly from the prior year due to the spend down of carry-forward operating capital funds.

The Other Nonmajor Funds reported a $59,787 decrease in fund balances from the previous year. The Food Service fund used a portion of its fund balance to fund new equipment costs in conjunction with the Middle School and R.L. Stevenson Elementary renovations.

General Fund Budgetary Points of Interest

While revenue of $43,999,756 was within .1% of budget overall, the District overbudgeted revenues from state sources by $292,710, with pupil counts coming in lower than anticipated, as well as a transportation adjustment from the previous year impacting actual revenues. The District received more interest and miscellaneous revenue than anticipated, resulting in other local and county revenues ending higher than budget by $178,356. Revenues from local property taxes were over budget due to a higher collection rate and fewer abatements than anticipated. The revenue budget was amended one time by $387,562, mainly in revenues from state sources, for anticipated special education aid increases.

General Fund expenditures of $43,240,714 were under budget, with actual expenditures varying from budgeted expenditures by $861,929. In total, the variance was 1.9%; however, there were variances within several functions of the District. The largest difference was in Elementary and Secondary Regular Instruction, which was under budget by $891,759, or 4.9%, as a result of budgeting an extra .5% on salaries due to unsettled collective bargaining contracts at the final budget revision, along with budgeting for extra teaching positions. Instructional Support Services capital outlay expenditures were over budget by $233,234 with the District entering into three additional instructional capital leases than expected.

The expenditure budget was amended $1,047,850 to a final budget of $44,102,643. This adjustment was made to reflect staffing and resources adjustments as well as an increase in anticipated medical assistance billing costs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Figure A-8 illustrates a comparison of capital assets between this year and last year. 2018 was the third year of the work being funded by the voter approved bond issue approved in November of 2015. The remodels, renovations and additions funded are scheduled to be completed in the 2018-19 school year.

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Capital Assets (Continued)

During the year, the District acquired a net $3,705,422 of capital assets. The buildings category increased $8,948,323 during the year due to the completion of the Middle School and R.L. Stevenson Elementary remodels and renovations, both of which were projects in progress at the end of the prior fiscal year. Work in progress is down significantly from the previous year as a result of the large amount of work that scheduled for the first two years of the bonded remodel and renovation projects. Phase 3 projects that were started in the 2017-18 school year included the Fridley Community Center remodel and renovation and the continuation of the District-wide security upgrades. Improvements and equipment previously capitalized have been disposed of and replaced as part of the remodels, renovations and additions.

Depreciation expense for the year was $3,402,993, which increased from the previous year due to the significant amount of projects capitalized in the current year.

Figure A-8
Capital Assets

	2018	2017	Percent Change
Land	$ 657,500	$ 657,500	- %
Work in progress	1,103,952	4,722,189	(76.6%)
Improvements	2,686,874	1,513,749	77.5%
Buildings	85,687,750	76,739,427	11.7%
Equipment	2,890,441	2,585,077	11.8%
Total before depreciation	93,026,517	86,217,942	7.9%
Accumulated depreciation	(39,540,551)	(36,437,398)	8.5%
Capital assets (net of accumulated depreciation)	$ 53,485,966	$ 49,780,544	7.4%

Long-Term Debt

At year-end, the District had $64,556,446 in total long-term debt as shown in Figure A-9. More detailed information about the District's long-term liabilities is presented in the notes to financial statements.

Figure A-9
Outstanding Long-Term Debt and Separation and Severance Payable

	2018	2017	Percent Change
General Obligation Bonds, Leases and Notes	$ 63,475,739	$ 66,243,287	(4.2%)
Separation & Severance and Vacation Payable	1,080,706	1,277,039	(15.4%)
Total	$ 64,556,445	$ 67,520,326	(4.4%)

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Debt (Continued)

The decrease in General Obligation Bonds, Leases and Notes is primarily related to the principal payment of current debt outstanding. In 2017, the District issued $1,960,000 G.O. Abatement Bonds, Series 2017A for parking lot improvements throughout the District. The District issued $25,890,000 G.O. School Building bonds, Series 2016A in the February of 2016. The voters of the District authorized the bond issue in November of 2015. The last component is an issue of General Obligation Taxable OPEB Bonds, Series 2009A of $3,585,000 to fund the District's Other Post-Employment Benefits.

FACTOR'S BEARING ON THE DISTRICT'S FUTURE

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

- The Minnesota legislature determines education funding for each biennium. The legislature increased the basic state education funding formula by 2% for 2018-19.

- The district's student enrollment declined to 3,054 students in FY 2017-18. This is down 40 students or 1.5% from FY 2016-17. The District's student enrollment trend has been stable in recent years. The majority of school district funding has a direct relationship with enrollment. For example, state formula aid will increase or decrease with these changes. The direction of the District's enrollment will be a key factor for the District going forward.

- The District has a potential liability of several million dollars in post-retirement benefits (health insurance) to be paid to current and future retirees of the District. Because the District expects new retirements over the course of the next few years, payments for these benefits will continue for several years to come. Funding for these expenses will come from an OPEB trust established in 2010. The unfunded portion of this liability is reported in the District statements beginning with the fiscal year ended June 30, 2009, as required by GASB 43 and 45, and subsequently GASB 75.

- The single largest expenses for the District are staff salaries. All of the District bargaining groups have contracts in place through June 30, 2019.

- Historically, Fridley has had a relatively high number of open-enrolled and non-resident students. While our District is able to receive state aid for these students, it would put the District in a difficult financial position if these students chose not to attend our schools in future years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Business Manager, Independent School District 14, 6000 West Moore Lake Drive, Fridley, Minnesota 55432.

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BASIC FINANCIAL STATEMENTS

Independent School District No. 14
Statement of Net Position
June 30, 2018

		Governmental Activities
Assets		
Cash and investments	$	20,784,166
Current property taxes receivable		6,053,995
Delinquent property taxes receivable		107,355
Accounts receivable, net of allowance		107,293
Interest receivable		130,460
Due from Department of Education		4,310,940
Due from Federal Government through Department of Education		1,194,610
Due from other Minnesota school districts		21,631
Due from other governmental units		224,916
Inventory		9,720
Prepaid items		301,472
Capital assets not being depreciated		
Land		657,500
Construction in progress		1,103,952
Capital assets net of accumulated depreciation		
Buildings		49,269,714
Land improvements		1,567,430
Furniture and equipment		887,370
Total assets		86,732,524
Deferred Outflows of Resources		
Deferred charges on refunding		65,446
Deferred outflows of resources related to OPEB		273,818
Deferred outflows of resources related to pensions		41,153,636
Total deferred outflows of resources		41,492,900
Total assets and deferred outflows of resources	$	128,225,424
Liabilities		
Accounts and contracts payable	$	1,726,739
Salaries and benefits payable		1,969,148
Interest payable		948,831
Due to other Minnesota school districts		521,884
Due to other governmental units		100,234
Unearned revenue		1,230,410
Bond principal payable (net unamortized premium)		
Payable within one year		2,680,000
Payable after one year		56,396,730
Capital lease payable		
Payable within one year		778,682
Payable after one year		3,620,327
Vacation payable		
Payable within one year		392,503
Severance payable		
Payable within one year		200,000
Payable after one year		488,203
Net OPEB Liability		3,412,533
Net pension liability		71,711,140
Total liabilities		146,177,364
Deferred Inflows of Resources		
Property taxes levied for subsequent year's expenditures		9,958,725
Deferred inflows of resources related to pensions		12,363,522
Total deferred inflows of resources		22,322,247
Net Position		
Net investment in capital assets		(4,291,553)
Restricted for		
Debt service		246,725
Other purposes		1,461,133
Unrestricted		(37,690,492)
Total net position		(40,274,187)
Total liabilities, deferred inflows of resources, and net position	$	128,225,424

See notes to financial statements.

Independent School District No. 14
Statement of Activities
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) Revenues and Changes in Net Position: Governmental Activities
Governmental activities					
Administration	$ 2,429,567	$ -	$ -	$ -	$ (2,429,567)
District support services	2,046,536	-	11,714	-	(2,034,822)
Elementary and secondary regular instruction	22,939,807	156,787	8,203,309	-	(14,579,711)
Vocational education instruction	376,767	50	41,260	-	(335,457)
Special education instruction	11,082,185	479,562	6,504,279	-	(4,098,344)
Instructional support services	3,797,868	-	956,227	-	(2,841,641)
Pupil support services	5,155,349	95	858,536	-	(4,296,718)
Sites and buildings	3,373,097	-	13,279	631,677	(2,728,141)
Fiscal and other fixed cost programs	171,124	-	-	-	(171,124)
Food service	1,928,868	334,603	1,710,404	-	116,139
Community education and services	3,222,433	1,738,519	821,312	-	(662,602)
Unallocated depreciation	3,286,855	-	-	-	(3,286,855)
Interest and fiscal charges on long-term debt	1,904,764	-	-	-	(1,904,764)
Total governmental activities	$ 61,715,220	$ 2,709,616	$ 19,120,320	$ 631,677	(39,253,607)
General revenues					
Taxes					
Property taxes, levied for general purposes					5,585,295
Property taxes, levied for community service					327,565
Property taxes, levied for debt service					3,841,631
State aid-formula grants					21,057,279
Other general revenues					8,718
Investment income					282,696
Total general revenues					31,103,184
Change in net position					(8,150,423)
Net position - beginning					(28,810,562)
Change in accounting principle (Note 11)					(3,313,202)
Net position - beginning, restated					(32,123,764)
Net position - ending					$ (40,274,187)

See notes to financial statements.

Independent School District No. 14
Balance Sheet - Governmental Funds
June 30, 2018

	General	Debt Service	Capital Projects	Other Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	$ 4,295,567	$ 2,451,552	$ 3,581,002	$ 1,635,854	$ 11,963,975
Current property taxes receivable	3,978,174	1,731,852	-	343,969	6,053,995
Delinquent property taxes receivable	59,265	36,945	-	11,145	107,355
Accounts receivable, net of allowance	17,099	-	-	10,474	27,573
Interest receivable	4,243	-	14,043	-	18,286
Due from Department of Education	4,222,293	50,740	-	37,907	4,310,940
Due from Federal Government through Department of Education	1,162,949	-	-	31,661	1,194,610
Due from other Minnesota school districts	18,686	-	-	2,945	21,631
Due from other governmental units	169,905	-	6,400	48,611	224,916
Inventory	-	-	-	9,720	9,720
Prepaid items	300,318	-	-	1,154	301,472
Total assets	$ 14,228,499	$ 4,271,089	$ 3,601,445	$ 2,133,440	$ 24,234,473
Liabilities					
Accounts and contracts payable	$ 391,599	$ -	$ 788,671	$ 55,334	$ 1,235,604
Salaries and benefits payable	1,856,824	-	-	112,324	1,969,148
Due to other Minnesota school districts	521,884	-	-	-	521,884
Due to other governmental units	95,736	-	-	4,498	100,234
Unearned revenue	-	-	-	28,270	28,270
Severance payable	455,068	-	-	-	455,068
Total liabilities	3,321,111	-	788,671	200,426	4,310,208
Deferred Inflows of Resources					
Unavailable revenue - delinquent property taxes	27,233	16,322	-	4,408	47,963
Property taxes levied for subsequent year's expenditures	5,752,864	3,347,092	-	858,769	9,958,725
Total deferred inflows of resources	5,780,097	3,363,414	-	863,177	10,006,688
Fund Balances					
Nonspendable	300,318	-	-	10,874	311,192
Restricted	539,715	907,675	2,812,774	1,058,963	5,319,127
Assigned	2,028,808	-	-	-	2,028,808
Unassigned	2,258,450	-	-	-	2,258,450
Total fund balances	5,127,291	907,675	2,812,774	1,069,837	9,917,577
Total liabilities, deferred inflows of resources, and fund balances	$ 14,228,499	$ 4,271,089	$ 3,601,445	$ 2,133,440	$ 24,234,473

Independent School District No. 14
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2018

Total fund balances - governmental funds	$ 9,917,577
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.	
Cost of capital assets	93,026,517
Less accumulated depreciation	(39,540,551)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bond principal payable	(54,125,000)
Capital lease payable	(4,399,009)
Compensated absences payable	(392,503)
Severance payable	(233,135)
Net discounts/premiums	(4,951,730)
Deferred refundings	65,446
Net OPEB liability	(3,412,533)
Net pension liability	(71,711,140)
Deferred outflows of resources and deferred inflows of resources are created as a result of differences between actual and expected contributions and earnings on plan investments as well as changes in proportion and are not recognized in the governmental funds.	
Deferred outflows of resources related to pensions	41,153,636
Deferred inflows of resources related to pensions	(12,363,522)
Deferred outflows of resources related to OPEB	273,818
Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	47,963
The Internal Service Fund is used by management to charge the cost of the retiree benefit plan. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Position.	2,793,185
The Post Employment Benefits Revocable Trust Internal Service Fund is used to charge the benefits to the fund that incurs the cost. This amount represents assets available to fund the liabilities.	4,525,625
Governmental funds do not report a liability for accrued interest on bonds and capital leases until due and payable.	(948,831)
Total net position - governmental activities	$ (40,274,187)

See notes to financial statements.

Independent School District No. 14
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2018

	General	Debt Service	Capital Projects	Other Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	$ 5,586,336	$ 3,290,967	$ -	$ 887,760	$ 9,765,063
Other local and county revenues	1,228,134	24,995	52,792	1,949,338	3,255,259
Revenue from state sources	35,959,679	520,236	-	805,244	37,285,159
Revenue from federal sources	1,213,943	-	-	1,515,653	2,729,596
Sales and other conversion of assets	11,664	-	-	334,603	346,267
Total revenues	43,999,756	3,836,198	52,792	5,492,598	53,381,344
Expenditures					
Current					
Administration	1,816,348	-	-	-	1,816,348
District support services	1,996,408	-	-	-	1,996,408
Elementary and secondary regular instruction	17,263,846	-	-	-	17,263,846
Vocational education instruction	284,714	-	-	-	284,714
Special education instruction	8,997,368	-	-	-	8,997,368
Instructional support services	2,679,819	-	-	-	2,679,819
Pupil support services	4,681,766	-	-	-	4,681,766
Sites and buildings	3,018,248	-	376,579	-	3,394,827
Fiscal and other fixed cost programs	171,124	-	-	-	171,124
Food service	-	-	-	1,877,005	1,877,005
Community education and services	-	-	-	2,941,756	2,941,756
Capital outlay					
Administration	4,424	-	-	-	4,424
District support services	36,476	-	-	-	36,476
Elementary and secondary regular instruction	104,564	-	-	-	104,564
Vocational education instruction	5,219	-	-	-	5,219
Special education instruction	39,433	-	-	-	39,433
Instructional support services	563,714	-	-	-	563,714
Sites and buildings	698,900	-	6,103,716	-	6,802,616
Food service	-	-	-	264,384	264,384
Community education and services	-	-	-	11,779	11,779
Debt service					
Principal	734,930	1,745,000	-	390,000	2,869,930
Interest and fiscal charges	143,413	2,087,364	-	171,077	2,401,854
Total expenditures	43,240,714	3,832,364	6,480,295	5,656,001	59,209,374
Excess of revenues over (under) expenditures	759,042	3,834	(6,427,503)	(163,403)	(5,828,030)
Other Financing Sources (Uses)					
Proceeds from capital leases	566,843	-	-	-	566,843
Transfers in	-	-	477,116	103,616	580,732
Transfers out	(1,551,781)	-	-	-	(1,551,781)
Total other financing sources (uses)	(984,938)	-	477,116	103,616	(404,206)
Net change in fund balances	(225,896)	3,834	(5,950,387)	(59,787)	(6,232,236)
Fund Balances					
Beginning of year	5,353,187	903,841	8,763,161	1,129,624	16,149,813
End of year	$ 5,127,291	$ 907,675	$ 2,812,774	$ 1,069,837	$ 9,917,577

See notes to the financial statements.

Independent School District No. 14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities - Governmental Funds
Year Ended June 30, 2018

Net change in fund balances - total governmental funds	$ (6,232,236)
Amounts reported for governmental activities in the Statement of Activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.	
Capital outlays	7,144,139
Depreciation expense	(3,402,993)
Loss on disposal of capital assets	(35,724)
Compensated absences and severance are recognized as they are paid in the governmental funds but are recognized as the expense is incurred in the Statement of Activities.	222,649
Net post employment benefit obligations are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(112,159)
Governmental Funds recognize pension contributions as expenditures at the time of payment in the funds whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	(10,096,422)
Principal payments on long-term debt are recognized as expenditures in the governmental funds but have no effect on net position in the Statement of Activities.	2,869,930
Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	41,073
Governmental funds report the effect of bond discounts, premiums and deferred refundings when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.	456,017
Proceeds from the sale of bonds and issuance of capital leases are recognized as other financing sources in the governmental funds increasing fund balance but have no effect on net position in the Statement of Activities.	
Capital lease payable	(566,843)
The Post Employment Benefits Revocable Trust Internal Service Fund is used to charge the benefits to the fund that incurs the cost. This amount represents the change in assets available to fund the liabilities.	21,338
The Internal Service Fund is used by management to charge the costs of the retiree health insurance plan. The net gain is reported within the governmental activities in the Statement of Activities.	1,551,380
Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(10,572)
Change in net position - governmental activities	$ (8,150,423)

See notes to financial statements.

Independent School District No. 14
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget -
	Original	Final	Amounts	Over (Under)
Revenues				
Local property taxes	$ 5,508,500	$ 5,479,769	$ 5,586,336	$ 106,567
Other local and county revenues	1,010,576	1,049,778	1,228,134	178,356
Revenue from state sources	35,814,767	36,252,389	35,959,679	(292,710)
Revenue from federal sources	1,291,652	1,231,121	1,213,943	(17,178)
Sales and other conversion of assets	9,600	9,600	11,664	2,064
Total revenues	43,635,095	44,022,657	43,999,756	(22,901)
Expenditures				
Current				
Administration	1,746,720	1,848,690	1,816,348	(32,342)
District support services	2,170,500	2,164,730	1,996,408	(168,322)
Elementary and secondary regular instruction	17,648,704	18,155,605	17,263,846	(891,759)
Vocational education instruction	269,796	295,147	284,714	(10,433)
Special education instruction	9,033,639	9,050,687	8,997,368	(53,319)
Instructional support services	2,690,698	2,747,007	2,679,819	(67,188)
Pupil support services	4,612,258	4,626,201	4,681,766	55,565
Sites and buildings	2,946,478	2,887,882	3,018,248	130,366
Fiscal and other fixed cost programs	180,400	172,400	171,124	(1,276)
Capital outlay				
Administration	-	20,000	4,424	(15,576)
District support services	26,227	18,205	36,476	18,271
Elementary and secondary regular Instruction	95,146	109,446	104,564	(4,882)
Vocational education instruction	-	5,219	5,219	-
Special education instruction	-	-	39,433	39,433
Instructional support services	4,000	330,480	563,714	233,234
Sites and buildings	785,767	785,767	698,900	(86,867)
Debt service				
Principal	680,810	726,765	734,930	8,165
Interest and fiscal charges	163,650	158,412	143,413	(14,999)
Total expenditures	43,054,793	44,102,643	43,240,714	(861,929)
Excess of revenues over (under) expenditures	580,302	(79,986)	759,042	839,028
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	2,000	2,000	-	(2,000)
Proceeds from capital leases	-	305,480	566,843	261,363
Transfers out	(576,963)	(568,051)	(1,551,781)	(983,730)
Total other financing sources (uses)	(574,963)	(260,571)	(984,938)	(724,367)
Net change in fund balances	$ 5,339	$ (340,557)	(225,896)	$ 114,661
Fund Balance				
Beginning of year			5,353,187	
End of year			$ 5,127,291	

See notes to financial statements.

Independent School District No. 14
Statement of Net Position - Proprietary Funds
June 30, 2018

	Total Internal Service Funds
Assets	
Cash and cash equivalents	$ 4,324,033
Investments	4,496,158
Accounts receivable	79,720
Due from other funds	94,528
Interest receivable	112,174
Total assets	$ 9,106,613
Liabilities	
Accounts payable	$ 61,167
Incurred but not reported claims	429,968
Due to other funds	94,528
Deferred revenue	1,202,140
Total liabilities	1,787,803
Net Position	
Unrestricted	7,318,810
Total liabilities and net position	$ 9,106,613

See notes to financial statements.

Independent School District No. 14
Statement of Revenues, Expenses, and Changes
in Fund Net Position - Proprietary Funds
Year Ended June 30, 2018

	Total Internal Service Funds
Operating Revenues	
Charges for services	$ 5,519,277
Operating Expense	
Insurance	4,274,559
Administrative	713,202
Total operating expenses	4,987,761
Operating income	531,516
Nonoperating Revenues	
Investment income	70,153
Net loss before transfers	601,669
Transfer in	971,049
Change in net position	1,572,718
Net Position	
Beginning of year	5,746,092
End of year	$ 7,318,810

See notes to financial statements.

Independent School District No. 14
Statement of Cash Flows - Proprietary Funds
Year Ended June 30, 2018

	Total Internal Service Funds
Cash Flows - Operating Activities	
Receipts from district contribution	$ 122,698
Receipts from employees	6,533,141
Payments to vendors	(4,664,593)
Net cash flows - operating activities	1,991,246
Cash Flows - Non-Capital Financing Activities	
Due to other funds	94,528
Due from other funds	(94,528)
Transfers from Other Funds	971,049
Net Cash Flows - Investing Activities	971,049
Cash Flows - Investing Activities	
Net sale/(purchase) of investments	(323,407)
Interest received	34,256
Net cash flows - investing activities	(289,151)
Net change in cash and cash equivalents	2,673,144
Cash and Cash Equivalents	
Beginning of year	1,650,889
End of year	$ 4,324,033
Reconciliation of Operating Income to Net Cash Flows - Operating Activities	
Operating income	$ 531,516
Adjustments to reconcile operating income to net cash flows - operating activities	
Change in assets and liabilities	
Accounts receivable	(65,578)
Unearned revenue	1,202,140
Accounts payable	323,168
Net cash flows - operating activities	$ 1,991,246
Non Cash Financing Activities	
Purchase (sale) of investments	$ 323,407

See notes to financial statements.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

A. Reporting Entity

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

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

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

The student activity accounts of the District are not under the School Board's control; therefore, separate audited financial statements have been issued.

B. Basic Financial Statement Information

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

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

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

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting, transactions are recorded in the following manner.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Internal Service Fund are employee and District contributions. Operating expenses for proprietary funds include claims paid and administrative expenses. All revenues and expenses not meeting this definition are reposted as nonoperating revenues and expenses.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

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

Description of Funds:

Major Funds:

General Fund – This fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

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

Building Construction Fund – Capital Projects – This fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

Nonmajor Funds:

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

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

Post Employment Benefits Debt Service Fund – This fund is used to account for levy proceeds and the payment of G.O. taxable OPEB Bonds principal, interest, and related costs.

Proprietary Funds:

Self Insurance Internal Service Fund – This fund is used to account for operations of the District's self – insured insurance plans. Premiums collected from employees are collected from other governmental funds and insurance claims are paid by this fund.

Post Employment Benefits Revocable Trust Internal Service Fund – This fund is used to account for the accumulation of resources to fund post employment benefits.

D. Cash and Investments

Cash and investments balances from all funds (except a portion of the Capital Projects Fund and the Post Employment Benefits Revocable Trust Internal Service Fund) that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Cash and Investments (Continued)

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

Cash and investments at June 30, 2018, were comprised of certificates of deposit, government securities, and shares in the Minnesota Trust (MNTrust) Term Series. MNTrust securities are valued at amortized cost, which approximates fair value.

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

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

In accordance with GASB Statement No. 79, the various MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from MNTrust. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

E. Property Tax Receivable

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

F. Property Taxes Levied for Subsequent Year's Expenditures

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Inventories

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

H. Prepaid Items

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

I. Property Taxes

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

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

J. Capital Assets

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

Capital assets are defined by the District as assets with an initial individual cost of more than $5,000. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at its acquisition value at the date of donation.

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 20 to 50 years for land improvements and buildings and 5 to 15 years for equipment.

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Deferred Outflows/Inflows of Resources

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

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

L. Long-Term Obligations

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Compensated Absences

1. **Vacation**
Teachers are eligible for vacation of 2 days per year which can be accumulated to 7 days. Other employees qualify for vacation ranging from 5 to 45 days per year which are generally accumulated at year-end and payable during the ensuing year. Vacation is accrued for these employees in the Statement of Net Position since it is deemed to be payable at year-end.

2. **Sick Leave**
Substantially all District employees are entitled to sick leave at various rates. For certain employees, unused sick leave enters into the calculation of severance pay upon termination.

N. Severance Payable

The District maintains severance payment plans for certain employee groups. Each employee group plan contains requirements for lump sum payments based on employment date, years of service and/or minimum age requirements. Benefits are calculated based on various formulas converting accrued sick leave into a lump sum payment. No employee can receive payments exceeding one year's salary. For employees retiring on or before June 30, 2018, who are entitled to receive payments, an accrual is made in the governmental fund incurring the liability.

The amount of severance payment that is based on convertible sick leave is recorded as a liability in the government-wide financial statements as it is earned and when it becomes probable that it will vest at some point in the future.

O. Pensions

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Postemployment Benefits Other Than Pensions (OPEB)

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

Q. Risk Management

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

R. Fund Equity

In the fund financial statements, governmental funds report various levels of spending constraints.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include, but are not limited to, inventories and prepaid items.

- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.

- Assigned Fund Balances – The School Board by majority vote may assign fund balances to be used for specific purposes. The board also delegated power to assign fund balances to the Superintendent and Director of Finance.

- Minimum Fund Balance Policy – The School Board shall strive to maintain a fund balance of between 7% and 10% of total unrestricted expenditures. The fund balance shall be defined as the sum of the undesignated/unreserved fund balance. It shall not include funds reserved for operating capital, health and safety, basic skills, or any other new reserve created by the School Board, state, or federal guidelines.

S. Net Position

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Use of Estimates

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

U. Budgetary Information

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

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for all governmental funds.
4. Budgets for the governmental funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

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

Custodial Credit Risk – Deposits: This is the risk that, in the event of the failure of a depository financial institution, the District will not be able to recover deposits or collateral securities that are in the possession of an outside party. *Minnesota Statutes* requires all deposits be protected by federal depository insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds. The District's policy states funds may not be invested in an institution that does not agree to provide the required collateral as noted.

As of June 30, 2018, the District's bank balance was not exposed to custodial credit risk because it was insured and properly collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

A. Deposits (Continued)

At June 30, 2018, the District had the following deposits:

Pooled		
Cash	$	(111,123)
Certificates of Deposit		2,000,000
Total pooled deposits	$	1,888,877
Non-pooled		
Capital Project Fund		
Certificates of Deposit	$	489,100
OPEB Revocable Trust Fund		
Certificates of Deposit	$	3,450,400
Total non-pooled deposits	$	3,939,500

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

Investment	Maturities	Fair Value	Percent of Total
Pooled			
MNTrust	6/30/18	$ 5,371,000	51.79%
MNTrust Term Series	7/25/18	5,000,000	48.21%
Total pooled		$ 10,371,000	100.00%
Capital Project Fund non-pooled			
MNTrust	6/30/18	485,251	13.73%
MNTrust Term Series	7/25/18	500,000	14.14%
MNTrust Term Series	7/25/18	1,900,000	53.75%
Federal National Mortgage Association Note	7/20/18	649,747	18.38%
Total capital project non-pooled		$ 3,534,998	100.00%

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

Investment	Maturities	Fair Value	Percent of Total
OPEB Revocable Trust Fund non-pooled			
MNTRUST	6/30/18	$ 3,633	0.35%
Dollar Bank, FSB Certificate of Deposit	9/18/18	214,870	20.48%
Discover Bank Certificate of Deposit	10/15/18	247,695	23.60%
Ally Bank Certificate of Deposit	1/28/19	173,508	16.53%
Oakwood OH City School District	12/9/19	409,685	39.04%
Total OPEB Revocable Trust Fund non-pooled investments		1,049,391	100.00%
Total investments		$ 14,955,389	

MNTrust is an external investment pool not registered with the SEC and invests according to *Minnesota Statutes.* The fair value position in the pool is the same as the value of the pooled shares.

As of June 30, 2018, the District has formal policies in place to address custodial credit risk, custodial credit risk, concentration of credit risk and interest rate risk for investments.

Credit Risk: This is the risk an issuer or other counterparty to an investment will not fulfill its obligations. *Minnesota Statutes* 118A.04 and 118A.05 limit investments that are in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy limits its investments to those allowed by state statutes. Additionally, investment in commercial paper is limited to those rated in the highest classifications by at least two of the four nationally recognized rating services. As of June 30, 2018, the District's investments in MNTrust money market and MNTrust Term Series was rated AAAm by Standard & Poor's (S&P). The Oakwood OH City School District bonds were rated Aa2 by Moody's. The US Treasury Note and Federal National Mortgage Association Note were both rated Aaa by Moody's. The certificates of deposit were unrated.

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The District's investment policy states investment maturities shall be scheduled to coincide with projected District cash flow needs.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy places no limit on the amount the District may invest in any one issuer, though it does state the District will limit investments to avoid over concentration in securities from a specific issuer or business sector. As of June 30, 2018, the District was exposed to concentration of credit risk as more than 5% of its total investments were invested in individual investments as indicated by the table on the previous pages.

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Custodial Credit Risk – Investments: This is the risk in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy requires all investments be held in third party safekeeping by an institution designated as a custodial agent and all investments shall be fully collateralized.

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

- $1,695,505 of investments are significant other observable inputs (Level 2 inputs)

C. Deposits and Investments

Summary of cash, deposits, and investments as of June 30, 2018:

Petty cash	$ 400
Deposits (Note 3.A.)	
Pooled	1,888,877
Non-pooled	3,939,500
Investments (Note 3.B.)	
Pooled	10,371,000
Non-pooled	4,584,389
Total deposits and investments	$ 20,784,166

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

Statement of Net Position	
Cash and investments	$ 20,784,166

NOTE 3 – INTERFUND ACTIVITY

A. Transfers

	Transfers In			
	Capital Project Fund	Other Nonmajor Funds	Self-Insurance Fund	Total
Transfers out				
General Fund	$ 477,116	$ 103,616	$ 971,049	$ 1,551,781

NOTE 3 – INTERFUND ACTIVITY

A. Transfers (Continued)

These transfers were performed to distribute levy dollars dedicated to specific funds in accordance with bond documents and to transfer initial self-insurance fund contributions.

B. Due To/From Other Funds

There was a due to/from other funds of $94,528 between the Self Insurance Fund and the OPEB Revocable Trust Fund for negative cash in the OPEB Revocable Trust Fund.

NOTE 4 – CAPITAL ASSETS

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

	Beginning Balance	Reclassifications	Increases	Decreases	Ending Balance
Governmental activities					
Capital assets not being depreciated					
Land	$ 657,500	$ -	$ -	$ -	$ 657,500
Work in progress	4,722,189	-	6,813,202	10,431,439	1,103,952
Total capital assets not being depreciated	5,379,689	-	6,813,202	10,431,439	1,761,452
Capital assets being depreciated					
Buildings	76,739,427	(344,329)	9,298,422	5,770	85,687,750
Land improvements	1,513,749	(9,827)	1,190,852	7,900	2,686,874
Furniture and equipment	2,585,077	354,156	273,102	321,894	2,890,441
Total capital assets being being depreciated	80,838,253	-	10,762,376	335,564	91,265,065
Less accumulated depreciation for					
Buildings	33,288,188	(30,700)	3,165,453	4,905	36,418,036
Land improvements	1,251,112	(230,520)	103,987	5,135	1,119,444
Furniture and equipment	1,898,098	261,220	133,553	289,800	2,003,071
Total accumulated depreciation	36,437,398	-	3,402,993	299,840	39,540,551
Total capital assets being depreciated, net	44,400,855	-	7,359,383	35,724	51,724,514
Governmental activities, capital assets, net	$ 49,780,544	$ -	$ 14,172,585	$ 10,467,163	$ 53,485,966

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense of $3,402,993 for the year ended June 30, 2018, was charged to the following governmental functions:

District support services	$ 3,057
Regular instruction	3,518
Vocational Instruction	597
Special education instruction	4,756
Instructional support services	36,611
Food service	29,995
Community education and services	64,465
Unallocated	3,259,994
Total depreciation expense	$ 3,402,993

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

Long-term liabilities as of June 30, 2018, consisted of the following:

	Interest Rate	Maturity Date	Original Issue	Balance	Due Within One Year
G.O. School Building Refunding Bonds	2.00%-3.00%	02/01/26	$ 11,240,000	$ 7,675,000	$ 820,000
G.O. Taxable OPEB Bonds Series 2009A	5.00%-5.75%	02/01/24	5,485,000	2,820,000	410,000
G.O. School Building Bonds Series 2016A	3.00%-5.00%	02/01/35	25,890,000	25,845,000	200,000
G.O. Alternative Facilities Bonds Series 2016B	4.00%-5.00%	02/01/28	16,740,000	15,825,000	1,050,000
G.O. Abatement Bonds Series 2017A	3.00%	02/01/27	1,960,000	1,960,000	200,000
Unamortized bond discounts and premiums, net				4,951,730	-
Total G.O. bonds (net of unamortized premium)				59,076,730	2,680,000
Energy loan capital lease	4.15%	07/31/22	3,142,381	1,321,486	298,758
Elementary additions capital lease	2.75%	02/01/28	3,400,000	2,406,342	212,150
Phone/network LPA lease	2.34%	10/29/18	178,396	36,678	36,678
Phone/network LPA lease	2.58%	10/29/19	117,140	26,199	23,570
Phone/network LPA lease	3.21%	10/31/18	99,425	6,910	6,910
Technology and Computer lease	3.88%	09/30/19	30,975	3,774	3,774
Technology and Computer lease	3.74%	09/30/19	30,165	9,103	7,162
Technology and Computer lease	3.38%	02/28/20	156,245	47,224	37,016
Technology Lease	3.072%	12/31/20	34,265	18,368	7,772
Equipment lease	2.75%	06/24/20	62,827	32,276	15,916
Technology Lease	4.00%	02/24/22	204,299	153,710	44,326
Technology Lease	4.00%	02/24/23	82,748	65,305	15,068
Technology Lease	4.22%	02/24/21	25,391	17,229	7,387
Technology Lease	4.69%	08/31/22	102,850	102,850	24,949
Technology Lease	4.65%	08/31/22	34,080	34,080	8,383
Technology Lease	4.70%	08/31/22	117,475	117,475	28,863
Vacation payable				392,503	392,503
Severance payable				688,203	200,000
Total all long-term liabilities				$ 64,556,445	$ 4,051,185

The long-term bond and lease liabilities listed above were issued to finance the acquisition and construction, or improvements of capital facilities, or to refinance (refund) previous bond issues. Other liabilities are typically liquidated through the General Fund.

NOTE 5 – LONG-TERM DEBT (CONTINUED)

B. Minimum Debt Payments for Bonds

Year Ending, June 30,	G.O. Bonds Principal	Interest	Total
2019	$ 2,680,000	$ 2,167,878	$ 4,847,878
2020	2,865,000	2,046,078	4,911,078
2021	2,990,000	1,914,825	4,904,825
2022	3,130,000	1,777,338	4,907,338
2023	3,265,000	1,642,338	4,907,338
2024-2028	18,330,000	5,953,863	24,283,863
2029-2033	14,430,000	2,461,050	16,891,050
2034-2035	6,435,000	291,000	6,726,000
Total	$ 54,125,000	$ 18,254,370	$ 72,379,370

C. Changes in Long-Term Liabilities

	Beginning Balance, Restated	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. Bonds	$ 56,260,000	$ -	$ 2,135,000	$ 54,125,000
Unamortized discount and premium, net	5,416,190	-	464,460	4,951,730
Capital lease	4,567,097	566,843	734,931	4,399,009
Vacation payable	396,746	465,594	469,837	392,503
Severance benefits payable	880,293	5,374	197,464	688,203
Total long-term liabilities	$ 67,520,326	$ 1,037,811	$ 4,001,692	$ 64,556,445

NOTE 5 – LONG-TERM DEBT (CONTINUED)

D. Capital Lease Obligations

On April 14, 2014, the District entered into a lease purchase agreement for telephones and network equipment. The capital lease obligation totaled $178,396. The capital lease agreement includes annual principal and interest payments of $37,511.

On April 14, 2014, the District entered into a lease purchase agreement for telephones and network equipment. The capital lease obligation totaled $117,140. The capital lease agreement includes annual principal and interest payments ranging from $24,251 to $2,697.

On July 28, 2014, the District entered into a lease purchase agreement for telephones and network equipment. The capital lease obligation totaled $99,425. The capital lease agreement includes annual principal and interest payments ranging from $24,416 to $6,929.

On September 30, 2015, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled $32,453. The capital lease agreement includes annual principal and interest payments ranging from $3,920 to $9,511.

On September 30, 2015, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled $31,953. The capital lease agreement includes annual principal and interest payments ranging from $1,940 to $7,503.

On February 28, 2016, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled $165,115. The capital lease agreement includes annual principal and interest payments ranging from $10,560 to $38,639.

On June 3, 2016, the District entered into a lease purchase agreement for equipment. The capital lease obligation totaled $67,260. The capital lease agreement includes annual principal and interest payments of $16,815.

On November 30, 2016, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled $34,265. The capital lease agreement includes annual principal and interest payments ranging from $2,654 to $8,369.

On August 3, 2017, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled $204,299. The capital lease agreement includes annual principal and interest payments ranging from $15,811 to $50,588.

On August 3, 2017, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled $82,748. The capital lease agreement includes annual principal and interest payments ranging from $1,722 to $17,443.

On August 4, 2017, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled $25,391. The capital lease agreement includes annual principal and interest payments ranging from $2,149 to $8,162.

NOTE 5 – LONG-TERM DEBT (CONTINUED)

D. Capital Lease Obligations (Continued)

On May 16, 2018, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled $102,850. The capital lease agreement includes annual principal and interest payments ranging from $11,649 to $24,949.

On May 16, 2018, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled $34,080. The capital lease agreement includes annual principal and interest payments ranging from $3,344 to $8,383.

On June 11, 2018, the District entered into a lease purchase agreement for technology. The capital lease obligation totaled $117,475. The capital lease agreement includes annual principal and interest payments ranging from $11,675 to $22,863.

The future minimum lease obligations and the net present value of these minimum lease payments are listed below.

Year Ending June 30,	
2019	$ 909,788
2020	823,824
2021	787,788
2022	760,270
2023	353,732
2024-2028	1,384,381
Total minimum lease payments	5,019,783
Less amount representing interest	(620,774)
Present value of net minimum lease payments	$ 4,399,009

The assets purchased with the 2013 leases are classified as buildings and totaled $3,211,356. The associated accumulated depreciation for these assets is $321,136 for a net value of $2,890,220. The assets added through the 2013 leases are less than the leases issued due to expenditures that did not meet the criteria for capitalization.

The assets purchased through the 2014 and 2015 leases did not meet the threshold for capitalization and are not included in capital assets, therefore there is no depreciation or net value to report.

The assets purchased with the 2016 leases are classified as equipment and totaled $44,621. The associated accumulated depreciation for these assets is $26,773 for a net value of $17,848. The assets added through the 2016 leases are less than the leases issued due to expenditures that did not meet the criteria for capitalization.

The assets purchased through the fiscal year 2017 leases did not meet the threshold for capitalization and are not included in capital assets, therefore there is no depreciation or net value to report.

NOTE 5 – LONG-TERM DEBT (CONTINUED)

D. Capital Lease Obligations (Continued)

The assets purchased with the 2018 leases are classified as equipment and totaled $59,699. The associated accumulated depreciation for these assets is $11,940 for a net value of $47,759. The assets added through the 2018 leases are less than the leases issued due to expenditures that did not meet the criteria for capitalization.

NOTE 6 – FUND BALANCES

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

Fund Equity

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

A. Restricted Fund Balance

	General Fund	Debt Service	Capital Projects	Other Nonmajor Funds	Total
Nonspendable					
Inventories	$ -	$ -	$ -	$ 9,720	$ 9,720
Prepaid items	300,318	-	-	1,154	301,472
Total nonspendable	300,318	-	-	10,874	311,192
Restricted/reserved for					
Safe Schools - Crime Levy	68,167	-	-	-	68,167
Operating Capital	176,644	-	-	-	176,644
Medical Assistance	294,904	-	-	-	294,904
Community Education	-	-	-	260,914	260,914
ECFE	-	-	-	78,187	78,187
School Readiness	-	-	-	47,235	47,235
Capital Projects	-	-	2,440,780	-	2,440,780
Capital Projects Levy	-	-	371,994	-	371,994
Debt Service	-	907,675	-	150,050	1,057,725
Food Service	-	-	-	455,825	455,825
Community Service	-	-	-	66,752	66,752
Total Restricted/reserved	539,715	907,675	2,812,774	1,058,963	5,319,127
Assigned for					
Students	85,242	-	-	-	85,242
Capital Project	968,405	-	-	-	968,405
Separation/Retirement Benefits	233,136	-	-	-	233,136
Medical Assistance Pre 2016-2017	742,025	-	-	-	742,025
Total assigned	2,028,808	-	-	-	2,028,808
Unassigned					
Capital Projects Levy	(2)	-	-	-	(2)
Health and Safety	(1,179)	-	-	-	(1,179)
Long Term Facilities Maintenance	(289,308)	-	-	-	(289,308)
Unassigned	2,548,939	-	-	-	2,548,939
Total unassigned	2,258,450	-	-	-	2,258,450
Total fund balance	$ 5,127,291	$ 907,675	$ 2,812,774	$ 1,069,837	$ 9,917,577

NOTE 6 – FUND BALANCES (CONTINUED)

Fund Equity (Continued)

A. Restricted Fund Balance (Continued)
*Negative restricted/reserved fund balances have been reclassified to unassigned for the financial statements in accordance with GASB Statement No. 54.

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

Restricted/Reserved for Safe Schools – Crime Levy – The unspent resources available from the levy must be reserved in this account for future use.

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

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

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

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

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs. Related to Finance Code 344, School Readiness *Minnesota Statutes* 124D.16.

Restricted/Reserved for Capital Projects – This amount represents available resources for capital projects.

Restricted/Reserved for Debt Service – This balance represents the positive fund balance of the Debt Service Fund.

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

Restricted for Community Service – This balance represents the positive fund balance of the Community Service Fund not set aside in other restrictions.

Assigned for Students – This balance represents resources set aside for each building based on fundraising done by students and donations for various programs.

NOTE 6 – FUND BALANCES (CONTINUED)

Fund Equity (Continued)

A. Restricted Fund Balance (Continued)

Assigned for Capital Projects – This balance represents resources set aside for future capital projects.

Assigned for Separation/Retirement Benefits – This balance represents resources set aside for future separation and retirement obligations.

Assigned for Medical Assistance Revenue – This balance represents medical assistance revenues that have been received but not yet spent and are available for future obligations.

Unassigned for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan through June 30, 2016. The ending fund balance will continue to have levy adjustments applied through, June 30, 2019.

Unassigned for Capital Projects Levy – This amount represents available resources from the capital projects levy to be used for building construction and other projects.

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

B. Net Position

Net position restricted for other purposes is comprised of the positive General Fund and total Special Revenue Funds restricted balances.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2017, was $12,121,515. The components of pension expense are noted in the following plan summaries.

Teachers' Retirement Association

A. Plan Description

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

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

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

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

Tier 1 Benefits

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

With these provisions:

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

Tier II Benefits

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

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

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

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

C. Contribution Rate

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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

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

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

Changes in actuarial assumptions since the 2016 valuation:

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

E. Discount Rate

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

F. Net Pension Liability

On June 30, 2018, the District reported a liability of $65,614,483 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District's proportionate share was 0.3287% at the end of the measurement period and 0.3130% 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	$ 65,614,483
State's proportionate share of the net pension liability associated with the District	6,343,192

For the year ended June 30, 2018, the District recognized pension expense of $11,522,399. It recognized $121,658 as an increase to this pension expense for the support provided by direct aid.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 472,152	$ 460,672
Net difference between projected and actual earnings on plan investments	-	699,628
Changes in assumptions	33,945,658	9,191,553
Changes in proportion	3,611,442	481,505
District's contributions subsequent to measurement date	1,422,140	-
Total	$ 39,451,392	$ 10,833,358

$1,422,140 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019.

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

2019	$ 6,849,399
2020	7,985,878
2021	7,452,280
2022	6,214,309
2023	(1,305,972)
Total	$ 27,195,894

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

G. Pension Liability Sensitivity

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

District proportionate share of NPL		
1% decrease (4.12%)	Current (5.12%)	1% increase (6.12%)
$ 86,598,474	$ 65,614,483	$ 47,922,425

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

H. Pension Plan Fiduciary Net Position

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

Public Employees' Retirement Association

A. Plan Description

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

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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

B. Benefits Provided

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

B. Benefits Provided (Continued)

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

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

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2018. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2018. The District's contributions to the General Employees Fund for the year ended June 30, 2018, were $479,081. The District's contributions were equal to the required contributions as set by state statute.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2018, the District reported a liability of $6,096,657 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $76,662. 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 0.0955%, which was an increase of 0.0002% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $599,116 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized $2,214 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 200,927	$ 394,265
Changes in actuarial assumptions	1,010,056	611,190
Difference between projected and actual investments earnings	-	304,144
Change in proportion	12,180	220,565
Contributions paid to PERA subsequent to the measurement date	479,081	-
Total	$ 1,702,244	$ 1,530,164

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

General Employees Fund Pension Costs (Continued)

$479,081 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,		Pension Expense Amount
2019	$	(253,260)
2020		317,033
2021		(111,983)
2022		(258,791)
Total	$	(307,001)

E. Actuarial Assumptions

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

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

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

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2017:

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

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

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

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

F. Discount Rates

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

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate 6.5%	Discount Rate 7.5%	1% Increase in Discount Rate 8.5%
District's proportionate share of the PERA net pension liability	$ 9,456,368	$ 6,096,657	$ 3,346,123

H. Pension Plan Fiduciary Net Position

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

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees. The plan offers medical coverage. Medical coverage is administered by HealthPartners. It is the District's policy to periodically review its medical coverage, and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Benefits Paid

The District provides post employment retirement benefits to pay health and life insurance premiums for certain retired District personnel. Benefits are paid on behalf of retired administrative personnel to Medicare eligibility and other qualified staff to Medicare eligibility at which time benefits cease.

C. Members

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

Inactive employees or beneficiaries currently receiving benefits	20
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	422
Total	442

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Contributions

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with HealthPartners. The required contributions are based on projected pay-as-you-go financing requirements. For the year 2018, the District contributed $273,818 to the plan.

E. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total OPEB Liability

Discount Rate	3.40%
Expected Return	n/a
Inflation	2.50%
Healthcare cost trend increases	6.50% initially, decreasing over 6 years to an ultimate rate of 5.00%
Mortality Assumption	RP-2014 mortality tables with projected mortality improvements based on scale MP-2015, and other adjustments

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

The discount rate used to measure the total OPEB liability was 3.40%.

F. Total OPEB Liability

The District's total OPEB liability of $3,412,533 was measured as of June 30, 2018, and was determined by an actuarial valuation as of that date.

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

F. Total OPEB Liability (Continued)

Changes in the total OPEB liability are as follows:

	Total OPEB Liability
Balances at July 1, 2016	$ 3,330,127
Changes for the year	
Service cost	268,733
Interest	117,244
Differences between expected and actual	-
economic experience	-
Changes in assumptions	-
Employer contributions	-
Net investment income	-
Benefit payments	(303,571)
Administrative expense	-
Other charges	-
Net changes	82,406
Balances at July 1, 2017 (used at reporting date of June 30, 2018)	$ 3,412,533

Changes of assumptions and other inputs reflect a change in the discount rate from 3.00% in 2017 to 3.40% in 2018.

G. OPEB Liability Sensitivity

The following presents the District's total OPEB liability calculated using the discount rate of 3.40% as well as the liability measured using 1% lower and 1% higher than the current discount rate.

	1% decrease (2.40%)	Current (3.40%)	1% increase (4.40%)
Total OPEB Liability (Asset)	$ 3,621,997	$ 3,412,533	$ 3,212,874

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

G. OPEB Liability Sensitivity (Continued)

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 1% lower and 1% higher than the current healthcare cost trend rates.

	1% decrease (5.5% decreasing to 4.0%)	Current (6.5% decreasing to 5.0%)	1% increase (7.5 decreasing to 6.0%)
Total OPEB Liability (Asset)	$ 3,093,016	$ 3,412,533	$ 3,794,929

H. 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 $385,977. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ -
Differences between expected and actual economic experience	-	-
Changes of assumptions	-	-
Contributions made subsequent to the measurement date	273,818	-
Total	$ 273,818	$ -

$273,818 reported as a deferred outflow of resources related to OPEB resulting from the District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019.

NOTE 9 – COMMITMENTS

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

Project	Contractor	Original Contract Amount	Remaining Commitment
FHS - Asbestos	Mavo Systems, Inc.	$ 11,240	$ 11,240
2017 Pavement Improvements	Bituminious Roadways, Inc.	947,738	47,087
2018 Pavement Improvements	Bituminious Roadways, Inc.	970,350	970,350
FHS Alterations 2018	A&L Construction, Inc.	1,341,000	1,216,740
FCC Alterations 2018	Construction Results Corporation	881,940	881,940
HS Low Voltage Office Reconstruction	Pro-Tech Design, Inc.	57,168	31,636
FCC Low Voltage and Office Reconstruction	Pro-Tech Design, Inc.	72,712	39,292
Middle School 2017 Alterations	Morcon Construction Co., Inc.	5,903,384	142,623

NOTE 10 – RISK MANAGEMENT

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

On July 1, 2006, the District began to self-insure for dental insurance. Under this program, the fund provides up to a maximum of $ 2,000 of benefit per covered person per calendar year. The General, Food Service, and Community Service Funds of the District participate in the program and make payments to the dental insurance plan recorded in the General Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Payments are made based on actuarial estimates of the amounts needed to pay claims. The Self-Insured Dental Benefits Internal Service Fund includes a reserve of $174,450 for catastrophe losses. The total claims liability reported in the Fund at June 30, 2018, is $8,982 and include amounts for known claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

On July 1, 2015, the District began to self-insure for health insurance. A stop-loss policy was purchased that limits the District's loss to $100,000 of claims per person at which point the reinsurance coverage is available. The District also has aggregate stop-loss coverage in place which limits the District's liability to 115% of the current year's total expected annual claims at which point the reinsurance coverage is available.

NOTE 10 – RISK MANAGEMENT (CONTINUED)

The General, Food Service, and Community Service Funds of the District participate in the program and make payments to the Self Insured Medical Benefits Internal Service Fund. Based on the requirements of GASB Statement No. 10, a liability is reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Participants in the program make premium payments to the fund based on the insurance premium. The Self Insured Medical Benefits Internal Service Fund includes a reserve of $2,793,185 for catastrophe losses. The total claims liability reported in the Fund at June 30, 2018, is $491,135 and include amounts for known claims and for estimated incurred but not reported claims. These estimates are determined based on the probability that a loss has occurred and the amount of the loss can be reasonably estimated.

Changes in the Fund's claims liability amounts for the past three years were as follows:

	Balance, Beginning of Year	Claims, Expense and Estimates	Claims Payments	Balance, End of Year
2015-2016	$ -	$ 4,471,021	$ (4,249,363)	$ 221,658
2016-2017	221,658	5,164,997	(5,218,688)	167,967
2017-2018	167,967	4,812,473	(4,489,305)	491,135

NOTE 11 – CHANGE IN ACCOUNTING PRINCIPLE

For the year ended June 30, 2018, the District implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions. This resulted in an adjustment to the beginning net position on the Statement of Activities of $3,313,202 to add the beginning total OPEB liability and related deferred outflow of resources.

NOTE 12 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

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

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

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REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 14
Schedule of Changes in Total OPEB Liability
and Related Ratios

	June 30, 2018
Total OPEB Liability	
Service cost	$ 268,733
Interest	117,244
Differenced between expected and actual experience	-
Changes of assumptions	-
Changes of benefit terms	-
Benefit payments	(303,571)
Other changes	-
Net change in total OPEB Liability	82,406
Beginning of year	3,330,127
End of Year	$ 3,412,533
Covered payroll	$ 21,815,879
Total OPEB Liability as a percentage of covered-employee payroll	15.64%

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

Independent School District No. 14
Schedule of Employer Contributions - OPEB

	June 30, 2018
Actuarially determined contribution	$ 273,818
Contributions in relation to the actuarially determined contribution	273,818
Contribution deficiency (excess)	$ -
Covered-employee payroll	$ 21,815,879
Contributions as a percentage of covered-employee payroll	1.26%

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

Independent School District No. 14
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability
Last Ten Years General Employees Retirement Fund

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.1101%	$ 5,171,946	$ -	$ 5,171,946	$ 5,778,869	89.5%	78.7%
2015	0.0986%	5,109,964	-	5,109,964	5,696,880	89.7%	76.8%
2016	0.0953%	7,737,887	101,013	7,838,900	5,910,760	130.9%	68.9%
2017	0.0955%	6,096,657	76,662	6,173,319	6,152,440	99.1%	75.9%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.3144%	$ 14,487,326	$ 1,019,111	$ 15,506,437	$ 14,351,614	100.9%	81.5%
2015	0.3011%	18,626,013	2,284,436	20,910,449	15,281,867	121.9%	76.8%
2016	0.3130%	74,657,968	7,493,341	82,151,309	16,280,760	458.6%	44.9%
2017	0.3287%	65,614,483	6,343,192	71,957,675	17,693,453	370.8%	51.6%

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

Independent School District No. 14
Schedule of District Contributions
General Employees Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 418,968	$ 418,968	$ -	$ 5,778,869	7.25%
2015	427,266	427,266	-	5,696,880	7.50%
2016	443,307	443,307	-	5,910,760	7.50%
2017	461,433	461,433	-	6,152,440	7.50%
2018	479,081	479,081	-	6,387,747	7.50%

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

Schedule of District Contributions
TRA Retirement Fund
Last Ten Years

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	$ 1,004,613	$ 1,004,613	$ -	$ 14,351,614	7.0%
2015	1,146,140	1,146,140	-	15,281,867	7.5%
2016	1,221,057	1,221,057	-	16,280,760	7.5%
2017	1,327,009	1,327,009	-	17,693,453	7.5%
2018	1,422,140	1,422,140	-	18,961,867	7.5%

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

Independent School District No. 14
Notes to the Required Supplementary Information

TRA Retirement Fund

2017 Changes
Changes in Actuarial Assumptions

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

2016 Changes
Changes in Actuarial Assumptions

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

2015 Changes
Changes of Benefit Terms

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

TRA Retirement Fund (Continued)

2015 Changes (Continued)
Changes in Actuarial Assumptions

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

General Employees Fund

2017 Changes
Changes in Actuarial Assumptions

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

2016 Changes
Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

2015 Changes
Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

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SUPPLEMENTARY INFORMATION

Independent School District No. 14
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2018

	Special Revenue			Debt Service	
	Food Service	Community Service	Total	Post Employment Benefits Debt Service	Total Nonmajor Funds
Assets					
Cash and investments	$ 464,487	$ 706,410	$ 1,170,897	$ 464,957	$ 1,635,854
Current property taxes receivable	-	128,178	128,178	215,791	343,969
Delinquent property taxes receivable	-	4,275	4,275	6,870	11,145
Accounts receivable, net of allowance	4,348	6,126	10,474	-	10,474
Due from Department of Education	3,368	34,539	37,907	-	37,907
Due from other Minnesota school districts	-	2,945	2,945	-	2,945
Due from federal government through Department of Education	31,661	-	31,661	-	31,661
Due from other governmental units	17,924	30,687	48,611	-	48,611
Inventory	9,720	-	9,720	-	9,720
Prepaid items	1,154	-	1,154	-	1,154
Total assets	$ 532,662	$ 913,160	$ 1,445,822	$ 687,618	$ 2,133,440
Liabilities					
Accounts payable	$ 19,232	$ 36,102	$ 55,334	$ -	$ 55,334
Salaries and benefits payable	23,647	88,677	112,324	-	112,324
Due to other governmental units	728	3,770	4,498	-	4,498
Unearned revenue	22,356	5,914	28,270	-	28,270
Total liabilities	65,963	134,463	200,426	-	200,426
Deferred Outflows of Resources					
Unavailable revenue - delinquent property taxes	-	1,631	1,631	2,777	4,408
Property taxes levied for subsequent year's expenditures	-	323,978	323,978	534,791	858,769
Total deferred inflows of resources	-	325,609	325,609	537,568	863,177
Fund Balances					
Nonspendable	10,874	-	10,874	-	10,874
Restricted	455,825	453,088	908,913	150,050	1,058,963
Total fund balances	466,699	453,088	919,787	150,050	1,069,837
Total liabilities, deferred inflows of resources, and fund balances	$ 532,662	$ 913,160	$ 1,445,822	$ 687,618	$ 2,133,440

Independent School District No. 14
Combining Statement of Revenues, Expenditures, and Changes
and Changes in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2018

	Special Revenue			Debt Service	
	Food Service	Community Service	Total	Post Employment Benefits Debt Service	Total Nonmajor Funds
Revenues					
Local property taxes	$ -	$ 328,257	$ 328,257	$ 559,503	$ 887,760
Other local and county revenues	62,370	1,886,968	1,949,338	-	1,949,338
Revenue from state sources	132,381	672,863	805,244	-	805,244
Revenue from federal sources	1,515,653	-	1,515,653	-	1,515,653
Sales and other conversion of assets	334,603	-	334,603	-	334,603
Total revenues	2,045,007	2,888,088	4,933,095	559,503	5,492,598
Expenditures					
Current					
Food service	1,877,005	-	1,877,005	-	1,877,005
Community education and services	-	2,941,756	2,941,756	-	2,941,756
Capital outlay					
Food service	264,384	-	264,384	-	264,384
Community education and services	-	11,779	11,779	-	11,779
Debt service					
Principal	-	-	-	390,000	390,000
Interest and fiscal charges	-	-	-	171,077	171,077
Total expenditures	2,141,389	2,953,535	5,094,924	561,077	5,656,001
Excess of revenues under expenditures	(96,382)	(65,447)	(161,829)	(1,574)	(163,403)
Other Financing Sources					
Transfers in	-	103,616	103,616	-	103,616
Net change in fund balances	(96,382)	38,169	(58,213)	(1,574)	(59,787)
Fund Balances					
Beginning of year	563,081	414,919	978,000	151,624	1,129,624
End of year	$ 466,699	$ 453,088	$ 919,787	$ 150,050	$ 1,069,837

Independent School District No. 14
Combining Statement of Net Position - Internal Service Funds
June 30, 2018

	Self Insurance	OPEB Revocable Trust	Total Internal Service Funds
Assets			
Cash and cash equivalents	$ 4,324,033	$ -	$ 4,324,033
Investments	-	4,496,158	4,496,158
Accounts receivable	67,899	11,821	79,720
Interest receivable	-	112,174	112,174
Due from other funds	94,528	-	94,528
Total assets	$ 4,486,460	$ 4,620,153	$ 9,106,613
Liabilities			
Accounts payable	$ 61,167	$ -	$ 61,167
Incurred but not reported claims	429,968	-	429,968
Due to other funds	-	94,528	94,528
Unearned revenue	1,202,140	-	1,202,140
Total liabilities	1,693,275	94,528	1,787,803
Net Position			
Unrestricted	2,793,185	4,525,625	7,318,810
Total liabilities and net position	$ 4,486,460	$ 4,620,153	$ 9,106,613

Independent School District No. 14
Combining Statement of Revenues, Expenses, and Changes in Fund Net Position - Internal Service Funds
Year Ended June 30, 2018

	Self Insurance	OPEB Revocable Trust	Total Internal Service Funds
Operating Revenues			
Charges for services	$ 5,392,804	$ 126,473	$ 5,519,277
Operating Expense			
Insurance	4,099,271	175,288	4,274,559
Administrative	713,202	-	713,202
Total Operating Expenses	4,812,473	175,288	4,987,761
Operating income (loss)	580,331	(48,815)	531,516
Nonoperating Revenues			
Investment income	-	70,153	70,153
Net Income (Loss) Before Transfers	580,331	21,338	601,669
Transfer in	971,049	-	971,049
Change in net position	1,551,380	21,338	1,572,718
Net Position			
Beginning of year	1,241,805	4,504,287	5,746,092
End of year	$ 2,793,185	$ 4,525,625	$ 7,318,810

Independent School District No. 14
Combining Statement of Cash Flows - Internal Service Funds
Year Ended June 30, 2018

	Self Insurance	OPEB Revocable Trust	Total Internal Service Funds
Cash Flows - Operating Activities			
Receipts from district contribution	$ -	$ 122,698	$ 122,698
Receipts from employees	6,533,141	-	6,533,141
Payments to vendors	(4,489,305)	(175,288)	(4,664,593)
Net cash flows - operating activities	2,043,836	(52,590)	1,991,246
Cash Flows - Noncapital Financing Activities			
Due to other funds	-	94,528	94,528
Due from other funds	(94,528)	-	(94,528)
Transfer from other funds	971,049	-	971,049
Net cash flows - investing activities	876,521	94,528	971,049
Cash Flows - Investing Activities			
Net sale/(purchase) of investments	-	(323,407)	(323,407)
Interest received	-	34,256	34,256
Net cash flows - investing activities	-	(289,151)	(289,151)
Net change in cash and cash equivalents	2,920,357	(247,213)	2,673,144
Cash and Cash Equivalents			
Beginning of year	1,403,676	247,213	1,650,889
End of year	$ 4,324,033	$ -	$ 4,324,033
Reconciliation of Operating Income (Loss) to Net Cash Flows - Operating Activities			
Operating income (loss)	$ 580,331	$ (48,815)	$ 531,516
Adjustments to reconcile operating income (loss) to net cash flows - operating activities			
Accounts receivable	(61,803)	(3,775)	(65,578)
Unearned revenue	1,202,140	-	1,202,140
Accounts payable	323,168	-	323,168
Net cash flows - operating activities	$ 2,043,836	$ (52,590)	$ 1,991,246
Non Cash Financing Activities			
Purchase (sale) of investments	$ -	$ 323,407	$ 323,407

Independent School District No. 14
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2018

		Audit	UFARS	Audit-UFARS
01 General Fund				
Total revenue		$ 43,999,756	$ 43,999,756	$ -
Total expenditures		43,240,714	43,240,715	(1)
Nonspendable:				
460	Nonspendable fund balance	300,318	300,318	-
Restricted/reserved:				
403	Staff Development	-	-	-
406	Health And Safety	(1,179)	(1,179)	-
407	Capital Projects Levy	(2)	(2)	-
408	Cooperative Programs	-	-	-
413	Alternative Facility Program	-	-	-
414	Operating Debt	-	-	-
416	Levy Reduction	-	-	-
417	Taconite Building Maintenance	-	-	-
424	Operating Capital	176,644	176,642	2
426	$25 Taconite	-	-	-
427	Disabled Accessibility	-	-	-
428	Learning and Development	-	-	-
434	Area Learning Center	-	-	-
435	Contracted Alternative Programs	-	-	-
436	State Approved Alternative Program	-	-	-
438	Gifted And Talented	-	1	(1)
441	Basic Skills Programs	-	-	-
445	Career Technical Programs	-	-	-
448	Achievement And Integration Revenue	-	-	-
449	Safe School Crime	68,167	68,167	-
450	Transition To Pre-kindergarten	-	-	-
451	QZAB Payments	-	-	-
452	Opeb Liabilities Not Held In Trust	-	-	-
453	Unfunded Severance And Retirement Levy	-	-	-
459	Basic Skills Extended Time	-	-	-
467	Long-term Facilities Maintenance	(289,308)	(289,308)	-
472	Medical Assistance	294,904	294,904	-
475	Title VII - Impact Aid	-	-	-
476	Payments in Lieu of Taxes	-	-	-
Restricted:				
464	Restricted fund balance	-	-	-
Committed:				
418	Committed for separation	-	-	-
461	Committed	-	-	-
Assigned:				
462	Assigned fund balance	2,028,808	2,028,808	-
Unassigned:				
422	Unassigned fund balance (net position)	2,548,939	2,548,939	-
02 Food Services Fund				
Total revenue		$ 2,045,007	$ 2,045,003	$ 4
		2,141,389	2,141,384	5
Nonspendable:				
460	Nonspendable fund balance	10,874	10,874	-
See notes to required supplementary information.				
452	OPEB Liabilities not Held in Trust	-	-	-
Restricted:				
464	Restricted fund balance	455,825	455,826	(1)
Unassigned:				
463	Unassigned fund balance	-	-	-
04 Community Service Fund				
Total revenue		$ 2,888,088	$ 2,888,088	$ -
Total expenditures		2,953,535	2,953,535	-
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
426	$25 taconite	-	-	-
431	Community Education	260,914	260,914	-
432	ECFE	78,187	78,187	-
444	School Readiness	47,235	47,235	-
447	Adult Basic Education	-	-	-
452	OPEB Liabilities not Held in Trust	-	-	-
Restricted:				
464	Restricted fund balance	66,752	66,753	(1)
Unassigned:				
463	Unassigned fund balance	-	-	-
06 Building Construction Fund				
Total revenue		$ 52,792	$ 52,790	$ 2
Total expenditures		6,480,295	6,480,292	3
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
407	Capital Projects Levy	371,994	371,994	-
413	Building Projects funded by COP	-	-	-
467	Long-term Facilities Maintenance	-	-	-
Restricted:				
464	Restricted fund balance	2,440,780	2,440,780	-
Unassigned:				
463	Unassigned fund balance	-	-	-
07 Debt Service Fund				
Total revenue		$ 3,836,198	$ 3,836,198	$ -
Total expenditures		3,832,364	3,832,363	1
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted/reserved:				
425	Bond refunding	0	-	-
433	Maximum effort loan aid			
451	QZAB payments	-	-	-
Restricted:				
464	Restricted fund balance	907,675	907,675	-
Unassigned:				
463	Unassigned fund balance	-	-	-
08 Trust Fund				
Total revenue		$ -	$ -	$ -
Total expenditures		-	-	-
Unassigned:				
422	Net position	-	-	-
20 Internal Service Fund				
Total revenue		$ 5,392,804	$ 5,392,803	$ 1
Total expenditures		4,812,473	4,812,472	1
Unassigned:				
422	Net position	2,793,185	2,793,185	-
25 OPEB Revocable Trust				
Total revenue		$ 196,626	$ 196,625	$ 1
Total expenditures		175,288	175,288	-
Unassigned:				
422	Net position	4,525,625	4,525,625	-
45 OPEB Irrevocable Trust				
		$ -	$ -	$ -
Total expenditures		-	-	-
Total revenue				
422	Net position	-	-	-
47 OPEB Debt Service				
Total revenue		$ 559,503	$ 559,503	$ -
Total expenditures		561,077	561,078	(1)
Nonspendable:				
460	Nonspendable fund balance	-	-	-
Restricted:				
425	Bond refundings	-	-	-
464	Restricted fund balance	150,050	150,049	1
Unassigned:				
463	Unassigned fund balance	-	-	-

Independent School District No. 14
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Agency/Pass Through Agency/Program Title	CFDA Number	Expenditures
U.S. Department of Agriculture		
Through Minnesota Department of Education		
Child Nutrition Cluster		
Commodities Programs	10.555	$ 114,647
School Breakfast	10.553	390,756
National School Lunch	10.555	945,852
Summer Food Service	10.559	33,256
Total Child Nutrition Cluster		1,484,511
Fresh Fruit and Vegetables	10.582	31,142
Total U.S. Department of Agriculture		1,515,653
U.S. Department of Education		
Through Minnesota Department of Education		
Title I, Part A	84.010	454,803
Title II, Part A - Improving Teacher Quality	84.367	92,751
Title III, Part A - English Language Acquisition	84.365	52,926
Special Education Cluster		
Special Education	84.027	571,087
Special Education - Preschool Grant	84.173	13,656
Total Special Education Cluster		584,743
Infants and Toddlers	84.181	8,030
Carl Perkins	84.048A	17,915
Total U.S. Department of Education		1,211,168
U.S. Department of the Interior		
Through Minnesota Chippewa Tribe		
Johnson-O'Malley Indian Education Assistance to Schools	15.130	2,778
Total federal expenditures		$ 2,729,599

See notes to schedule of expenditures of federal awards.

Independent School District No. 14
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

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

NOTE 2 – PASS-THROUGH GRANT NUMBERS

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

NOTE 3 – INVENTORY

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

NOTE 4 – INDIRECT COST RATE

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

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

Independent Auditor's Report

To the School Board
Independent School District No. 14
Fridley, 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. 14, Fridley, Minnesota, as of and for the year ending June 30, 2018, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated September 25, 2018.

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

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

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Internal Control over Financial Reporting (Continued)
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. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance that we consider to be a significant deficiency in internal control, described as Audit Finding 2018-001.

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

District's Response to the Findings
The District's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. 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.

BerganKDV Ltd.

Minneapolis, Minnesota
September 25, 2018

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

Independent Auditor's Report

To the School Board
Independent School District No. 14
Fridley, Minnesota

Report on Compliance for Each Major Federal Program
We have audited Independent School District No. 14, Fridley, Minnesota, compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget* OMB *Compliance Supplemen*t that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Cost, in Accordance with the Uniform Guidance.

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

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

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

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Opinion on Each Major Federal Program
In our opinion, Independent School District No. 14 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

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

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
September 25, 2018

Independent School District No. 14
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes, Audit Finding 2018-001
Noncompliance material to financial statements noted?	No

Federal Awards

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

Identification of Major Programs

CFDA No.:	10.553, 10.555, 10.556, and 10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low risk auditee?	Yes

Independent School District No. 14
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2018-001

Criteria or Specific Requirement:
Internal control that supports the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:
During the year ended June 30, 2018, the District had a lack of segregation of accounting duties due to a limited number of office employees. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Accounts Payable Clerk enters invoices into the system and prepares the checks.
- The Accounting Supervisor has access to all areas of the accounting system.
- The Accounting Supervisor and Payroll Specialist have overlapping duties within the payroll process

Context:
This finding impacts the internal control for all significant accounting functions.

Effect:
The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Cause:
There are a limited number of office employees.

Recommendation:
Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

Independent School District No. 14
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2018-001 (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP):

1. <u>Explanation of Disagreement with Audit Finding</u>
   There is no disagreement with the audit finding.

2. <u>Actions Planned in Response to Finding</u>
   a. As a mitigating control, the Accounting Supervisor receives a system report of checks prior to the preparation of checks for review. In addition, the Accounting Supervisor reviews the edit to the check register to verify that the edit was not changed after review.
   b. The Accounting Supervisor has access to all areas of the accounting system. Segregation will be reviewed to determine whether access can feasibly be limited.
   c. Payroll responsibilities will be reviewed once the HRIS system is fully built out and functional.

3. <u>Official Responsible for Ensuring CAP</u>
   Matt Hammer, Director of Finance, is the official responsible for ensuring corrective action of the deficiency.

4. <u>Planned Completion Date for CAP</u>
   The planned completion date for the CAP is June 30, 2019.

5. <u>Plan to Monitor Completion of CAP</u>
   The School Board will be monitoring this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There are no federal award findings or questioned costs.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

There are no prior year federal award findings or questioned costs.

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Report on Legal Compliance

Independent Auditor's Report

To the School Board
Independent School District No. 14
Fridley, 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. 14, Fridley, Minnesota, as of and for the year ended June 30, 2018, and the related notes to financial statements, and have issued our report thereon dated September 25, 2018.

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

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

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

BerganKDV Ltd.

Minneapolis, Minnesota
September 25, 2018

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