Independent School District 93
Carlton, Minnesota

Annual Financial Statements
For the Year Ended June 30, 2018
Together with Independent Auditor's Report

Independent School District 93

Year Ended June 30, 2018

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Independent School District 93

Year Ended June 30, 2018

School Officials

Elective	Office	Term Expires
Julianne Emerson	Chair	12/31/18
Stephanie Gibson	Vice-Chairman	12/31/18
LaRae Lehto	Clerk	12/31/20
Tim Hagenah	Treasurer	12/31/20
Jennifer Chmielewski	Director	12/31/20
Susan Karp	Director	12/31/18
Appointive		
Gwen Carman	Superintendent	

WIPFLi LLP

Independent Auditor's Report

To the School Board
Independent School District 93
Carlton, 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 93, Carlton, Minnesota (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States require that the management's discussion and analysis, pages 4 – 8, information about the District's other postemployment health care plan, page 50, and information about the District's net pension liability, pages 51 - 52, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor governmental financial statements, pages 53 and 54, and the fiscal compliance table, page 55, are presented for purposes of additional analysis and are not a required part of the financial statements. The combining nonmajor governmental financial statements and fiscal compliance table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional audit procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Wipfli LLP

Wipfli LLP

December 6, 2018
Duluth, Minnesota

Management’s Discussion and Analysis

As management of Independent School District 93 (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2018.

Financial Highlights

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

- Overall actual revenues in the Statement of Activities were $6,644,981 and expenses were $7,964,433.
- General Fund total fund balance decreased $140,134 during fiscal year ended June 30, 2018.

Overview of the Financial Statements

The financial section of the annual financial statements consists of four parts - Independent Auditor's Report, required supplementary information which includes the Management's Discussion and Analysis (this section), the basic financial statements and supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

District-wide Statements

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

The two district-wide statements report the District's net position (deficit) and how it has changed.

The statement of net position (deficit) presents information on all of the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position (deficit). Over time, increases or decreases in net position (deficit) may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The statement of activities presents information showing how the District's net position (deficit) changed during the fiscal year. All changes in net position (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (i.e., uncollected taxes and earned but unused compensated absences).

The district-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation, and operation of non-instructional services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, state statutes, and to control and manage money for particular purposes. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds - Most of the District's basic services are included in governmental funds. Governmental fund financial statements focus on near-term inflows of cash and other financial assets that can readily be converted to cash, as well as the balances at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

Because this information does not encompass the additional long-term focus of the district-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the district-wide financial statements. A reconciliation is provided to facilitate a comparison between government funds financial statements and district-wide financial statements.

Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the student activity funds and the postemployment benefits irrevocable trust. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operation.

Financial Analysis of the District as a Whole

Net position may serve over time as a useful indicator of a district's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $3,139,708 as of June 30, 2018.

Statement of Net Position (Deficit)
June 30,

	2018	2017
Capital assets	$ 3,101,500	$ 1,732,471
Current and other assets	9,133,216	4,096,911
Total assets	12,234,716	5,829,382
Deferred outflows of resources	3,865,421	6,997,869
Long-term liabilities	15,652,204	12,480,914
Current liabilities	1,746,156	789,712
Total liabilities	17,398,360	13,270,626
Deferred inflows of resources	1,841,485	1,376,881
Net position		
Net investment in capital assets	1,178,486	1,404,802
Restricted	4,497,200	282,105
Unrestricted (deficit)	(8,815,394)	(3,507,163)
Total net position (deficit)	$ (3,139,708)	$ (1,820,256)

Independent School District 93

Management's Discussion and Analysis

Year Ended June 30, 2018

Change in Net Position (Deficit)
For the years ended June 30,

	2018	2017
Revenues		
Program revenues		
Charges for services	$ 425,103	$ 422,565
Operating grants and contributions	1,089,102	1,122,489
General revenues		
Property taxes	1,227,908	1,365,026
State aids	3,782,977	3,839,998
Other	85,891	48,937
Gain on sales of fixed assets	34,000	
Total revenues	6,644,981	6,799,015
Expenses		
District and school administration	593,842	569,771
District support services	375,542	273,535
Regular instruction	3,595,280	3,870,554
Vocational instruction	81,988	50,306
Exceptional instruction	1,100,372	1,023,310
Instructional support services	263,396	115,932
Pupil support services	523,080	472,244
Sites, building and equipment	764,930	590,607
Fiscal and other fixed cost programs	38,225	30,958
Food service	224,559	223,281
Community service	216,330	190,517
Interest and fiscal charges on long-term debt	104,227	46,289
Unallocated depreciation	82,662	82,363
Total expenses	7,964,433	7,539,667
Change in net position (deficit)	(1,319,452)	(740,652)
Net position (deficit), beginning of year	(1,820,256)	(733,748)
Adjustment for restatement of Net OPEB Asset		(345,856)
Net position (deficit), end of year	$ (3,139,708)	$ (1,820,256)

Financial Analysis of the District's Funds

While the government-wide presentations are designed to present users with a more complete picture of the District's financial position and results of operations, the traditional fund accounting basis provides users with information that can be used by the District to make decisions in the near-term.

The District's funds had the following fund balance changes for the year ended June 30, 2018.

General Fund – decreased $140,134.
Food Service Fund – decreased $4,549.
Community Service Fund – increased $29,229.
Building Construction Fund – increased $4,098,030.
Debt Service Fund – increased $178,995.
OPEB Debt Service Fund – increased $2,731.

General Fund Budgetary Highlights

The board of each school district must approve and adopt its revenue and expenditure budgets for the next school year prior to July 1 of each year. The budget document adopted is an expenditure-authorizing or appropriations document. No funds shall be expended by any board or district for any purpose in any school year prior to the adoption of the budget document which authorizes the expenditure or prior to an amendment to the budget document by the board to authorize the expenditure.

Carlton Independent School District 93's School Board approved an original budget that contained General Fund (general, transportation, and capital funds) revenue and other financing sources of $5,465,370, which was revised to $5,689,601 due to an increase in federal aid and the sale of land.

Carlton Independent School District 93's School Board approved an original budget that contained General Fund (general, transportation, and capital funds) expenditures and other financing uses of $5,580,970 which was revised to $6,084,041 due to the early payment of a capital lease, estimated expenses related to contract settlements, severance payments due to retirements, and discontinuation of transportation personnel.

While the District's final FY2018 General Fund budget anticipated that expenditures and other financing uses would exceed revenues and other financing sources by $394,440, the actual results for the year had expenditures and other financing uses would exceeding revenues and other financing sources by $140,134.

Actual FY2018 revenues and other financing sources were $184,872 more than anticipated. The main differences were due to special education revenue higher than budgeted, additional federal funds received, and additional interest from investments.

Actual FY2018 expenditures and other financing uses were $69,434 less than anticipated. The main differences were due to supply costs being less than budgeted and the transfer to the Food Service fund being lower than budgeted.

Capital Asset and Debt Administration

Capital Asset

By the end of fiscal year 2018, the District had invested $7,581,694 in a broad range of capital assets, including land, school buildings, athletic facilities, buses and computer equipment. Total depreciation expense for the year was $170,976. More detailed information about the District's capital assets is presented in Note 3 to the financial statements.

Debt Administration

At June 30, 2018, the District had $6,120,000 in general obligation bonds payable outstanding. Under current state statutes, the District's general obligation bonded debt issuances are subject to a legal limitation of 10 percent of the fair market value of property in the District. The District is within its legal authority for bonded debt.

The District also had $9,174,567 in net pension liability and $36,593 in severance benefits payable at June 30, 2018.

More detailed information about the District's long-term liabilities is presented in Note 4 to the financial statements.

Factors Bearing on the District's Future

The General Fund unreserved fund balance decreased $140,134 from FY 17 to FY 18. This decrease was less than budgeted but is significant. Many increases in FY18expenditures were due to needed investments in curriculum materials and technology tools and resources, as well as an increase in nonreimbursed special education expenses.

The district anticipates another decrease in General Fund unreserved fund balance in FY 19. Future budgeting should avoid a continued decline in the General Fund unreserved fund balance to maintain the fiscal health of the district.

Student enrollment trends must be monitored and its impact on personnel needs assessed. Facility maintenance expenses and needs of the MS/HS facility need to be considered for both the short and long term.

The district needs to intentionally and strategically develop plans to sustain the district' s financial health and maintain the essential functions of quality public education.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information contact the Business Office, Independent School District 93, PO Box 310, 405 School Avenue, Carlton, MN 55817-0310 or call Gwen Carman, Superintendent, (218) 384-4225 Ext. 113.

Government-Wide Financial Statements

Independent School District 93

Statement of Net Position (Deficit)

June 30, 2018

		Governmental Activities
Assets and Deferred Outflows of Resources		
Current assets		
Cash and temporary cash investments	$	7,057,249
Current property taxes receivable		492,949
Delinquent property taxes receivable		35,800
Accounts receivable		42,502
Interest receivable		8,303
Due from other Minnesota school districts		112,778
Due from Minnesota Department of Education		530,238
Due from federal government through the Minnesota Department of Education		199,987
Due from federal government		21,730
Due from other governmental units		21,477
Inventory		7,902
Prepaid expenses		85,613
Total current assets		8,616,528
Noncurrent assets		
Restrict net OPEB Asset		516,688
Capital assets, net of depreciation		
Assets not being depreciated		1,465,257
Assets being depreciated, net		1,636,243
Total capital assets, net of depreciation		3,101,500
Total noncurrent assets		3,618,188
Deferred outflows of resources		
Items related to OPEB		16,355
Items related to pension plans		3,849,066
Total deferred outflows of resources		3,865,421
Total assets and deferred outflow of resources	$	16,100,137

Independent School District 93

Statement of Net Position (Deficit) (Continued)
June 30, 2018

	Governmental Activities
Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)	
Current liabilities	
Salaries payable	$ 502,199
Accounts payable	873,823
Accrued payroll taxes	133,640
Interest payable	82,764
Severance payable	12,807
Due to other Minnesota school districts	111,195
Due to other governments	6,517
Unearned revenue	23,211
Current portion of long-term liabilities	331,685
Total current liabilities	2,077,841
Long-term liabilities	15,320,519
Total liabilities	17,398,360
Deferred inflows of resources	
Property taxes levied for subsequent year's expenditures	1,187,831
Items related to OPEB	13,416
Items related to pension plans	640,238
Total deferred inflows of resources	1,841,485
Net position (deficit)	
Net investment in capital assets	1,178,486
Restricted	4,497,200
Unrestricted (deficit)	(8,815,394)
Total net position (deficit)	(3,139,708)
Total liabilities, deferred inflows of resources, and net position (deficit)	$ 16,100,137

See accompanying notes to financial statements.

Independent School District 93

Statement of Activities

For the Year Ended June 30, 2018

		Program Revenues			Net (Expenses) Revenue and Changes in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities					
District and school administration	$ 593,842	$	$	$	$ (593,842)
District support services	375,542	8,128			(367,414)
Regular instruction	3,595,280	109,249	733,668		(2,752,363)
Vocational instruction	81,988	838			(81,150)
Exceptional instruction	1,100,372	46,387	140,004		(913,981)
Instructional support services	263,396		3,345		(260,051)
Pupil support services	523,080	16,608	44,578		(461,894)
Sites, buildings and equipment	764,930		6,927		(758,003)
Fiscal and other fixed program costs	38,225				(38,225)
Food service	224,559	90,233	121,548		(12,778)
Community service	216,330	153,660	39,032		(23,638)
Interest and fiscal charges on long-term debt	104,227				(104,227)
Unallocated depreciation	82,662				(82,662)
Total governmental activities	$ 7,964,433	$ 425,103	$ 1,089,102	$	(6,450,228)

General revenues	
Taxes	
Property taxes, levied for general purposes	911,582
Property taxes, levied for community service	48,091
Property taxes, levied for debt service	58,329
Property taxes, levied for post-employment debt service	209,906
State aid-formula grants	3,782,977
Other general revenues	38,143
Investment earnings	47,748
Gain on sale of fixed assets	34,000
Total general revenues	5,130,776
Change in net position (deficit)	(1,319,452)
Net position (deficit), beginning of the year	(1,820,256)
Net position (deficit), end of the year	$ (3,139,708)

See accompanying notes to financial statements.

Independent School District 93

Governmental Funds – Balance Sheet

June 30, 2018

	General Fund	Building Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and temporary cash investments	$ 1,614,450	$ 4,873,607	$ 569,192	$ 7,057,249
Current property taxes receivable	362,615		130,334	492,949
Delinquent property taxes receivable	25,714		10,086	35,800
Accounts receivable	32,186		10,316	42,502
Interest receivable		8,303		8,303
Due from other Minnesota school districts	112,778			112,778
Due from the Minnesota Department of Education	525,135		5,103	530,238
Due from the federal government through the Minnesota Department of Education	199,987			199,987
Due from federal government	21,730			21,730
Due from other governmental units	10,382	11,095		21,477
Inventory	5,566		2,336	7,902
Prepaid expenses	84,689		924	85,613
Total assets	$ 2,995,232	$ 4,893,005	$ 728,291	$ 8,616,528
Liabilities				
Salaries payable	$ 487,627	$	$ 14,572	$ 502,199
Accounts payable	73,301	794,975	5,547	873,823
Accrued payroll taxes	129,773		3,867	133,640
Severance payable	12,807			12,807
Due to other Minnesota school districts	111,195			111,195
Due to other governments	6,517			6,517
Unearned revenue	20,899		2,312	23,211
Total liabilities	842,119	794,975	26,298	1,663,392
Deferred inflows of resources				
Delinquent property taxes	25,714		10,086	35,800
Property taxes levied for subsequent year's expenditures	847,506		340,325	1,187,831
Total deferred inflows of resources	873,220		350,411	1,223,631
Fund balances				
Nonspendable	90,255		3,260	93,515
Restricted	123,526	4,098,030	348,322	4,569,878
Assigned	157,966			157,966
Unassigned	908,146			908,146
Total fund balances	1,279,893	4,098,030	351,582	5,729,505
Total liabilities, deferred inflows of resources, and fund balances	$ 2,995,232	$ 4,893,005	$ 728,291	$ 8,616,528

See accompanying notes to financial statements.

Independent School District 93

Governmental Funds – Reconciliation of the Balance Sheet to the Statement of Net Position (Deficit)

June 30, 2018

Total fund balances - governmental funds	$	5,729,505
Amounts reported for governmental activities in the statement of net position (deficit) are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
Cost of capital assets		7,581,694
Less accumulated depreciation		(4,480,194)
Postemployment benefits do not require the use of current financial resources and therefore are not reported as a liability in the fund financial statements. The actuarially determined net OPEB asset and deferred outflows and deferred inflows of resources related to OPEB are only recorded in the District-wide financial statements.		
Net OPEB asset		516,688
Deferred outflows of resources related to OPEB		16,355
Deferred inflows of resources related to OPEB		(13,416)
Long-term liabilities, including bonds payable, capital leases payable, and severance benefits payable are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
General obligation bonds		(6,120,000)
Severance benefits		(36,593)
Unamortized bond premiums and discounts		(321,044)
The net pension liability and the deferred outflows of resources and deferred inflows of resources related to pensions are only reported in the statement of net position (deficit).		
Net pension liability		(9,174,567)
Deferred inflows of resources related to pensions		(640,238)
Deferred outflows of resources related to pensions		3,849,066
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore, are unavailable in the funds.		35,800
Governmental funds do not report a liability for accrued interest until due and payable.		(82,764)
Total net position (deficit) - governmental activities	$	(3,139,708)

See accompanying notes to financial statements.

Independent School District 93

Governmental Funds – Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2018

	General Fund	Building Construction Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Local property tax levies	$ 923,664	$ -	$ 319,984	$ 1,243,648
Other local and county revenues	192,570		164,154	356,724
Revenue from state sources	4,268,678		65,182	4,333,860
Revenue from federal sources	425,313		107,798	533,111
Interest income	16,562	28,609	2,577	47,748
Sales and other conversion of assets			97,944	97,944
Insurance recovery and other	13,686			13,686
Total revenues	5,840,473	28,609	757,639	6,626,721
Expenditures				
Current				
District and school administration	592,075			592,075
District support services	375,542			375,542
Regular instruction	2,302,677			2,302,677
Vocational instruction	81,988			81,988
Exceptional instruction	1,099,056			1,099,056
Community education and services			215,727	215,727
Instructional support services	263,396			263,396
Pupil support services	469,159		224,139	693,298
Site, buildings, and equipment	637,630			637,630
Fiscal and other fixed cost programs	38,225			38,225
Debt service				
Principal	99,145		250,000	349,145
Interest and other fiscal costs	3,359		39,243	42,602
Capital outlay	51,838	1,605,411	1,023	1,658,272
Total expenditures	6,014,090	1,605,411	730,132	8,349,633
Excess (deficiency) of revenues over expenditures	(173,617)	(1,576,802)	27,507	(1,722,912)
Other financing sources (uses)				
Issuance of bonds		5,525,000		5,525,000
Premium on issuance of bonds		328,214		328,214
Transfers in			178,899	178,899
Transfers out	(517)	(178,382)		(178,899)
Proceeds from sale of assets	34,000			34,000
Total other financing sources (uses)	33,483	5,674,832	178,899	5,887,214
Net change in fund balances	(140,134)	4,098,030	206,406	4,164,302
Fund balances, beginning	1,420,027		145,176	1,565,203
Fund balances, ending	$ 1,279,893	$ 4,098,030	$ 351,582	$ 5,729,505

See accompanying notes to financial statements.

Independent School District 93

Governmental Funds –Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

For the Year Ended June 30, 2018

Total net changes in fund balances - governmental funds	$	4,164,302
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 costs of those assets is allocated over the estimated useful lives as depreciation expense.		
Capital outlays		1,540,005
Depreciation expense		(170,976)
The issuance of long-term debt provides current financial resources to governmental funds but increases long-term liabilities in the statement of net position (deficit).		
Issuance of bonds		(5,525,000)
Premium on the issuance of bonds		(328,214)
Repayment of bond principal and other long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position (deficit). Also, governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.		
Principal payments on general obligation bonds		250,000
Principal payments on capital leases		99,145
Amortization of bond premiums and discounts		5,694
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, However, interest expense is recognized as the interest accrues, regardless of when it is due.		(67,319)
Vested employee benefits are reported in the governmental funds when amounts are paid. The statement of activities reports the value of benefits earned during the year.		
Change in net OPEB asset		(12,006)
Change in deferred outflows of resources related to OPEB		6,289
Change in deferred inflows of resources related to OPEB		(13,416)
Change in severance benefits		(24,047)
Change in deferred outflows of resources related to pensions		(3,138,737)
Change in deferred inflows of resources related to pensions		(440,564)
Change in net pension liability		2,351,132
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditure, and therefore are deferred in the funds.		(15,740)
Change in net position (deficit) - governmental activities	$	(1,319,452)

See accompanying notes to financial statements.

Independent School District 93

General Fund – Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual

For the Year Ended June 30, 2018

	Budget			Variance
	Original	Final	Actual	Over (Under)
Revenues				
Local property tax levies	$ 887,671	$ 912,081	$ 923,664	$ 11,583
Other local and county revenues	155,694	181,960	192,570	10,610
Revenue from state sources	4,074,566	4,120,759	4,268,678	147,919
Revenue from federal sources	341,139	428,601	425,313	(3,288)
Interest income	5,500	9,000	16,562	7,562
Insurance recovery and other	800	3,200	13,686	10,486
Total revenues	5,465,370	5,655,601	5,840,473	184,872
Expenditures				
Current				
District and school administration	592,965	590,546	592,075	1,529
District support services	307,023	369,281	375,542	6,261
Regular instruction	2,139,290	2,333,570	2,302,677	(30,893)
Vocational instruction	34,529	84,470	81,988	(2,482)
Exceptional instruction	1,035,288	1,127,356	1,099,056	(28,300)
Instructional support services	253,021	268,506	263,396	(5,110)
Pupil support services	419,527	464,436	469,159	4,723
Site, buildings, and equipment	676,852	643,771	637,630	(6,141)
Fiscal and other fixed cost programs	36,500	36,500	38,225	1,725
Debt service				
Principal	32,689	99,145	99,145	
Interest and other fiscal costs	1,635	3,359	3,359	
Capital outlay	22,004	56,949	51,838	(5,111)
Total expenditures	5,551,323	6,077,889	6,014,090	(63,799)
Excess (deficiency) of revenues over expenditures	(85,953)	(422,288)	(173,617)	248,671
Other financing sources (uses)				
Transfers out	(29,647)	(6,152)	(517)	5,635
Proceeds from sale of assets		34,000	34,000	
Total other financing sources (uses)	(29,647)	27,848	33,483	5,635
Net change in fund balance	(115,600)	(394,440)	(140,134)	254,306
Fund balance, beginning	1,420,027	1,420,027	1,420,027	
Fund balance, ending	$ 1,304,427	$ 1,025,587	$ 1,279,893	$ 254,306

See accompanying notes to financial statements.

Independent School District 93

Fiduciary Funds – Statement of Fiduciary Net Position

June 30, 2018

	Postemployment Benefits Irrevocable Trust Fund	Agency Funds
Assets		
Cash and investments	$ 779,762	$ 51,119
Interest receivable	9,590	
Prepaid expenses	3,830	
Total assets	$ 793,182	$ 51,119
Liabilities		
Unearned revenue	$ 3,570	$
Due to student groups		51,119
Total liabilities	3,570	51,119
Net Position		
Restricted for postemployment benefits	789,612	
Total liabilities and net position	$ 793,182	$ 51,119

See accompanying notes to financial statements.

Independent School District 93

Fiduciary Fund – Statement of Changes in Fiduciary Net Position

For the Year Ended June 30, 2018

	Postemployment Benefits Irrevocable Trust Fund
Additions	
Retiree contributions	$ 48,091
Investment earnings	10,247
Total additions	58,338
Deductions	
Benefit payments	118,907
Change in net position	(60,569)
Net position, beginning of the year	850,181
Net position, end of the year	$ 789,612

See accompanying notes to financial statements.

Note 1 Summary of Significant Accounting Policies

Independent School District 93 (District) was formed and operates pursuant to applicable Minnesota laws and statutes. The Governing Body consists of a six-member Board elected by voters of the District. Members are elected for three-year terms. The accounting policies of the District conform to accounting principles generally accepted in the United States as applied to government units. The Governmental Accounting Standards Board is the accepted standard setting board for establishing governmental accounting and financial reporting principles.

Reporting Entity

The District's financial statements include all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable or for which the exclusion of would render the financial statements misleading. The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. Based on this criteria established by the Governmental Accounting Standards Board, there are no organizations considered to be component units of the District.

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

Basic Financial Statement Presentation

The government-wide financial statements (i.e. the statement of net position (deficit) and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in separate financial statements at the fund financial statement level.

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

The District applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted resources are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

Note 1 Summary of Significant Accounting Policies (Continued)

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

The fiduciary funds are presented in the fiduciary fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (employees and student groups) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the government-wide statements.

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 fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

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 in which it applies according to Minnesota Statutes. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.

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

A general summary of the nature and purpose of each of the funds maintained by the District follows:

Major Governmental Funds

General Fund - This fund is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund. The general fund accounts for: administration, kindergarten through 12th grade instruction, transporting students to and from school, maintenance of facilities, equipment purchases, health and safety projects, and disabled accessibility projects.

Note 1 Summary of Significant Accounting Policies (Continued)

Building Construction Fund - This fund accounts for the accumulation and expenditure of resources for the District's current construction project.

Nonmajor Governmental Funds

Special Revenue Funds - These funds are used to account for proceeds of specific revenue sources that are restricted by law or administrative action to expenditure for specified purposes. The District has two special revenue funds:

Food Service Fund - This fund is used to account for food service revenues and expenditures. Revenues consist of state and federal aids and sales to students and employees.

Community Service Fund - This fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, K-6 extended day programs, or other similar services. Revenues consist of state and federal aids and grants and fees from program participants.

Debt Service Fund Funds

The Debt Service Fund - This fund accounts for the accumulation of resources for the retirement of principal and interest on all general obligation bond indebtedness. Assets of the Debt Service Fund are restricted to the payment of bond principal and interest.

Postemployment Benefits Debt Service Fund - This fund is used to account for the accumulation of resources and the repayment of the District's OPEB bonds.

Fiduciary Funds

Postemployment Benefits Irrevocable Trust Fund - This fund is used for reporting resources set aside and held in an irrevocable trust arrangement for postemployment benefits other than pensions. District contributions to this fund must be expensed to an operating fund.

Agency Fund - This fund is used to account for assets that the District holds on behalf of others as their agent, which includes the Student Activity Fund. The Student Activity Fund is not under Board control.

Budgeting

Formal budgetary accounting is employed as a management control for all funds of the District. For each fund for which a formal budget is adopted, the budget is prepared on the same basis of accounting as the fund financial statements. The budget is adopted through passage of a resolution. The School Board must approve revisions. Legal budgetary control is at the fund account level. The annual budget is not legally binding on the District unless the District has a total deficit in its General Fund that exceeds 2.5 percent of expenditures.

Note 1 Summary of Significant Accounting Policies (Continued)

Cash and Investments

Cash and investments of the individual funds, except restricted debt service funds, internal service funds and agency funds, are combined to form a pool and are invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are distributed between the funds based on their prorated portion of the monthly cash balances. State and local government securities (time deposits) are stated at cost. The investment in Minnesota School District Liquid Asset Fund and MN Trust is recorded at fair value, based on the fair value of the position in the pool. The District considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Receivables

All receivables are shown net of any allowance for uncollectible amounts. No allowances for uncollectibles have been recorded. The only receivables not expected to be collected within one year are delinquent property taxes receivable.

Inventory

The District maintains no central stores and, therefore, expenses supply items as purchased. However, inventories for food items have been recorded in the proper funds. The District values its inventories at cost, on a first-in, first-out basis.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses. Prepaid expenses are reported using the consumption method and recorded as expenditure at the time of consumption.

Property Taxes

Property taxes are set by the school board and certified to the county auditor who acts as collecting agent, in December, of the year prior to collection. Taxes become a lien on property on the following January 1. Minnesota school districts operate under a levy limitation law that generally limits annual increases in taxes per capita. This law does not cover levies for bonded indebtedness.

Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Personal property taxes may be paid on February 28 and June 30. The county provides tax settlements to school districts and other taxing districts in January, March, June, and November or December. Portions of the tax levy paid by the state in the form of credits are included in revenue from state sources.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as a deferred inflow of resources (property taxes levied for subsequent year). General fund revenue is determined annually by statutory funding formulas. These formulas allocate revenue between property taxes and state aids based on education funding priorities set by the Minnesota State Legislature. Changes in this allocation result in an annual change in property tax revenue recognition referred to as the “tax shift”. In prior years, the amount of shift has varied between 0 and 50 percent.

Note 1 Summary of Significant Accounting Policies (Continued)

The following is a summary of tax shift transactions by fund:

	(0.0%) Total Shift June 30, 2017	State Aid Adjustment	Revenue Adjustment	(0.0%) Total Shift June 30, 2018
General Fund	$ 31,766	$	$ 17,840	$ 49,606

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is reported as a deferred inflow of resources in the fund based financial statements (unavailable revenue – delinquent taxes) because it is not available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

Capital Assets

Capital assets are reported at historical cost if purchased or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated acquisition market value at the date of donation. The District maintains a threshold level of $5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the district-wide financial statements but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives, ranging from five to fifty years.

Capital assets not being depreciated include land and construction in progress.

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

Unearned Revenue

Unearned revenue results when asset recognition criteria have been met, but revenue recognition criteria have not been met. The balance consists primarily of revenue that will be recognized based on future expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has reported deferred outflows related to pensions for its proportionate shares of collective deferred outflows of resources related to pensions and the District's contributions to pension plans subsequent to the measurement date of the collective net pension liability. The District has also reported deferred outflows of resources related to OPEB for the net difference between projected and actual earnings on plan investments.

Note 1 Summary of Significant Accounting Policies (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has reported unavailable revenue from delinquent property taxes, which arises only under a modified accrual basis of accounting, in the governmental funds balance sheet. The District has also reported property taxes levied for subsequent years expenditures as a deferred inflow of resources in both the governmental funds balance sheet and the statement of net position (deficit). The District has also reported deferred inflows of resources for its proportionate share of the collective deferred inflows of resources related to pensions. The District also reports deferred inflows of resources related to OPEB for changes in assumptions.

Long-term Obligations

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Issuance costs whether or not withheld from the actual debt proceeds received, are reported as expenses.

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

Compensated Absences

Vacation granted and sick pay earned is based on length of service and various bargaining unit contracts. In the fund financial statements, vacation pay is recorded when paid. In the District-wide financial statements, a liability is recorded for vacation pay when it is earned. Unused sick leave enters into the calculation of early retirement incentive payments for some employees upon termination.

Severance Benefits

Upon retirement, most District employees are entitled to a severance amount based on accumulated unused sick leave, age, years of service and wage rate at the date of retirement, as established by contracts with bargaining units or other employment contracts. These contracts establish the terms and amounts each retiree is eligible to receive and establish when this severance benefit vests, all of which may differ between each bargaining unit and employee group. The severance amount is paid directly to the Minnesota State Retirement System Post Retirement Health Care Savings Plan (HCSP). These funds will be disbursed in accordance with the HCSP account agreement, which is a separate agreement between the HCSP and the retiree. In the fund financial statements, a liability is recorded for severance pay when the employee retires. In the district-wide financial statements, a liability is accrued for severance pay as the benefits vest.

Note 1 Summary of Significant Accounting Policies (Continued)

Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about fiduciary net position of the Teachers Retirement Association (TRA) and Public Employees Retirement Association (PERA) and additions to/deductions from TRA and PERA's fiduciary net position have been determined on the same basis as they are reported by TRA and PERA. 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 into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 7.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows or resources, and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of Postemployment Benefits Irrevocable Trust Fund and additions to/deductions from the Postemployment Benefits Irrevocable Trust Fund have been determined on the same basis as they are reported by the Postemployment Benefits Irrevocable Trust Fund. Investments are reported at fair value.

Fund Balance

In the fund financial statements, governmental funds report fund balance amounts within one of the following categories: nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balance is either (a) not in spendable form, or (b) legally or contractually required to remain intact. Restricted fund balance includes amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Committed fund balance includes amounts that can be used only for specific purposes determined by a formal action of the School Board. Assigned fund balance includes amounts intended to be used for specific purposes, but do not meet the criteria to be classified as restricted or committed. In accordance with the District's fund balance policy, a majority vote of the School Board is required to commit a fund balance to a specific purpose and subsequently remove or change any commitment and the District's superintendent is authorized to assign fund balance to a specific purpose. At June 30, 2018, the District had no committed fund balances. The portion of the fund balance not nonspendable, restricted, committed, or assigned, is reported as unassigned. If resources from more than one fund balance classification could be spent, the District will strive to spend resources in the following order: restricted, committed, assigned, and unassigned. The District applies restricted resources first when an expense is incurred for the purpose for which both restricted and unrestricted fund balance is available.

The District strives to maintain a minimum unassigned and assigned General Fund balance of 16% to 25% of the General Fund expenditures less capital expenditures. At June 30, 2018, the District had maintained the required minimum General Fund balance goal.

Note 1 Summary of Significant Accounting Policies (Continued)

Net Position (Deficit)

Net position (deficit) represents the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, in the government-wide and fiduciary fund 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 District-wide financial statement when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States 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.

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through December 6, 2018, the date the financial statements were available to be issued. There were no subsequent events identified by the District that are required to be disclosed.

Note 2 Deposits and Investments

Deposits

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

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

Custodial Credit Risk - Deposits - Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to it. The District requires collateral for deposits over FDIC insurance amounts. At June 30, 2018, the District's deposits were not exposed to custodial credit risk.

Investments

The District may also invest idle funds as authorized by Minnesota statutes, as follows: direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better, general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States' bank eligible for purchase by the Federal Reserve System; commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

The Minnesota School District Liquid Asset Fund (MSDLAF) and MN Trust Investment Shares Porfolio (MN Trust) are regulated by the Minnesota Statutes and are external investment pools not registered with the Securities and Exchange Commission (SEC). The District's investment in MSDLAF and MN Trust Portfolio are measured at net asset value per share provided by the pool, which is based on an amortized cost method that approximates fair value. The funds are managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seek to maintain a constant net asset value (NAV) per share of $1.00.

Note 2 Deposits and Investments (Continued)

Custodial credit risk - The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. At June 30, 2018, none of the District's investments were subject to custodial credit risk.

Concentration of credit risk - The concentration of credit risk is the risk of loss that may be caused by the District's investment in a single issuer. The District has no policy that would limit its investment in a single issuer.

Interest rate risk - Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The District does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

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

		Maturities		
Investment Type	Fair Value	Less Than One Year	1 - 3 Years	Over 3 Years
External investment pools	$ 3,677,855	$ 3,677,855	$	$
Negotiable certificates of deposit	567,636	567,636		
State and local government securities	2,496,700	2,496,700		
Total	$ 6,742,191	$ 6,742,191	$	$

Credit risk - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the District's policy to invest only in securities that meet the ratings requirements set by state statute.

S & P or Moody's	Fair Value
AAAm	$ 2,677,855
AA+	2,496,700
Not rated	1,567,636
Total	$ 6,742,191

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

Note 2 Deposits and Investments (Continued)

The District had the following investments valued at recurring measurements at June 30, 2018:

		Fair Value Measurements Using		
Investments by fair value level	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
Negotiable certificates of deposit	$ 567,636	$	$ 567,636	$
State and local government securities	2,496,700		2,496,700	
Total investments by fair value level	$ 3,064,336	$	$ 3,064,336	$
Investments measured at the net asset value (NAV)				
External investment pools	3,677,855			
Total investments	$ 6,742,191			

The following table sets forth additional disclosures of the District's investments whose value is estimated using net asset value (NAV) as of June 30, 2018:

	Total	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pool - MSDLAF	$ 47	$ 0	14 days, with the exception of direct investments of funds distributed by the State of Minnesota	24-hour notice
External Investment Pool - MnTrust	3,677,808	$ 0	None	None
Total	$ 3,677,855			

The District's total cash and investments are as follows:

Petty cash	$ 1,271
Deposits	1,144,668
Investments	6,742,191
Total	$ 7,888,130

Note 2 Deposits and Investments (Continued)

Presented in the basic financial statements as follows:

Statement of Net Position	
Cash and temporary cash investments	$ 7,057,249
Statement of Fiduciary Net Position	
Postemployment Benefit Irrevocable Trust Fund	
Cash and investments	779,762
Agency Funds	
Cash and investments	51,119
Total cash and investments	$ 7,888,130

Note 3 Capital Assets

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

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not being depreciated				
Land	$ 1,975	$	$	$ 1,975
Construction in progress		1,463,282		1,463,282
Total capital assets not being depreciated	1,975	1,463,282		1,465,257
Capital assets being depreciated				
Land improvements	316,618			316,618
Buildings	4,403,105	56,759		4,459,864
Equipment	1,323,271	19,964	(3,280)	1,339,955
Total capital assets being depreciated	6,042,994	76,723	(3,280)	6,116,437
Less accumulated depreciation				
Land improvements	265,057	2,795		267,852
Buildings	3,084,923	106,228		3,191,151
Equipment	962,518	61,953	(3,280)	1,021,191
Total accumulated depreciation	4,312,498	170,976	(3,280)	4,480,194
Total capital assets being depreciated, net	1,730,496	(94,253)		1,636,243
Capital assets, net	$ 1,732,471	$ 1,369,029	$	$ 3,101,500

Note 3 **Capital Assets (Continued)**

Depreciation is charged to governmental functions as follows:

District and school administration	$	1,479
Regular instruction		3,485
Exceptional instruction		1,242
Pupil support services		53,921
Sites, building and equipment		28,187
Unallocated		82,662
Total	$	170,976

The District has entered into construction contracts for future work in the amount of $3,856,065. The commitments will be paid from the Building Construction Fund.

Note 4 **Long-Term Obligations**

The following is a summary of change in long-term obligations:

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
General Obligation Bonds					
$1,780,000 General Obligation Taxable OPEB Bonds, Series 2008A due in annual installments of $150,000 to $215,000 plus interest from 3.85% to 5.80% starting August 2009 through February 2020.	$ 615,000	$	$ 195,000	$ 420,000	$ 205,000
$545,000 General Obligation Capital Facilities Bonds, Series 2010 due in annual installments of $50,000 to $60,000 plus interest from 1.20% to 3.30% starting February 2011 through February 2021.	230,000		55,000	175,000	60,000
$5,525,000 General Obligation Facilities Maintenance and Abatement Bonds, Series 2018A due in annual installments of $35,000 to $550,000 plus interest from 3.0% to 5.0% starting February 2018 through February 2036		5,525,000		5,525,000	35,000
Less amounts for unamortized premiums and discounts	(1,476)	328,214	5,694	321,044	17,907
Total general obligation bonds	843,524	5,853,214	255,694	6,441,044	317,907

Note 4 Long-Term Obligations (Continued)

	Balance July 1, 2017	Additions	Reductions	Balance June 30, 2018	Due Within One Year
Capital lease	$ 99,145	$	$ 99,145	$	$
Net pension liability	11,525,699	48,995	2,400,127	9,174,567	
Severance benefits	12,546	26,628	2,581	36,593	13,778
Total	$ 12,480,914	$ 5,928,837	$ 2,757,547	$ 15,652,204	$ 331,685

The General Obligation Taxable OPEB Bonds are paid from the Postemployment Benefits Debt Service Fund. The General Obligation Capital Facilities Bonds and General Obligation Facilities Maintenance Bonds are paid from the Debt Service Fund. Severance benefits and the net pension liability are paid from the governmental funds.

Annual amounts required to service outstanding long-term debt for the years ending June 30, are as follows:

	General Obligation Bonds		
	Principal	Interest	Total
2019	$ 300,000	$ 211,434	$ 511,434
2020	540,000	205,995	745,995
2021	550,000	185,315	735,315
2022	505,000	168,650	673,650
2023	550,000	148,450	698,450
2024 - 2028	1,500,000	454,850	1,954,850
2029 - 2033	1,365,000	246,900	1,611,900
2034 - 2036	810,000	47,550	857,550
Total	$ 6,120,000	$ 1,669,144	$ 7,789,144

Note 5 Net Position (Deficit)/Fund Balances

Fund balances were nonspendable for the following purposes at June 30, 2018:

Nonspendable	
General Fund	
Inventory	$ 5,566
Prepaid expenses	84,689
Total	90,255
Food Service Fund	
Inventory	2,336
Prepaid expenses	924
Total	3,260
Total nonspendable	$ 93,515

Net position and fund balances were restricted for the following purposes at June 30, 2018:

Restricted	Net Position	Fund Balance
General Fund		
Operating capital	$ 67,186	$ 67,186
Gifted and talented	8,939	8,939
Basic skills extended time	3,193	3,193
Long-term facilities maintenance	44,208	44,208
Total General Fund		123,526
Building Construction Fund		
Building construction	320,411	320,411
Project funded by COP	3,777,619	3,777,619
Total Building Construction Fund		4,098,030
Other nonmajor governmental funds		
Community education	26,304	26,304
E.C.F.E.	52,772	52,772
School readiness	29,119	29,119
Community service	3,443	1,855
Debt service	164,006	238,272
Total other nonmajor governmental funds		348,322
Total restricted	$ 4,497,200	$ 4,569,878

Note 5 Net Position (Deficit)/Fund Balances (Continued)

Fund balances were assigned for the following purposes at June 30, 2018:

Assigned		
General Fund		
Indian education program	$	66,314
Art, music and theater programs		58,431
The HOOPS Club		12,634
Elementary principal		7,102
High school principal		9,796
Jay Athletics		3,188
Youth philanthropy		312
Bulldogs		189
Total assigned	$	157,966

Note 6 Interfund Transactions

Transfers Out	Transfers In		Total
General Fund	Food Service Fund	$	517
Building Construction Fund	Debt Service Fund		178,382
Total		$	178,899

The transfer from the General Fund to the Food Service Fund was made to eliminate the fiscal 2018 deficit fund balance in the food service fund.

The transfer from the Building Construction Fund to the Debt Service fund represents capitalized interest that is to be used for future interest payments.

Note 7 Defined Benefit Pension Plans

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

Note 7 Defined Benefit Pension Plans (Continued)

A. Teachers Retirement Fund (TRA)

1. Plan Description

TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

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

2. Benefits Provided

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

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

Tier I Benefits

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

Note 7 Defined Benefit Pension Plans (Continued)

With these provisions:

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

or

Tier II Benefits

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

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which 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 members terminating service are 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.

3. Contribution Rate

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

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

Note 7 **Defined Benefit Pension Plans (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.

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

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

4. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information:

Valuation Date	July 1, 2017
Experience Study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Investment Rate of Return	5.12%, from the Single Equivalent Interest Rate calculation
Price Inflation	2.50%
Wage growth rate	2.85% for 10 years and 3.25%, therafter
Projected salary increase	3.85 to 8.85% for 10 years and 3.25 to 9.25%, thereafter
Cost of living adjustment	2.0%

Note 7 Defined Benefit Pension Plans (Continued)

Mortality Assumption:

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future 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 an expected long-term rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

The target allocation and best estimates of 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%	

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

Note 7 Defined Benefit Pension Plans (Continued)

Changes in actuarial assumptions since the 2016 valuation:

- The cost of living adjustment (COLA) was assumed to increase from 2.0 percent annual to 2.5 percent annual on July 1, 2045.
- The COLA was not assumed to increase to 2.5 percent but remain at 2.0 percent for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4 percent to 0.0 percent, the vested inactive load increased from 4.0 percent to 7.0% and the non-vested inactive load increased from 4.0 percent to 9.0 percent.
- The investment return assumption was changed from 8.00 percent to 7.50 percent.
- The price inflation assumption was lowered from 2.75 percent to 2.50 percent.
- The payroll growth assumption was lowered from 3.50 percent to 3.00 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

5. 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 and employer 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 these assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50 percent) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56 percent was applied to periods on and after 2053, resulting in a SEIR of 5.12 percent. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01 percent).

6. Net Pension Liability

At June 30, 2018, the District reported a liability of $8,044,611 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to 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 0.0425% at the end of the measurement period and 0.0427% for the beginning of the period.

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 proportional share of net pension liability	$	8,044,611
State's proportional share of net pension liability associated with the District	$	777,723

Note 7 **Defined Benefit Pension Plans (Continued)**

For the year ended June 30, 2018, the District recognized pension expense of $122,665. It also recognized $14,916 as an increase to pension expense for the support provided by direct aid.

At June 30, 2018, the District had deferred resources related to pensions form the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 12,534	$
Net difference between projected and actual investment earnings on pension plan investments		58,554
Changes in assumptions	3,487,296	
Changes in proportion		488,322
Contributions paid to TRA subsequent to the measurement date	165,672	
Total	$ 3,665,502	$ 546,876

$165,672 reported as deferred outflows of resources related to pensions resulting from the District's 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 deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30,	Pension Expense Amount
2019	$ 787,600
2020	940,155
2021	859,369
2022	689,926
2023	(324,096)
Total	$ 2,952,954

7. Pension Liability Sensitivity

The following table presents the District's proportionate share of the net pension liability calculated using the discount rate of 5.12 percent, as well as what the liability measured using a discount rate 1 percentage point lower (4.12 percent) or 1 percentage point higher (6.12 percent) than the current rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	4.12%	5.12%	6.12%
District's proportionate share of the TRA net pension liability	$ 10,617,336	$ 8,044,611	$ 5,875,491

Note 7 Defined Benefit Pension Plans (Continued)

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.

8. Pension Plan Fiduciary Net Position

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-4000; or by calling (651)296-2409 or 1-800-657-3669.

B. Public Employee Retirement Association (PERA)

1. Plan Description

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.

2. Benefits Provided

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

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 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 by 66.

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

Note 7 Defined Benefit Pension Plans (Continued)

3. Contributions

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

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2018; the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2018 were $83,686. The District's contribution was equal to the contractually required contribution for the year as set by state statute.

4. Pension Costs

At June 30, 2018, the District reported a liability of $1,129,956 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 $16 million to the fund in 2018. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportional share of the net pension liability associated with the District's totaled $14,215. 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 0.0177%, which was an increase of 0.0006% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018 the District recognized pension expense of $58,528 for its proportional share of the General Employees Plan's pension expense. In addition, the District recognized an additional $411 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $16 million to the General Employees Fund.

Note 7 Defined Benefit Pension Plans (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$	$ 32,117
Changes in actuarial assumptions	67,960	
Net difference between projected and actual earnings on plan investments		61,245
Changes in proportion	31,918	
Contributions made to PERA subsequent to the measurement date	83,686	
Total	$ 183,564	$ 93,362

$83,686 reported as deferred outflows of resources related to pensions resulting from the District's 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 deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	Pension Expense Amount
2019	$ (19,218)
2020	84,676
2021	(10,979)
2022	(47,963)
Total	$ 6,516

5. Actuarial Assumptions

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

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

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

Note 7 Defined Benefit Pension Plans (Continued)

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

The following changes in actuarial assumptions occurred in 2017:

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

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best-estimates 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%	

6. Discount Rate

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

Note 7 Defined Benefit Pension Plans (Continued)

7. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate	6.50%	7.50%	8.50%
District's proportionate share of the PERA net pension liability	$ 1,752,646	$ 1,129,956	$ 620,172

8. Pension Plan Fiduciary Net Position

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

Note 8 Postemployment Healthcare Plan

Plan Description

The District administers a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) which provides medical and dental benefits to eligible retired employees and their dependents in accordance with the terms of the plan.

The District has established an irrevocable trust fund to account for accumulated plan assets available to pay for current and future postemployment health care costs. The Trust does not issue a stand-alone financial report but is included in this report of the District.

Benefits Provided

The District provides postemployment health insurance benefits to some retired employees as established by contracts with bargaining units or other employment contracts. These contracts state the years, age, and retiring dates needed to qualify for these postemployment benefits. The contracts also establish the amount the District will contribute towards the purchase of health insurance. The District determines the amount contributed to the trust. Currently, the District is not making contributions to the trust since there are adequate amounts in the trust to pay all current and future benefits.

Note 8 Postemployment Healthcare Plan (Continued)

Plan Membership

As of June 30 2016, the date of the most recent actuarial valuation, the following employees were covered by the benefit terms:

Active employees electing coverage	43
Active employees waiving coverage	15
Retirees electing coverage	10
	68

The OPEB plan investment policies and investments are discussed in Note 1 and Note 2. Currently the plan is invested in MnTrust. For June 30, 2018, the annual money-weighted rate of return on OPEB plan investments, net of OPEB plan investment expense, was 1.21 percent. The money-weighted rate of return expresses the investment performance, net of investment expense, adjusted for the changing amounts invested.

The components of the net OPEB asset of the District at June 30, 2018 are as follows:

Total OPEB liability	$	272,924
Plan fiduciary net position		789,612
Net OPEB asset	$	(516,688)
Plan fiduciary net position as a percentage of the total OPEB liability		289.32%

Net Other Postemployment Benefit Asset

The net other postemployment benefit asset (NOA) was measured as of June 30, 2018, and the total other postemployment benefit liability used to calculate the NOA was determined by an actuarial valuation as of June 30, 2016, and rolled forward to June 30, 2018.

Actuarial Methods and Assumptions

The District engaged an actuary to perform a valuation as of June 30, 2016 using the Entry Age Normal, level percent of pay actuarial cost method. Investment gains and losses are amortized using the straight-line method over a closed 5-year period. The effects of assumption changes and experience gains and losses are amortized using the straight-line method over a closed period equal to the average of the expected remaining service lives of all members.

Note 8 Postemployment Healthcare Plan (Continued)

The total other postemployment benefit liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount rate		2.50%
Inflation rate		2.75%
Expected long-term rate of return on assets		2.50%
Healthcare trend rates		
Annual premium increase rate		
for fiscal year beginning	2018	6.90%
	2019	6.30%
	2020	5.80%
	2021-2054	5.20%
	2055-2073	Transition to ultimate rate
	2074+	4.40%

Salary increases were based on assumptions used in the July 1, 2017 TRA and PERA actuarial valuations.

Mortality rates were based on the RP-2014 mortality tables with projected mortality improvements based on Scale MP-2015, and other adjustments.

The expected trust asset return is based on the District's best estimate of capital market returns combined with the trust's current asset allocation.

Discount Rate

The discount rate used to measure the total OPEB liability was 2.50%. The projection of cash flows used to determine the discount rate was based on recent employer contribution history. Based on those assumptions, the OPEB plan's fiduciary net position was projected to make all projected future payments of current plan members. Therefore, the OPEB trust's long-term assumed investment return was applied to all projected benefit payments when determining the total OPEB liability.

Changes in the Net Other Postemployment Benefit Asset

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Asset (a) - (b)
Balances at 6/30/2017	$ 321,487	$ 850,181	$ (528,694)
Changes for the year:			
Service Cost	29,981		29,981
Interest	7,902		7,902
Changes of benefits terms	(15,630)		(15,630)
Net investment income		10,247	(10,247)
Retiree contributions	48,091	48,091	
Benefit payments	(118,907)	(118,907)	
Net changes	(48,563)	(60,569)	12,006
Balances at 6/30/2018	$ 272,924	$ 789,612	$ (516,688)

Note 8 Postemployment Healthcare Plan (Continued)

Sensitivity of the Net Other Postemployment Benefit Asset to changes in the discount rate

The following presents the NOA of the District, calculated using the discount rate of 2.50%, as well as what the District's NOA would be if it were calculated using a discount rate 1 percentage point lower or 1 percentage point higher than the current discount rate:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Asset (a) - (b)
1% decrease in discount rate (1.50%)	$ 283,694	$ 789,612	$ (505,918)
Current discount rate (2.50%)	272,924	789,612	(516,688)
1% increase in discount rate (3.50%)	261,884	789,612	(527,728)

Sensitivity of the Net Other Postemployment Benefit Asset to changes in the health care trend rates

The following table presents the NOA of the District, calculated using current trend rates, as well as what the District's NOA would be if it were calculated using trend rates 1 percentage point lower or 1 percentage point higher than the current trend rates:

	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Asset (a) - (b)
1% decrease in trend rates	$ 247,651	$ 789,612	$ (541,961)
Current trend rates	272,924	789,612	(516,688)
1% increase in trend rates	302,970	789,612	(486,642)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflow of Resources Related to OPEB

For the year ended June 30, 2018 the District recognized OPEB expense of $19,133. 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
Change of assumptions	$	$ 13,416
Net difference between projected and actual earnings on plan investments	16,355	
Total	$ 16,355	$ 13,416

Note 8 Postemployment Healthcare Plan (Continued)

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

Year ended June 30,		Pension Expense Amount
2019	$	2,505
2020		2,505
2021		2,503
2022		(14)
2023		(2,214)
Thereafter		(2,346)
Total	$	2,939

Note 9 Commitments and Contingencies

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

At June 30, 2018, the District had a commitment under a contract for future technology services through June 30, 2020 in the amount of $252,000. This commitment will be paid from the General Fund.

Note 10 Risk Management

The District's property and liability premiums and reemployment claims are paid by the General Fund. The General, Food Service and Community Service Funds pay workers' compensation premiums based on salaries. There were no significant reductions in insurance coverage from coverage in prior years and insurance settlements have not exceeded insurance coverage in any of the past three years.

The District purchases commercial insurance for property and liability, transferring the risk of loss to the insurance carrier.

The District participates in a risk pool for workers' compensation insurance. The pool in turn contracts with an insurance carrier, thereby transferring the risk from the pool members to the insurance carrier. The workers' compensation policy is retrospectively rated in that the initial premium is adjusted based on the actual experience during coverage period of the group of entities that participate in the pool.

The District handles reemployment costs through a self-insurance plan. The District retains the risks associated with reemployment claims.

Required Supplementary Information

Independent School District 93

Information about the District's Other Postemployment Health Care Plan

Year Ended June 30, 2018 *

Schedule of Changes in Net OPEB Asset and Related Ratios

	2018	2017
Measurement date	6/30/2018	6/30/2017
Total OPEB Liability		
Service Cost	$ 29,981	$ 28,046
Interest	7,902	8,692
Changes of assumptions	(15,630)	
Retiree contributions	48,091	34,096
Benefit payments	(118,907)	(103,857)
Net change in total OPEB liability	(48,563)	(33,023)
Total OPEB Liability - beginning of year	321,487	354,510
Total OPEB liability - end of year	$ 272,924	$ 321,487
Plan fiduciary net position		
Net investment income	$ 10,247	$ 11,555
Retiree contributions	48,091	34,096
Benefit payments	(118,907)	(103,857)
Other deductions		(57,151)
Net change in plan fiduciary net position	(60,569)	(115,357)
Plan fiduciary net position - beginning of year	850,181	965,538
Plan fiduciary net position - end of year	$ 789,612	$ 850,181
Net OPEB asset - end of year	$ (516,688)	$ (528,694)
Plan fiduciary net position as a percentage of the total OPEB liability	289.32%	264.45%
Covered payroll	3,564,119	3,428,386
Net OPEB asset as a percentage of covered payroll	-14.5%	-15.4%

Notes to schedule:
Benefit changes: None
Changes of assumptions: None

Schedule of Investment Returns

Plan fiduciary net position	6/30/2018	6/30/2017
Annual money-weighted rate of return, net of investment expense	1.21%	1.20%

*This schedule is intended to present information for the last 10 years. Additional information will be added as it becomes available.

Independent School District 93

Information about the District's Net Pension Liability

Year Ended June 30, 2018 *

Schedule of Employer's Share of Net Pension Liability

Teacher's Retirement Association (TRA)

Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability associated with the District	Total	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2017	0.0403%	$8,044,611	$777,723	$8,822,334	$2,168,745	370.9%	51.6%
June 30, 2016	0.0425%	$10,137,264	$1,018,259	$11,155,523	$2,212,307	458.2%	44.9%
June 30, 2015	0.0427%	$2,641,417	$323,741	$2,965,158	$2,164,840	122.0%	76.8%
June 30, 2014	0.0470%	$2,165,726	$152,337	$2,318,063	$2,145,410	100.9%	81.5%

Public Employees Retirements Association (PERA)

Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability	Employer's Proportionate Share (Amount) of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability associated with the District	Total	Employer's Covered Payroll (b)	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
June 30, 2017	0.0177%	$1,129,956	$14,215	$1,144,171	$1,140,774	99.1%	75.9%
June 30, 2016	0.0171%	$1,388,435	$18,109	$1,406,544	$1,052,357	131.9%	68.9%
June 30, 2015	0.0161%	$834,386	$0	$834,386	$948,988	87.9%	78.2%
June 30, 2014	0.0187%	$878,432	$0	$878,432	$979,130	89.7%	78.7%

*This schedule is intended to present information for the last 10 years. Additional information will be added as it becomes available.

Independent School District 93

Information about the District's Net Pension Liability

Year Ended June 30, 2018 *

Schedule of Employer's Contributions

Teacher's Retirement Association (TRA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2018	$165,672	$165,672	$0	$2,208,976	7.50%
June 30, 2017	$162,656	$162,656	$0	$2,168,742	7.50%
June 30, 2016	$165,923	$165,923	$0	$2,212,307	7.50%
June 30, 2015	$162,363	$162,363	$0	$2,164,840	7.50%

Public Employees Retirement Association (PERA)

Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered Payroll (d)	Contributions as a Percentage of Covered Payroll (b/d)
June 30, 2018	$83,686	$83,686	$0	$1,115,810	7.50%
June 30, 2017	$85,312	$85,312	$0	$1,140,774	7.48%
June 30, 2016	$79,631	$79,631	$0	$1,052,357	7.57%
June 30, 2015	$69,974	$69,974	$0	$948,988	7.37%

*This schedule is intended to present information for the last 10 years. Additional information will be added as it becomes available.

Supplementary Financial Information

Independent School District 93

Nonmajor Governmental Funds – Combining Balance Sheet

June 30, 2018

	Special Revenue Funds		Debt Service Funds		Total
	Food Service Fund	Community Service Fund	Debt Service Fund	Postemployment Benefits Debt Service Fund	Total Nonmajor Governmental Funds
Assets					
Cash and temporary cash investments	$ 15,818	$ 135,396	$ 230,113	$ 187,865	$ 569,192
Current property taxes receivable		17,646	26,688	86,000	130,334
Delinquent property taxes receivable		1,588	1,880	6,618	10,086
Accounts receivable		10,316			10,316
Due from the Minnesota Department of Education		3,161	422	1,520	5,103
Inventory	2,336				2,336
Prepaid expenses	924				924
Total assets	$ 19,078	$ 168,107	$ 259,103	$ 282,003	$ 728,291
Liabilities					
Salaries payable	$ 9,638	$ 4,934	$	$	$ 14,572
Accounts payable	2,173	2,899	475		5,547
Accrued payroll taxes	3,867				3,867
Unearned revenue	140	2,172			2,312
Total liabilities	15,818	10,005	475		26,298
Deferred Inflows of Resources					
Delinquent property taxes		1,588	1,880	6,618	10,086
Property taxes levied for subsequent year's expenditures		46,464	67,180	226,681	340,325
Total deferred inflows of resources		48,052	69,060	233,299	350,411
Fund balances					
Nonspendable	3,260				3,260
Restricted		110,050	189,568	48,704	348,322
Total fund balances	3,260	110,050	189,568	48,704	351,582
Total liabilities, deferred inflows of resources, and fund balances	$ 19,078	$ 168,107	$ 259,103	$ 282,003	$ 728,291

Independent School District 93

Nonmajor Governmental Funds – Combining Statement of Revenues, Expenditures, and Changes in Fund Balances

For the Year Ended June 30, 2018

	Special Revenue Funds		Debt Service Funds		Total
	Food Service Fund	Community Service Fund	Debt Service Fund	Postemployment Benefits Debt Service Fund	Nonmajor Governmental Funds
Revenues					
Local property tax levies	$	$ 48,555	$ 59,072	$ 212,357	$ 319,984
Other local and county revenues	160	163,994			164,154
Revenue from state sources	13,591	32,173	4,223	15,195	65,182
Revenue from federal sources	107,798				107,798
Interest income		837	846	894	2,577
Sales and other conversion of assets	97,944				97,944
Total revenues	219,493	245,559	64,141	228,446	757,639
Expenditures					
Current					
Community education and services		215,727			215,727
Pupil support services	224,139				224,139
Debt service					
Principal			55,000	195,000	250,000
Interest and other fiscal costs			8,528	30,715	39,243
Capital outlay	420	603			1,023
Total expenditures	224,559	216,330	63,528	225,715	730,132
Excess (deficiency) of revenues over expenditures	(5,066)	29,229	613	2,731	27,507
Other financing sources					
Transfers in	517		178,382		178,899
Net change in fund balances	(4,549)	29,229	178,995	2,731	206,406
Fund balances, beginning	7,809	80,821	10,573	45,973	145,176
Fund balances, ending	$ 3,260	$ 110,050	$ 189,568	$ 48,704	$ 351,582

Independent School District 93

Fiscal Compliance Table

For the Year Ended June 30, 2018

	Audit	UFARS	Audit - UFARS
01 GENERAL FUND			
Total revenues	$ 5,840,473	$ 5,840,473	$
Total expenditures	6,014,090	6,014,090	
Non spendable			
460 Non spendable fund balance	90,255	90,255	
Restricted/Reserve			
403 Staff development			
405 Deferred maintenance			
406 Health and safety			
407 Capital Projects Levy			
408 Cooperative revenue			
411 Severance pay			
413 Project funded by COP			
414 Operating debt			
416 Levy reduction			
417 Taconite building maintenance			
423 Certain teacher programs			
424 Operating capital	67,186	67,186	
426 $25 Taconite			
427 Disabled accessibility			
428 Learning and development			
434 Area learning center			
435 Contracted alt. Programs			
436 St. approved alt. Program			
438 Gifted & talented	8,939	8,939	
441 Basic skills program			
445 Career and technical Programs			
446 First Grade Preparedness			
449 Safe schools levy			
450 Prekindergarten			
451 QZAB payments			
452 OPEB liability not in trust			
453 Unfunded sev & retirement levy			
459 Basic skills extended time	3,193	3,193	
467 LTFM	44,208	44,208	
472 Medical Assistance			
Restricted			
464 Restricted fund balance			
Committed			
418 Committed for separation			
461 Committed fund balance			
Assigned			
462 Assigned fund balance	157,966	157,966	
Unassigned			
422 Unassigned fund balance	908,146	908,148	(2)
02 FOOD SERVICE			
Total revenues	219,493	219,492	1
Total expenditures	224,559	224,558	1
Non spendable			
460 Non spendable fund balance	3,260	3,260	
Restricted			
452 OPEB liability not in trust			
464 Restricted fund balance			
Unassigned			
463 Unassigned fund balance			
04 COMMUNITY SERVICE			
Total revenues	245,559	245,559	
Total expenditures	216,330	216,331	(1)
Non spendable			
460 Non spendable fund balance			
Restricted/Reserve			
426 $25 taconite			
431 Community education	26,304	26,304	
432 ECFE	52,772	52,772	
440 Teacher development and eval			
444 School readiness	29,119	29,119	
447 Adult Basic Education			
452 OPEB liability not in trust			
Restricted			
464 Restricted fund balance	1,855	1,855	

	Audit	UFARS	Audit - UFARS
06 BUILDING CONSTRUCTION			
Total revenues	$ 28,609	$ 28,609	$
Total expenditures	1,605,411	1,605,411	
Non spendable			
460 Non spendable fund balance			
Restricted/Reserve			
407 Down payment levy			
409 Alternative facility program			
413 LTFM			
467	3,777,619	3,777,619	
Restricted			
464 Restricted fund balance	320,411	320,411	
Unassigned			
463 Unassigned fund balance			
07 DEBT SERVICE			
Total revenues	64,141	64,142	(1)
Total expenditures	63,528	63,528	
Non spendable			
460 Non spendable fund balance			
Restricted/Reserve			
425 Bond refundings			
451 QZAB payments			
Restricted			
464 Restricted fund balance	189,568	189,568	
Unassigned			
463 Unassigned fund balance			
08 TRUST			
Total revenues			
Total expenditures			
422 Net position			
20 INTERNAL SERVICE			
Total revenues			
Total expenditures			
422 Net position			
25 OPEB REVOCABLE TRUST FUND			
Total revenues			
Total expenditures			
422 Net position			
45 OPEB IRREVOCABLE TRUST FUND			
Total revenues	58,338	58,338	
Total expenditures	118,907	118,908	(1)
422 Net position	789,612	789,610	2
47 OPEB DEBT SERVICE FUND			
Total revenues	228,446	228,446	
Total expenditures	225,715	225,715	
Non spendable			
460 Non spendable fund balance			
Restricted			
425 Bond refundings			
464 Restricted fund balance	48,704	48,704	
Unassigned			
463 Unassigned fund balance			

Reports Required by *Government Auditing Standards* and the State of Minnesota

WIPFLi LLP

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

To the School Board
Independent School District 93
Carlton, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States 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 93, Carlton, Minnesota (District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District 's basic financial statements and have issued our report thereon dated December 6, 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 entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Wipfli LLP

Wipfli LLP

December 6, 2018
Duluth, Minnesota

WIPFLi LLP

Independent Auditor's Report on Legal Compliance for the State of Minnesota

To the School Board
Independent School District 93
Carlton, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the Unites States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District 93 (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 6, 2018.

The *Minnesota Legal Compliance Audit Guide for School Districts,* promulgated by the State Auditor pursuant to Minnesota Statute §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 results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.

Wipfli LLP

Wipfli LLP

December 6, 2018
Duluth, Minnesota

Independent School District 93

Schedule of Findings and Responses
For the Year Ended June 30, 2018

Financial Statement Findings

Item 2018-001 - Financial Statement Presentation and Disclosures - Significant Deficiency

Criteria – The District is responsible for having controls in place to prepare the financial statements in accordance with accounting principles generally accepted in the United States.

Condition - The District's internal control over financial reporting does not end at the general ledger, but extends to the financial statements and related notes. As part of our professional services for the year ended June 30, 2018, Wipfli assisted in drafting the financial statements and related notes. While the District does have an internal control process to review the financial statements prepared by the auditors, the District does not have sufficient expertise to completely prepare its own financial statements and related notes, and relies on the auditors to provide necessary understanding or current accounting disclosure principles in the preparation of the financial statements and related notes.

Cause - The District does not expect, nor does it require, its financial staff to have the ability to prepare GAAP statements.

Effect - The completeness of the related note disclosures and the accuracy of the overall financial presentation is negatively impacted as outside auditors do not have the same comprehensive understanding of the District and its staff. The potential exists that a misstatement of the financial statements and related notes could occur and not be prevented or detected by the District.

Recommendation – We recommend that management and those charged with governance continue to evaluate whether to accept the degree of risk associated with this condition because of cost or other considerations.

DISTRICT'S CORRECTIVE ACTION PLAN (CAP):

1. Explanation of Disagreement

   The District does not disagree with the audit finding.

2. Action Planned

   The District will continue to rely on the outside auditors to assist the District in drafting the financial statements. The District will continue to review the financial statements and related notes.

3. Official Responsible

   The Superintendent and Business Manager.

4. Planned Completion Date

   Immediately.

5. Plan to Monitor

   The School Board will monitor compliance with the corrective action plan

Minnesota Legal Compliance Findings

None.

Independent School District 93

Schedule of Prior Year Findings and Responses

For the Year Ended June 30, 2018

Financial Statement Findings

Item 2017-001 - Financial Statement Presentation and Disclosures - Significant Deficiency

This finding was repeated for fiscal year 2018 as item 2018-001.