

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2018

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PERHAM, MINNESOTA
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**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
ROSTER OF SCHOOL OFFICIALS
June 30, 2018**

Sue VonRuden	Chairperson
Cyndy Huber	Vice Chairperson
Arnie Thompson	Clerk
Sue Huebsch	Treasurer
Aaron Kalina	Director
Christi Stoll	Director
Nathan Rooney	Director
Mitch Anderson	Superintendent
Kristi Werner	Director of Business Services



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Independent School District No. 549
Perham, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 549, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 549, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the District's net other postemployment benefits liability and related ratios, schedule of District contributions, schedule of District share of net pension liability, and notes to required supplementary information as required supplementary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining statements, schedule of changes in fund balances, and compliance table as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2018 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



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

December 5, 2018

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**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018**

This section of Independent School District No. 549's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2018.

Financial Highlights

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

- Overall fund revenues were \$22,185,558 and overall fund expenditures were \$46,727,591.
- Building construction expenditures were \$25,421,645.

Overview of the Financial Statements

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

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

District-wide Statements

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018**

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

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

Fund Financial Statements

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

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

The District has two kinds of funds:

- **Governmental funds:** The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, reconciliations have been provided following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances to help explain the relationship (or differences) between the governmental funds and governmental activities.

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

- **Fiduciary fund:** The District is the fiduciary for assets that belong to others. The District is responsible for ensuring that the assets reported in this fund are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activity, consisting of an OPEB Trust Fund, is reported in a separate Statement of Fiduciary Net Position. The District excludes the activities from the district-wide financial statements because it cannot use the assets to finance its operations.

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Year Ended June 30, 2018**

Financial Analysis of the District as a Whole

Net Position

The District's combined net position was \$121,861 on June 30, 2018 (see details in Table A-1). This was a decrease of 90.1 percent from the prior year.

**Table A-1
 Statement of Net Position**

	<u>2018</u>	<u>2017</u>	<u>Total Percentage Change</u>
Current and Other Assets	\$ 22,251,871	\$ 45,125,409	(50.7) %
Capital Assets	<u>50,521,940</u>	<u>2,486,411</u>	1,931.9
Total Assets	<u>72,773,811</u>	<u>47,611,820</u>	52.8
Deferred Outflows of Resources	<u>14,846,686</u>	<u>19,760,143</u>	(24.9)
Long-Term Liabilities	69,684,269	76,773,638	(9.2)
Other Liabilities	<u>7,600,555</u>	<u>5,637,472</u>	34.8
	<u>77,284,824</u>	<u>82,411,110</u>	(6.2)
Deferred Inflows of Resources	<u>10,213,812</u>	<u>6,109,831</u>	67.2
Net Position			
Net Investment in Capital Assets	12,320,519	10,267,966	20.0
Restricted	4,051,471	3,619,885	11.9
Unrestricted	<u>(16,250,129)</u>	<u>(12,658,529)</u>	(28.4)
Total Net Position	<u>\$ 121,861</u>	<u>\$ 1,229,322</u>	(90.1) %

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Year Ended June 30, 2018**

Change in Net Position

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

**Table A-2
 Change in Net Position**

	<u>2018</u>	<u>2017</u>	<u>Total Percentage Change</u>
Revenues			
Program Revenues			
Charges for Services	\$ 1,040,130	\$ 849,170	22.5 %
Operating Grants and Contributions	4,591,036	4,681,543	(1.9)
Capital Grants and Contributions	145,104	80,669	79.9
General Revenues			
Property Taxes	6,126,544	5,968,300	2.7
Unrestricted State Aid	9,954,538	9,554,843	4.2
Other Sources	372,849	298,061	25.1
Total Revenues	<u>22,230,201</u>	<u>21,432,586</u>	3.7
Expenses			
Administration	866,355	801,123	8.1
District Support Services	543,101	411,273	32.1
Elementary & Secondary Regular Instruction	10,815,161	10,750,593	0.6
Vocational Education Instruction	416,465	407,372	2.2
Special Education Instruction	2,823,044	2,698,877	4.6
Community Education and Services	461,234	430,505	7.1
Instructional Support Services	841,703	853,432	(1.4)
Pupil Support Services	2,747,221	2,706,923	1.5
Sites and Buildings	1,940,132	1,634,192	18.7
Fixed Costs	142,473	144,844	(1.6)
Interest Expense	1,170,129	1,243,464	(5.9)
Depreciation - Unallocated	570,644	487,310	17.1
Total Expenses	<u>23,337,662</u>	<u>22,569,908</u>	3.4
Change in Net Position	(1,107,461)	(1,137,322)	(2.6)
Net Position - Beginning	<u>1,229,322</u>	<u>2,366,644</u>	(48.1)
Net Position - Ending	<u>\$ 121,861</u>	<u>\$ 1,229,322</u>	(90.1) %

The District's total revenues were \$22,230,201 for the year ended June 30, 2018. Property taxes and state aid payments accounted for 88 percent of total revenue for the year.

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018**

The total cost of all programs and services was \$23,337,662. The District's expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position by \$1,107,461 over last year. The impact of reporting the pension liability, deferred outflows, and deferred inflows was a decrease of approximately \$4,000,000.

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

Table A-3 presents these net costs.

**Table A-3
Net Cost of Governmental Activities**

	Total Cost of Services		Total	Net Cost of Services		Total
	2018	2017	Percentage Change	2018	2017	Percentage Change
Expenses						
Administration	\$ 866,355	\$ 801,123	8.1 %	\$ 866,355	\$ 801,123	8.1 %
District Support Services	543,101	411,273	32.1	543,101	411,273	32.1
Elementary & Secondary						
Regular Instruction	10,815,161	10,750,593	0.6	9,534,035	8,976,658	6.2
Vocational Education Instruction	416,465	407,372	2.2	416,465	407,372	2.2
Special Education Instruction	2,823,044	2,698,877	4.6	967,248	1,067,421	(9.4)
Community Education and Services	461,234	430,505	7.1	116,206	148,708	(21.9)
Instructional Support Services	841,703	853,432	(1.4)	598,960	636,884	(6.0)
Pupil Support Services	2,747,221	2,706,923	1.5	1,346,957	1,261,786	6.8
Sites and Buildings	1,940,132	1,634,192	18.7	1,288,819	1,371,683	(6.0)
Fixed Costs	142,473	144,844	(1.6)	142,473	144,844	(1.6)
Interest Expense	1,170,129	1,243,464	(5.9)	1,170,129	1,243,464	(5.9)
Depreciation - Unallocated	570,644	487,310	17.1	570,644	487,310	17.1
	<u>\$ 23,337,662</u>	<u>\$ 22,569,908</u>	3.4 %	<u>\$ 17,561,392</u>	<u>\$ 16,958,526</u>	3.6 %

Financial Analysis of the District's Funds

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

**Table A-4
Major Funds**

	Fund Balance		Increase	Percentage
	2018	2017	(Decrease)	Increase (Decrease)
Governmental Funds				
General	\$ 4,077,249	\$ 3,921,894	\$ 155,355	4.0 %
Building Construction Fund	6,870,058	31,747,517	(24,877,459)	(78.4)
Debt Service Fund	287,200	118,692	168,508	142.0

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 For the Year Ended June 30, 2018**

General Fund

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

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

**Table A-5
 General Fund Revenue**

	<u>2018</u>	<u>2017</u>	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	\$ 2,851,940	\$ 2,765,150	\$ 86,790	3.1 %
Interest Earnings	66,888	30,824	36,064	117.0
Other	367,870	493,382	(125,512)	(25.4)
State Sources	13,274,034	12,725,399	548,635	4.3
Federal Sources	272,212	323,581	(51,369)	(15.9)
Other	183,186	5,226	177,960	3,405.3
Total General Fund Revenue	<u>\$ 17,016,130</u>	<u>\$ 16,343,562</u>	<u>\$ 672,568</u>	4.1 %

Total general fund revenue increased by \$672,568 or 4.1 percent from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on revenue.

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

**Table A-6
 General Fund Expenditures**

	<u>2018</u>	<u>2017</u>	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	\$ 9,064,250	\$ 8,632,007	\$ 432,243	5.0 %
Employee Benefits	2,247,188	2,111,818	135,370	6.4
Purchased Services	3,234,339	2,988,008	246,331	8.2
Supplies and Materials	854,816	828,725	26,091	3.1
Capital Expenditures	1,275,783	682,071	593,712	87.0
Debt Service	31,457	151,266	(119,809)	(79.2)
Other Expenditures	152,942	156,853	(3,911)	(2.5)
Total General Fund Expenditures	<u>\$ 16,860,775</u>	<u>\$ 15,550,748</u>	<u>\$ 1,310,027</u>	8.4 %

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2018**

Total general fund expenditures increased \$1,310,027 or 8.4 percent from the previous year.

General Fund Budgetary Highlights

The District's final budget for the general fund anticipated that revenues and other financing sources would exceed expenditures by \$17,753. The actual results for the year show a \$155,355 surplus.

Capital Assets and Debt Administration

Capital Assets

Note 3 to the financial statements presents an analysis of capital assets transactions occurring during the year ended June 30, 2018. Additions totaling \$26,409,025 included construction in process for the elementary school and the high school, gym equipment, a sound system, playground, loader, utility vehicle, and heat pumps.

Long-Term Debt

At year-end, the District had \$42,863,905 of long-term debt. This consisted of bonded indebtedness of \$41,535,000, unamortized premium of \$1,139,395, and special assessment debt of \$189,510. Note 6 to the financial statements present details and payment provisions of these items.

Factors Bearing on the District's Future

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

- The political environment at the state level will have a significant effect on future finances. The state legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive.
- Changes in enrollment have an important effect on the District's revenue, as state funding is based on a per pupil formula.

Contacting the District's Financial Management

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kristi Werner, Business Affairs Officer, at District offices located in the high school building, 800 Coney St. W, Perham, Minnesota 56573.

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 STATEMENT OF NET POSITION
 June 30, 2018**

GOVERNMENTAL ACTIVITIES	
ASSETS	
Cash and Investments	\$ 17,423,611
Property Taxes Receivable, Net of Allowance	2,581,064
Accounts Receivable	195,675
Due From Department of Education	1,493,759
Due From Federal Gov. - DOE	221,845
Due From Other MN Districts	151,492
Due From OPEB Trust	119,866
Prepaid Expenses	25,091
Inventory	39,468
Capital Assets	
Land, Construction in Process	31,855,683
Other Capital Assets, Net of Depreciation	18,666,257
TOTAL ASSETS	<u><u>72,773,811</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Cost Sharing Defined Benefit Pension Plan	14,724,439
Other Postemployment Benefit Plan	122,247
TOTAL DEFERRED OUTFLOWS OF RESOURCES	<u><u>14,846,686</u></u>
LIABILITIES	
Accounts Payable	3,743,524
Salaries Payable	643,900
Payroll Deductions	652,738
Due To Other MN Districts	6,722
Vacation Payable	105,000
Interest Payable	500,167
Long-Term Liabilities Due Within One Year	1,948,504
Long-Term Liabilities	
Bonds, Net Unamortized Premiums and Discounts	42,674,395
Special Assessment Debt	189,511
Severance Payable	1,167,278
Net Pension Liability	26,530,334
Net Other Postemployment Benefit Liability	1,071,255
Less Amounts Due Within One Year	(1,948,504)
Total Long-Term Liabilities	<u>69,684,269</u>
TOTAL LIABILITIES	<u><u>77,284,824</u></u>
DEFERRED INFLOWS OF RESOURCES	
Property Taxes Levied - Subs. Years	5,466,499
Cost Sharing Defined Benefit Pension Plan	4,337,154
Other Postemployment Benefit Plan	410,159
TOTAL DEFERRED INFLOWS OF RESOURCES	<u><u>10,213,812</u></u>
NET POSITION	
Net Investment in Capital Assets	12,320,519
Restricted	
Health and Safety	11,567
Capital Projects	20,038
Levy Reduction	164,027
Operating Capital	186
Safe Schools	134,433
LTFM	647,654
Area Learning Center	470,956
Food Service	237,283
Community Service	44,149
Community Education	19,834
ECFE	93,730
School Readiness	41
Building Construction	2,207,573
Unrestricted	<u>(16,250,129)</u>
TOTAL NET POSITION	<u><u>\$ 121,861</u></u>

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

INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
GOVERNMENTAL ACTIVITIES					
Administration	\$ 866,355	\$	\$	\$	(866,355)
District Support Services	543,101				(543,101)
Elementary & Secondary					
Regular Instruction	10,815,161	100,112	1,175,257	5,757	(9,534,035)
Vocational Education Instruction	416,465				(416,465)
Special Education Instruction	2,823,044	125,318	1,730,478		(967,248)
Community Education and Services	461,234	280,745	64,283		(116,206)
Instructional Support Services	841,703		198,431	44,312	(598,960)
Pupil Support Services	2,747,221	352,345	1,047,919		(1,346,957)
Sites and Buildings	1,940,132	181,610	374,668	95,035	(1,288,819)
Fixed Costs	142,473				(142,473)
Interest Expense	1,170,129				(1,170,129)
Depreciation - Unallocated	570,644				(570,644)
TOTAL GOVERNMENTAL ACTIVITIES	\$ 23,337,662	\$ 1,040,130	\$ 4,591,036	\$ 145,104	(17,561,392)
GENERAL REVENUES					
Taxes					
Property Taxes, Levied for General Purposes					2,884,757
Property Taxes, Levied for Community Education and Services					139,006
Property Taxes, Levied for Debt Services					3,102,781
Unrestricted State Aid					9,954,538
Unrestricted Investment Earnings					66,893
Gain on Sale of Capital Asset					15,500
Other General Revenue					290,456
TOTAL GENERAL REVENUES					16,453,931
Change in Net Position					(1,107,461)
Net Position - Beginning					1,229,322
Net Position - Ending					\$ 121,861

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

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2018**

	General Fund	Building Construction Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and Investments	\$ 4,589,548	\$ 10,407,893	\$ 1,986,955	\$ 439,215	\$ 17,423,611
Current Property Taxes Receivable	1,091,813		1,415,576	61,098	2,568,487
Delinquent Property Taxes Receivable	57,246			331	57,577
Accounts Receivable	195,675				195,675
Due From Department of Education	1,480,400		3,583	9,776	1,493,759
Due From Federal Govt. - DOE	197,129			24,716	221,845
Due From Other MN Districts	151,492				151,492
Due From OPEB Trust	119,866				119,866
Prepaid Expenses	25,091				25,091
Inventory				39,468	39,468
TOTAL ASSETS	\$ 7,908,260	\$ 10,407,893	\$ 3,406,114	\$ 574,604	\$ 22,296,871
LIABILITIES					
Accounts Payable	\$ 168,978	\$ 3,537,835	\$	\$ 36,711	\$ 3,743,524
Salaries Payable	643,900				643,900
Severance Payable	96,367				96,367
Due To Other MN Districts	5,577			1,145	6,722
Payroll Deductions	652,738				652,738
TOTAL LIABILITIES	1,567,560	3,537,835		37,856	5,143,251
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue - Delinquent Taxes	57,246			331	57,577
Property Taxes Levied - Subs. Years	2,206,205		3,118,914	141,380	5,466,499
TOTAL DEFERRED INFLOWS OF RESOURCES	2,263,451		3,118,914	141,711	5,524,076
FUND BALANCES					
Nonspendable: Inventory				39,468	39,468
Restricted for Health and Safety	11,567				11,567
Restricted for Capital Projects	20,038				20,038
Restricted for Levy Reduction	164,027				164,027
Restricted for Operating Capital	186				186
Restricted for Safe Schools	134,433				134,433
Restricted for LTFM	647,654				647,654
Restricted for Area Learning Center	470,956				470,956
Restricted for Food Service				197,815	197,815
Restricted for Community Service				44,149	44,149
Restricted for Community Education				19,834	19,834
Restricted for ECFE				93,730	93,730
Restricted for School Readiness				41	41
Restricted for Building Construction		6,870,058			6,870,058
Restricted for Debt Service			287,200		287,200
Committed for Severance	195,000				195,000
Unassigned	2,433,388				2,433,388
TOTAL FUND BALANCES	4,077,249	6,870,058	287,200	395,037	11,629,544
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 7,908,260	\$ 10,407,893	\$ 3,406,114	\$ 574,604	\$ 22,296,871

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

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF
 NET POSITION
 June 30, 2018**

Total fund balances - governmental funds	\$ 11,629,544
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	
Cost of capital assets	62,709,793
Less accumulated depreciation	(12,187,853)
Deferred outflows of resources relating to the cost sharing defined benefit plans and other postemployment benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	14,846,686
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Bonds	(41,535,000)
Unamortized premium and discount	(1,139,395)
Special assessment debt	(189,511)
Severance payable	(1,070,911)
Net pension liability	(26,530,334)
Net other postemployment benefit liability	(1,071,255)
Deferred inflows of resources relating to the cost sharing defined benefit plans and other postemployment benefits in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(4,747,313)
Vacation payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(105,000)
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the governmental funds.	57,577
An allowance has been set up for taxes receivable in the government-wide financial statements.	(45,000)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.	<u>(500,167)</u>
Net position - governmental activities	<u>\$ 121,861</u>

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

INDEPENDENT SCHOOL DISTRICT NO. 549

PERHAM, MINNESOTA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2018

	General Fund	Building Construction Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Local Property Tax Levies	\$ 2,851,940	\$	\$ 3,102,781	\$ 138,941	\$ 6,093,662
Other Local & County Revenues	434,758	544,186		287,725	1,266,669
Revenue From State Sources	13,274,034		35,827	180,920	13,490,781
Revenue From Federal Sources	272,212			526,703	798,915
Sale/Other Conversion of Asset	183,186			352,345	535,531
TOTAL REVENUES	17,016,130	544,186	3,138,608	1,486,634	22,185,558
EXPENDITURES					
Current					
Administration	866,354				866,354
District Support Services	542,723				542,723
Elementary & Secondary					
Regular Instruction	6,822,628				6,822,628
Vocational Education Instruction	416,465				416,465
Special Education Instruction	2,823,044				2,823,044
Community Education and Services				460,121	460,121
Instructional Support Services	705,364				705,364
Pupil Support Services	1,800,252			860,923	2,661,175
Sites and Buildings	1,506,801				1,506,801
Fixed Costs	69,904			1,279	71,183
Debt Service					
Principal	22,001		1,735,000		1,757,001
Interest	9,456		1,235,100		1,244,556
Capital Outlay	1,275,783	25,421,645		152,748	26,850,176
TOTAL EXPENDITURES	16,860,775	25,421,645	2,970,100	1,475,071	46,727,591
Net Change in Fund Balances	155,355	(24,877,459)	168,508	11,563	(24,542,033)
Fund Balances - Beginning	3,921,894	31,747,517	118,692	383,474	36,171,577
Fund Balances - Ending	\$ 4,077,249	\$ 6,870,058	\$ 287,200	\$ 395,037	\$ 11,629,544

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

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
 IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2018**

Total net change in fund balances - governmental funds	\$ (24,542,033)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in the governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over the estimated useful lives as depreciation expense.	
Capital outlays	26,393,525
Depreciation expense	(751,796)
Gain on trade of capital assets increases net position.	15,500
Change in net pension liability.	4,971,410
Recognition of additional pension expense and grant revenue for the District's proportionate share of the State of Minnesota's contribution to the PERA and TRA.	
Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position.	1,757,002
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Also, governmental funds report the effect of premiums and discounts when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	74,427
Revenue in the statement of activities that does not provide current financial resources is not reported as revenues in the governmental funds.	32,881
Changes in deferred outflows and inflows of resources related to net pension liability.	(8,996,747)
Changes in deferred outflows and inflows of resources related to other postemployment benefit liability.	(313,451)
In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid.)	
Vacation payable	(14,000)
Net other postemployment benefits	170,872
Severance payable	94,949
	<hr/>
Change in net position - governmental activities	<u>\$ (1,107,461)</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 June 30, 2018**

	OPEB Trust Fund
ASSETS	
Cash and Investments	\$ <u>1,455,092</u>
TOTAL ASSETS	<u>1,455,092</u>
LIABILITIES	
Due to Independent School District No. 549	<u>119,866</u>
TOTAL LIABILITIES	<u>119,866</u>
NET POSITION	
Held in Trust of OPEB	\$ <u><u>1,335,226</u></u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 For the Year Ended June 30, 2018**

	OPEB Trust Fund
ADDITIONS	
Investment Earnings:	
Interest	\$ <u>13,126</u>
TOTAL ADDITIONS	<u>13,126</u>
DEDUCTIONS	
Benefits	<u>119,866</u>
TOTAL DEDUCTIONS	<u>119,866</u>
Change in Net Position	(106,740)
Net Position Held in Trust for OPEB - Beginning	<u>1,441,966</u>
Net Position Held in Trust for OPEB - Ending	<u>\$ <u>1,335,226</u></u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 549 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Reporting Entity

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

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

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

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

C. Basic Financial Statement Presentation

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

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

D. Measurement Focus and Basis of Accounting

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

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

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 available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.

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.

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

Description of Funds

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

Major Governmental Funds

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

Building Construction Fund – Accounts for the accumulation of resources for, and the payment of, building construction.

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

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

Nonmajor Governmental Funds

Special Revenue Funds:

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

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

Scholarship Fund – Accounts for all resources designated for specified purposes, which supports the District's programs.

Fiduciary Fund

OPEB Trust Fund – Accounts used for reporting resources set aside and held in an irrevocable trust arrangement for postemployment benefits.

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

E. Specific Account Information

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

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

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

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable market inputs that are not corroborated by market data

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

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

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

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year. The allowance for uncollectible taxes is \$45,000.

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

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

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for site improvements and buildings, and 5 to 15 years for equipment. Capital assets not being depreciated include land, land improvements, and construction in progress, if any.

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

Vacation Payable – It is the District's policy to permit employees to accumulate earned but unused vacation. All vacation pay is accrued when incurred in the district-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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

INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018

other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Other Postemployment Benefits (OPEB) – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Retiree Benefits Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of the purchase of one year or less, which are reported at cost. Postemployment healthcare expenditures have been funded through contributions to an irrevocable trust and on a pay as you go basis in the future.

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

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

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resource (expense/expenditure) until then. The District has two items that qualify for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* which represents actuarial differences within PERA and TRA pension plans as well as amounts paid to the plans after the measurement date and *Other Postemployment Benefit Plan* which represents actuarial differences with OPEB plans.

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

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

Net Position – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District’s financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

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

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

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

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

Assigned – Consists of amounts a government intends to use for a specific purpose. These constraints are established by the Board of Education and/or management.

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

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

The District will strive to maintain a minimum unassigned general fund balance of \$500,000.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018**

statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

NOTE 2 DEPOSITS AND INVESTMENTS

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

The District's interest income for the year ended June 30, 2018, was \$454,688.

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

	Governmental Activities	Fiduciary Funds	Total
Cash	\$ 755,862	\$	\$ 755,862
Investments	16,667,749	1,455,092	18,122,841
Total	<u>\$ 17,423,611</u>	<u>\$ 1,455,092</u>	<u>\$ 18,878,703</u>

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

Investments	Fair Value (Level 1)
MnTrust	\$ 18,122,841

MnTrust is a common law trust organized and existing under the laws of the State of Minnesota, in accordance with the provisions of the Minnesota Joint Powers Act. The general objective of the Fund is to provide a high yield for the participants while maintaining liquidity and preserving capital by investing only in instruments authorized by Minnesota Statutes, which govern the temporary investment of school district monies. In addition, the fixed rate/fixed term portion of the program is also structured with safety of principal as the major objective. MnTrust is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

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

Credit Risk - The District may invest idle funds as authorized in Minnesota Statutes, as follows:

- (a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated "A" and "AA", respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated "A" or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.

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

MnTrust is rated Aaa by Moody’s Investors Services.

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

Custodial Credit Risk - Deposits – The District does not have a policy for custodial credit risk. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District’s board, all of which are members of the Federal Reserve System. Minnesota Statutes require that all district deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds. As of June 30, 2018, the District was not exposed to custodial credit risk.

Custodial Credit Risk - Investments - The investment in MnTrust is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

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NOTE 3 CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 303,348	\$	\$	\$ 303,348
Land Improvements	58,157			58,157
Construction in Process	<u>6,777,864</u>	<u>25,070,538</u>	<u>354,224</u>	<u>31,494,178</u>
Total Capital Assets, Not Being Depreciated	<u>7,139,369</u>	<u>25,070,538</u>	<u>354,224</u>	<u>31,855,683</u>
Capital Assets, Being Depreciated:				
Site Improvements	679,460			679,460
Buildings	25,949,330	1,522,906		27,472,236
Equipment	<u>2,532,609</u>	<u>169,805</u>		<u>2,702,414</u>
Total Capital Assets, Being Depreciated	<u>29,161,399</u>	<u>1,692,711</u>		<u>30,854,110</u>
Less Accumulated Depreciation For:				
Site Improvements	256,958	29,475		286,433
Buildings	9,253,655	620,431		9,874,086
Equipment	<u>1,925,444</u>	<u>101,890</u>		<u>2,027,334</u>
Total Accumulated Depreciation	<u>11,436,057</u>	<u>751,796</u>		<u>12,187,853</u>
Total Capital Assets, Being Depreciated, Net	<u>17,725,342</u>	<u>940,915</u>		<u>18,666,257</u>
Governmental Activities Capital Assets, Net	<u>\$ 24,864,711</u>	<u>\$ 26,011,453</u>	<u>\$ 354,224</u>	<u>\$ 50,521,940</u>

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

District Support Services	\$ 378
Elementary & Secondary Regular Instruction	46,705
Community Education and Services	1,113
Instructional Support Services	95
Pupil Support Services	12,991
Sites and Buildings	<u>119,870</u>
	181,152
Unallocated	<u>570,644</u>
Total Depreciation Expense	<u>\$ 751,796</u>

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NOTE 4 DEFINED BENEFIT PENSION PLANS - STATEWIDE

Substantially, all employees of the District are required by state law to belong to pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis.

Disclosures relating to these plans follow:

A. Public Employees Retirement Association

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

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

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

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

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

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

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

Coordinated Plan members were required to contribute 6.50% of pay in fiscal year 2018. The District was required to contribute 7.50% of pay for Coordinated Plan members. The District's contributions to the General

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Employees Fund for the year ended June 30, 2018, were \$166,150. The District's contributions were equal to the required contributions as set by state statute.

Pension Costs – At June 30, 2018, the District reported a liability of \$2,176,921 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6,000,000 to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$27,337. 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 0.0341% which was an increase of 0.0007% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$294,525 for its proportionate share of the General Employee Plan's pension expense. In addition, the District recognized an additional \$790 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6,000,000 to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 71,745	\$ 136,214
Difference between projected and actual investment earnings		101,547
Changes in actuarial assumptions	353,998	218,236
Changes in proportion	62,450	9,395
Contributions paid to PERA subsequent to the measurement date	166,150	
Total	\$ 654,343	\$ 465,392

\$166,150 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2019	\$ 2,625
2020	145,187
2021	(32,606)
2022	(92,405)

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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: 1% per year for all future years.

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

The following changes in actuarial assumptions occurred in 2017:

General Employees Fund

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39.00%	5.10%
International Stocks	19.00%	5.30%
Bonds	20.00%	0.75%
Alternative Assets	20.00%	5.90%
Cash	2.00%	0.00%

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

Pension Liability Sensitivity – The following presents the District’s proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph,

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as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

District Proportionate Share of NPL		
1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
\$ <u>3,376,567</u>	\$ <u>2,176,921</u>	\$ <u>1,194,794</u>

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

B. Teachers Retirement Association

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

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

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

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

Tier I Benefits:

<u>Tier I</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	1 st ten years	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1 st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1 st 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

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With these provisions:

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

or

Tier II Benefits:

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

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

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

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

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

	<u>Employee</u>	<u>Employer</u>
Basic	11.00%	11.50%
Coordinated	7.50%	7.50%

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

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

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

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2017
Experience Study	June 5, 2015
	November 6, 2017 (economic assumptions)
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

Investment Rate of Return	5.12%, from the Single Equivalent Interest Rate calculation
Price Inflation	2.50%
Wage Growth Rate	2.85% for 10 years and 3.25% thereafter
Projected Salary Increase	2.85 to 8.85% for 10 years and 3.25 – 9.25% thereafter
Cost of Living Adjustment	2.0%

Mortality Assumption

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

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

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<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Stocks	39.00%	5.10%
International Stocks	19.00%	5.30%
Bonds	20.00%	0.75%
Alternative Assets	20.00%	5.90%
Unallocated Cash	2.00%	0.00%

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” and “Changes of Assumptions” and “Changes in Proportion” use the amortization period of 6 years in the schedule presented. The amortization period for “Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments” is over a period of 5 years as required by GASB 68.

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

Net Pension Liability - On June 30, 2018, the District reported a liability of \$24,353,413 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.1220% at the end of the measurement period and 0.1207% for the beginning of the year.

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

District's proportionate share of net pension liability	\$ 24,353,413
State's proportionate share of the net pension liability associated with the district	\$ 2,354,283

For the year ended June 30, 2018, the District recognized pension expense of \$4,203,370. It also recognized \$45,153 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 181,129	\$ 171,006
Net difference between projected and actual earnings on plan inv.		216,802
Changes in actuarial assumptions	13,089,925	3,411,529
Changes in proportion	281,168	72,425
Contributions paid to TRA subsequent to the measurement date	517,874	
Total	<u>\$ 14,070,096</u>	<u>\$ 3,871,762</u>

\$517,874 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2019	\$ 2,523,598
2020	2,947,496
2021	2,691,788
2022	2,214,487
2023	(696,909)

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

District Proportionate Share of NPL		
1% Decrease (4.12%)	Current (5.12%)	1% Increase (6.12%)
\$ 32,141,813	\$ 24,353,413	\$ 17,786,845

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

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

The District recognized total pension expense of \$4,497,895 for all of the pension plans in which it participates.

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NOTE 5 OTHER POSTEMPLOYMENT BENEFITS

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

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

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

The District may contribute the actuarially determined contribution (ADC), an amount actuarially determined in accordance with parameters of GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The pay as you go cost for OPEB benefits is \$119,866. The annual employer contributions were \$60,207 and \$59,658 was the implicit subsidy. These costs are recognized as an expense when claims or premiums are paid. The General Fund paid for \$119,866 of the 2017-2018 costs and transferred \$119,866 from the OPEB trust fund.

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

Inactive plan members or beneficiaries currently receiving benefit payments	13
Active plan members	<u>209</u>
Total Members	<u><u>222</u></u>

Net OPEB Liability – The District's net OPEB liability was measured as of June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2017.

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

Inflation	2.5 percent
Salary increases	3.0 percent, average, including inflation
Investment Rate of Return	2.4 percent, net of OPEB plan investment expense, including inflation
Healthcare Cost Trend Rates	6.5 percent decreasing to 5.0 percent over 6 years

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

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	95%	2.50%
Cash	5%	1.00%

Discount Rate – The Discount rate used to measure the total OPEB liability was 3.3 percent. The projection of cash flows that was used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability:

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balances at 6/30/2017	\$ 2,684,093	\$ 1,441,966	\$ 1,242,127
Changes for the year:			
Service Cost	151,240		151,240
Interest Cost	80,499		80,499
Assumption Changes	103,090		103,090
Plan Changes	(384)		(384)
Projected Investment Return		34,607	(34,607)
Differences between Expected and Actual Experience	(492,191)	(21,481)	(470,710)
Benefit Payments	(119,866)	(119,866)	
Administrative Expenses		-	-
Net Changes	<u>(277,612)</u>	<u>(106,740)</u>	<u>(170,872)</u>
Balances at 6/30/2018	<u>\$ 2,406,481</u>	<u>\$ 1,335,226</u>	<u>\$ 1,071,255</u>

Sensitivity of the Net OPEB Liability to changes in the discount rate – The following presents the net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.3 percent) or one percentage point higher (4.3 percent) than the current rate:

District Net OPEB Liability		
1% Decrease (2.3%)	Current (3.3%)	1% Increase (4.3%)
\$ 1,212,745	\$ 1,071,255	\$ 933,955

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018**

Sensitivity of the Net OPEB Liability to changes in the healthcare cost trend rates – The following presents the net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.5 percent decreasing to 4.0 percent over 6 years) or one percentage point higher (7.5 percent decreasing to 6.0 percent over 6 years) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(5.5% decreasing to 4.0% over 6 years)	(6.5% decreasing to 5.0% over 6 years)	(7.50% decreasing to 6.0% over 6 years)
\$ 868,805	\$ 1,071,255	\$ 1,307,027

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2018, the District recognized OPEB expense of \$142,580. At June 30, 2018, the District reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$	\$ 410,159
Difference between projected and actual investment earnings	36,343	
Changes in actuarial assumptions	85,904	
Total	\$ 122,247	\$ 410,159

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

Year Ending June 30	Pension Expense Amount
2019	\$ (54,168)
2020	(54,168)
2021	(54,168)
2022	(60,553)
2023	(64,855)

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

NOTE 6 LONG-TERM DEBT

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

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
G.O. Building Bonds	\$ 43,270,000	\$	\$ 1,735,000	\$ 41,535,000	\$ 1,770,000
Unamortized Premium (Discount)	1,199,364		59,969	1,139,395	59,969
Total Bonds	44,469,364		1,794,969	42,674,395	1,829,969
Special Assessment Debt	211,512		22,002	189,510	22,168
Severance Payable	1,203,652	32,523	68,896	1,167,279	96,367
Total Long-Term Debt	\$ 45,884,528	\$ 32,523	\$ 1,885,867	\$ 44,031,184	\$ 1,948,504

The District's interest expense on long-term debt for the year ended June 30, 2018, was \$1,170,129.

Special assessment debt and severance payable are generally liquidated by the general fund.

A. General Obligation Bonds

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2018	Amounts Due in 2018-2019	
						Principal	Interest
2016	2.0-4.0%	2019/37	\$ 45,270,000	\$ 1,735,000	\$ 41,535,000	\$ 1,770,000	\$ 1,200,400

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2019	\$ 1,770,000	\$ 1,200,400
2020	1,805,000	1,165,000
2021	1,840,000	1,128,900
2022	1,880,000	1,092,100
2023	1,915,000	1,054,500
2024-2028	10,315,000	4,537,450
2029-2033	12,240,000	2,613,200
2034-2037	9,770,000	681,150
	<u>\$ 41,535,000</u>	<u>\$ 13,472,700</u>

B. Special Assessment Debt

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2018	Amounts Due in 2018-2019	
						Principal	Interest
2010	4.50%	2019/26	\$ 58,157	\$ 3,726	\$ 34,167	\$ 3,893	\$ 1,522
2012	4.25%	2019/27	274,133	18,275	155,343	18,275	6,990
				<u>\$ 22,001</u>	<u>\$ 189,510</u>	<u>\$ 22,168</u>	<u>\$ 8,512</u>

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2018**

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2019	\$ 22,168	\$ 8,512
2020	22,344	7,561
2021	22,527	6,601
2022	22,720	5,632
2023	22,918	5,632
2024-2027	76,833	13,095
	<u>\$ 189,510</u>	<u>\$ 47,033</u>

NOTE 7 OPERATING LEASE

The District has entered into a lease agreement with the Perham Area Community Center as a lessee for building and recreational space. For the year ended June 30, 2018, the District paid \$138,555 in lease costs. The District has agreed to pay \$101,842 under this lease agreement for the year end June 30, 2019.

NOTE 8 SEVERANCE PAY

The District has several severance pay plans for various groups of employees. The plans call for employees to receive a severance payment based on accumulated sick leave and years of service to the District. At June 30, 2018, the estimated liability under these plans was \$1,167,278.

NOTE 9 CONTINGENCIES

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

NOTE 10 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

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

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

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

NOTE 11 CONSTRUCTION COMMITMENTS

As of June 30, 2018, the District had construction commitments in the building construction fund of approximately \$4,650,000 for the high school.

NOTE 12 NEW PRONOUNCEMENTS

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

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

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

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

GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, establishes accounting requirements for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2018**

expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

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

INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND
For the Year Ended June 30, 2018

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Property Tax Levies	\$ 2,826,400	\$ 2,814,236	\$ 2,851,940	\$ 37,704
Other Local & County Revenues	376,500	393,000	434,758	41,758
Revenue From State Sources	13,075,109	13,415,533	13,274,034	(141,499)
Revenue From Federal Sources	289,347	248,322	272,212	23,890
Sale/Other Conversion of Asset	1,500	126,500	183,186	56,686
TOTAL REVENUES	16,568,856	16,997,591	17,016,130	18,539
EXPENDITURES				
Current				
Administration	838,061	878,904	866,354	(12,550)
District Support Services	465,244	495,516	542,723	47,207
Elementary & Secondary				
Regular Instruction	6,956,389	6,835,100	6,822,628	(12,472)
Vocational Education Instruction	358,233	424,503	416,465	(8,038)
Special Education Instruction	2,317,421	2,624,495	2,823,044	198,549
Instructional Support Services	836,439	751,374	705,364	(46,010)
Pupil Support Services	1,786,871	1,806,333	1,800,252	(6,081)
Sites and Buildings	1,410,049	1,476,983	1,506,801	29,818
Fixed Costs	218,500	198,000	69,904	(128,096)
Debt Service				
Principal	40,000	40,000	22,001	(17,999)
Interest	15,000	15,000	9,456	(5,544)
Capital Outlay	1,442,924	1,633,630	1,275,783	(357,847)
TOTAL EXPENDITURES	16,685,131	17,179,838	16,860,775	(319,063)
Revenues Over (Under) Expenditures	(116,275)	(182,247)	155,355	337,602
OTHER FINANCING SOURCES				
Transfer In	200,000	200,000		(200,000)
TOTAL OTHER FINANCING SOURCES	200,000	200,000		(200,000)
Net Change in Fund Balances	83,725	17,753	155,355	137,602
Fund Balances - Beginning	3,921,894	3,921,894	3,921,894	
Fund Balances - Ending	\$ 4,005,619	\$ 3,939,647	\$ 4,077,249	\$ 137,602

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

INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS
Last 10 Years

	<u>2017</u>	<u>2018</u>
Total OPEB Liability		
Service Cost	\$ 154,945	\$ 151,240
Interest	78,008	80,499
Assumption Changes		103,090
Plan Changes		(384)
Differences between Expected and Actual Experience		(492,191)
Benefit Payments	<u>(166,496)</u>	<u>(119,866)</u>
Net Change in Total OPEB Liability	66,457	(277,612)
Total OPEB Liability - Beginning	<u>2,617,636</u>	<u>2,684,093</u>
Total OPEB Liability - Ending	<u>\$ 2,684,093</u>	<u>\$ 2,406,481</u>
Plan Fiduciary Net Position		
Net Investment Income	\$ 6,527	\$ 13,126
Benefit payments	(166,496)	(119,866)
Administrative expenses	<u>(250)</u>	
Net Change in Plan Fiduciary Net Position	(160,219)	(106,740)
Plan Fiduciary Net Position - Beginning	<u>1,602,185</u>	<u>1,441,966</u>
Plan Fiduciary Net Position - Ending	<u>\$ 1,441,966</u>	<u>\$ 1,335,226</u>
District's Net OPEB Liability - Ending	\$ 1,242,127	\$ 1,071,255
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	53.72%	55.48%
Covered - Employee Payroll	\$ 7,913,720	\$ 8,728,435
District's Net OPEB Liability as a Percentage of a Covered Payroll	15.70%	12.27%

The District implemented GASB Statement No. 75 for its fiscal year ended June 30, 2017. Information for the prior years is not available.

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

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 Last 10 Years**

	<u>Fiscal Year Ended June 30</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
PERA						
	2015	\$ 142,894	\$ 142,894	\$	1,895,318	7.54 %
	2016	155,818	155,818		2,077,575	7.50
	2017	164,365	164,365		2,191,523	7.50
	2018	166,150	166,150		2,215,330	7.50
TRA						
	2015	\$ 446,408	\$ 446,408	\$	5,952,109	7.50 %
	2016	474,193	474,193		6,322,558	7.50
	2017	496,253	496,253		6,616,713	7.50
	2018	517,874	517,874		6,877,957	7.53

The amounts presented for each fiscal year were determined as of the District's year end which is June 30th.

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

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

INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
SCHEDULE OF DISTRICT SHARE OF NET PENSION LIABILITY
Last 10 Years

<u>Fiscal Year Ended June 30</u>	<u>District's Proportion of the Net Pension Liability</u>	<u>District's Proportionate Share of the Net Pension Liability</u>	<u>State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)</u>	<u>Total</u>	<u>District's Covered Payroll</u>	<u>District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
PERA							
2014	0.0331 %	\$ 1,554,872	\$	\$ 1,554,872	\$ 1,740,550	89.33 %	78.70 %
2015	0.0323	1,673,954		1,673,954	1,895,318	88.32	78.19
2016	0.0334	2,711,914	35,485	2,747,399	2,077,575	130.53	68.90
2017	0.0341	2,176,921	27,337	2,204,258	2,191,523	99.33	75.90
TRA							
2014	0.1206 %	\$ 5,557,161	\$ 390,987	\$ 5,948,148	\$ 5,507,254	100.91 %	81.50 %
2015	0.1160	7,175,747	879,981	8,055,728	5,952,109	120.56	76.80
2016	0.1207	28,789,830	2,889,419	31,679,249	6,322,558	455.35	44.88
2017	0.1220	24,353,413	2,354,283	26,707,696	6,616,713	368.06	51.57

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

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

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

INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

NOTE 1 BUDGETARY DATA

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

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

NOTE 2 DEFINED BENEFIT PLANS

PERA

2017 Changes

Changes in Actuarial Assumptions:

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

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

2016 Changes

Changes in Actuarial Assumptions:

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

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

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

2015 Changes

Changes in Plan Provisions:

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

Changes in Actuarial Assumptions:

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

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018**

TRA

Changes in Actuarial Assumptions Since the 2016 Valuation:

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

NOTE 3 OTHER POSTEMPLOYMENT BENEFITS

Plan Changes:

- The Superintendent is no longer eligible for a post-retirement life insurance subsidy.

Assumption Changes:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with the MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2016 Generational Improvement Scale.
- The discount rate was changed from 2.9% to 3.3%. This change was due to an update in the estimated yield of 20-Year AA-rated bonds from 2.90% to 3.40%
- The board medical contribution trend rate was increased from 3% to 5% per year.

INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
June 30, 2018

	Special Revenue		Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	
ASSETS			
Cash and Investments	\$ 184,608	\$ 254,607	\$ 439,215
Current Property Taxes Receivable		61,098	61,098
Delinquent Property Taxes Receivable		331	331
Due From Department of Education		9,776	9,776
Due From Federal Govt. - DOE	24,716		24,716
Inventory	39,468		39,468
TOTAL ASSETS	\$ 248,792	\$ 325,812	\$ 574,604
LIABILITIES			
Accounts Payable	\$ 11,509	\$ 25,202	\$ 36,711
Due To Other MN Districts		1,145	1,145
TOTAL LIABILITIES	11,509	26,347	37,856
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue - Delinquent Taxes		331	331
Property Taxes Levied - Subs. Years		141,380	141,380
TOTAL DEFERRED INFLOWS OF RESOURCES		141,711	141,711
FUND BALANCES			
Nonspendable for Inventory	39,468		39,468
Restricted for Food Service	197,815		197,815
Restricted for Community Service		44,149	44,149
Restricted for Community Education		19,834	19,834
Restricted for ECFE		93,730	93,730
Restricted for School Readiness		41	41
TOTAL FUND BALANCES	237,283	157,754	395,037
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 248,792	\$ 325,812	\$ 574,604

INDEPENDENT SCHOOL DISTRICT NO. 549

PERHAM, MINNESOTA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2018

	Special Revenue			Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	Scholarship Fund	
REVENUES				
Local Property Tax Levies	\$	\$ 138,941	\$	\$ 138,941
Other Local & County Revenues	4,926	282,794	5	287,725
Revenue From State Sources	82,657	98,263		180,920
Revenue From Federal Sources	526,703			526,703
Sale/Other Conversion of Asset	352,345			352,345
TOTAL REVENUES	<u>966,631</u>	<u>519,998</u>	<u>5</u>	<u>1,486,634</u>
EXPENDITURES				
Current				
Community Education and Services		460,121		460,121
Pupil Support Services	850,098	10,825		860,923
Fixed Costs			1,279	1,279
Capital Outlay	152,748			152,748
TOTAL EXPENDITURES	<u>1,002,846</u>	<u>470,946</u>	<u>1,279</u>	<u>1,475,071</u>
Net Change in Fund Balances	(36,215)	49,052	(1,274)	11,563
Fund Balances - Beginning	273,498	108,702	1,274	383,474
Fund Balances - Ending	<u>\$ 237,283</u>	<u>\$ 157,754</u>	<u>\$</u>	<u>\$ 395,037</u>

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 SCHEDULE OF CHANGES IN FUND BALANCES
 For the Year Ended June 30, 2018**

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Balance End of Year
General Fund					
Restricted for:					
Health and Safety	\$ 30,624	\$ (19,057)			\$ 11,567
Capital Projects	129,207	454,434	563,603		20,038
Levy Reduction	164,027				164,027
Operating Capital	98,650	347,686	446,150		186
Area Learning Center	506,771	221,873	257,688		470,956
Safe Schools	106,459	60,313	32,339		134,433
LTFM	537,286	459,199	348,831		647,654
Committed for Severance	195,000				195,000
Unassigned	2,153,870	15,491,682	15,212,164		2,433,388
Food Service Fund					
Nonspendable for Inventory	26,264			13,204	39,468
Restricted for Food Service	247,234	966,631	1,002,846	(13,204)	197,815
Community Service Fund					
Restricted for:					
Community Education	7,321	98,198	85,685		19,834
ECFE	72,281	71,551	50,102		93,730
School Readiness	357	274,711	275,027		41
Community Service	28,743	75,538	60,132		44,149
Building Construction Fund					
Restricted for Building	31,747,517	544,186	25,421,645		6,870,058
Scholarship Fund					
Restricted for Scholarships	1,274	5	1,279		
Debt Service Fund					
Restricted for Debt Service	118,692	3,138,608	2,970,100		287,200
Fiduciary Fund					
OPEB Trust Fund					
Held in Trust for OPEB	1,441,966	13,126	119,866		1,335,226



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE

To the Board of Education
Independent School District No. 549
Perham, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 549 as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated December 5, 2018.

Legal Compliance

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

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

Purpose of the Report

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

A handwritten signature in cursive script that reads "Brady Martz".

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

December 5, 2018

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CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

To the Board of Education
Independent School District No. 549
Perham, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 549, 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 5, 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 deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

The District's Response to Findings

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

Purpose of this Report

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



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

December 5, 2018



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

To the Board of Education
Independent School District No. 549
Perham, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 549's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of Independent School District No. 549 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of the Report

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



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

December 5, 2018

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2018**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Amount
<u>U.S. Department of Education</u>		
Passed-Through Minnesota Department of Education:		
Title II, Part A	84.367	\$ 33,244
Title I, Part A	84.010	163,886
<i>Special Education Cluster:</i>		
Passed-Through Freshwater Education District:		
IDEA Part B 611	84.027	60,606
IDEA Part B 611 CEIS	84.027	4,370
Special Education Preschool Grants	84.173	10,107
<i>Total Special Education Cluster:</i>		<u>75,083</u>
Total U.S. Department of Education		<u>272,213</u>
<u>U.S. Department of Agriculture</u>		
Passed-Through Minnesota Department of Education:		
<i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	124,913
National School Lunch Program	10.555	286,222
Commodity Distribution (Nonmonetary Assistance)	10.555	65,497
Special Milk Program	10.556	237
Summer Food Service Program for Children	10.559	49,833
<i>Total Child Nutrition Cluster</i>		<u>526,702</u>
Total U.S. Department of Agriculture		<u>526,702</u>
TOTAL FEDERAL AWARDS		<u>\$ 798,915</u>

The notes to schedule of expenditures of federal awards are an integral part of this schedule.

INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
June 30, 2018

NOTE 1 BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Independent School District No. 549 under programs of the federal government for the year ended June 30, 2018 and is presented on the accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Independent School District No. 549, it is not intended to be and does not present the financial position or changes in net position of Independent School District No. 549.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported under generally accepted accounting principles (U.S. GAAP). Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 COMMODITY DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE 4 PASS-THROUGH ENTITIES

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

NOTE 5 SUBRECIPIENTS

During 2018, the District did not pass any federal money to subrecipients.

**INDEPENDENT SCHOOL DISTRICT NO. 549
 PERHAM, MINNESOTA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2018**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

 Material weakness(es) identified? yes x no

 Significant deficiency(ies) identified? x yes none reported

Noncompliance material to financial statements noted? yes x no

Federal Awards

Internal Control over major programs:

 Material weakness(es) identified? yes x no

 Significant deficiency(ies) identified? yes x none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes x no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

	<i>Child Nutrition Cluster:</i>
10.553	School Breakfast Program
10.555	National School Lunch Program
10.555	Commodity Distribution (Nonmonetary Assistance)
10.556	Special Milk Program
10.559	Summer Food Service Program for Children

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? x yes no

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued
For the Year Ended June 30, 2018**

Section II-Financial Statement Findings

2018-001 FINDING

Criteria

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

Condition

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

Cause

The District does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect

The Superintendent is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Repeat Finding

Yes. Prior audit finding 2017-001

Recommendation

For entities of the District's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will review on an annual basis.

Section III-Federal Award Findings and Questioned Costs

There are no findings which are required to be reported under this section.

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2018**

2017-001 FINDING

Criteria

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

Condition

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

Cause

The District does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect

The Superintendent is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Recommendation

For entities of the District's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Corrective Action Taken

No action taken. See current year finding 2018-001 and Corrective Action Plan.

INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
June 30, 2018

2017-002 FINDING

Child Nutrition Cluster (School Breakfast Program, CFDA No. 10.553; National School Lunch Program, CFDA No. 10.555; Commodity Distribution, CFDA No. 10.555; Special Milk Program, CFDA No. 10.556; Summer Food Service Program for Children, CFDA No. 10.559)

Criteria

To receive reimbursement payment for meals served, the District must submit the number of meals served and all claims must be supported by accurate meal counts by category and type.

Condition

Two instances were identified where household income was not calculated properly.

Questioned Costs

Undeterminable

Context

A sample of 40 applications were selected for audit from a population of 296 applications. Household income was not calculated correctly on one application. As a result, the student was incorrectly determined to be eligible for reduced price but should have been eligible for free. The District performed income verification on 6 applications. Household income was not calculated correctly on one application that was verified. The student's eligibility was incorrectly changed from free to reduced price and should have stayed at free based on the income documentation provided.

Cause

The District does not have sufficient procedures in place to ensure all information is entered correctly from the application into the software.

Effect

The District reported reduced priced meals that should have been free.

Recommendation

The District should review their policies and procedures for calculating eligibility and income verification.

Corrective Action Taken

Employee has increased knowledge and skill in processing the applications. MDE has made changes to the application forms that makes it easier to process with less errors.

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
SCHEDULE OF PRIOR AUDIT FINDINGS - Continued
June 30, 2018**

2017-003 FINDING

Child Nutrition Cluster (School Breakfast Program, CFDA No. 10.553; National School Lunch Program, CFDA No. 10.555; Commodity Distribution, CFDA No. 10.555; Special Milk Program, CFDA No. 10.556; Summer Food Service Program for Children, CFDA No. 10.559)

Criteria

To receive reimbursement payment for meals served, the District must submit the number of meals served and all claims must be supported by accurate meal counts by category and type.

Condition

Two instances were identified where the number of meals submitted for reimbursement was not accurate.

Questioned Costs

Undeterminable

Context

Three months of meal reimbursement claim reports were selected for testing. In one month, the District missed submitting 96 meals for reimbursement. In another month, the District submitted one extra meal. This was due to keying errors.

Cause

The District does not have sufficient procedures in place to ensure all information is entered correctly from the application into the software.

Effect

The District submitted less meals for reimbursement than they were otherwise eligible for.

Recommendation

The District should review their policies and procedures for calculating eligibility.

Corrective Action Taken

Office secretary reviews information for accuracy and initials before Business Manager submits report.

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
CORRECTIVE ACTION PLAN
June 30, 2018**

2018-001 FINDING

Contact Person – Superintendent

Corrective Action Plan – School district personnel will receive additional training to better prepare personnel to understand the financial statements and to work more closely with an accounting firm in the preparation of the financial statements.

Completion Date – Ongoing



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

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

Members of the School Board, Advisors, and Students
Independent School District No. 549
Perham, Minnesota

We have audited the accompanying statement of cash receipts and disbursements of the student activity accounts of Independent School District No. 549, for the year ended June 30, 2018, and the related note to the financial statement.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

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

Qualified Opinion

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

Basis of Accounting

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



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

December 5, 2018

INDEPENDENT SCHOOL DISTRICT NO. 549

PERHAM, MINNESOTA

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS OF THE STUDENT ACTIVITY ACCOUNTS

For the Year Ended June 30, 2018

	Fund Balance 06-30-17	Receipts	Disbursements	Fund Balance 06-30-18
Concessions	\$	\$ 31,171	\$ 14,698	\$ 16,473
Interest	11,514	6,979	1,668	16,825
Student Ambassadors - Elementary	5,728	4,932	4,049	6,611
Annual - Middle School	3,832	1,498	5,330	
Band - Middle School	373		60	313
Laurentian	1,228	27,743	24,048	4,923
Annual	2,716	4,178	6,231	663
Band	5,051	1,790	1,612	5,229
Concert Choir		9,130	6,886	2,244
Robotics	1,479	1,216	452	2,243
FFA	7,555	18,283	15,229	10,609
Students Making a Difference	2,760	100	2,860	
Interact	2,370		2,370	
Junior Class	201		201	
Knowledge Bowl	300		300	
Senior Class	5,657		1,667	3,990
Special Prom	368		240	128
Speech & Drama	242	6,396	3,498	3,140
Student Council - Senior High	1,513	1,520	1,746	1,287
Baseball	624	1,031		1,655
Cross country		189		189
Golf Boys	1,171	338	1,477	32
Golf Girls	30	880	625	285
Softball	7,722		7,722	
Tennis - Girls	4,550	1,015	1,600	3,965
Track		229	229	
Wrestling	788	258	170	876
	\$ 67,772	\$ 118,876	\$ 104,968	\$ 81,680

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

**INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
NOTE TO STUDENT ACTIVITY ACCOUNTS FINANCIAL STATEMENT
June 30, 2018**

NOTE 1 STUDENT ACTIVITY ACCOUNTS

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

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

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



CERTIFIED PUBLIC ACCOUNTANTS
AND CONSULTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE

To the School Board, Advisors, and Students
Independent School District No. 549
Perham, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the student activity accounts of Independent School District No. 549, for the year ended June 30, 2018, and the related note to the financial statement, and have issued our report thereon dated December 5, 2018, which was qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records, therefore, we were unable to audit the cash collections beyond the amounts recorded.

Compliance

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

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

Purpose of the Report

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

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

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

December 5, 2018

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INDEPENDENT SCHOOL DISTRICT NO. 549
PERHAM, MINNESOTA
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE
June 30, 2018

District Name:	INDEPENDENT SCHOOL DISTRICT NO. 549			District Number:	549		
	Audit	UFARS	Variance		Audit	UFARS	Variance
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	17,016,130	17,016,129	1	Total Revenue	544,186	544,186	
Total Expenditures	16,860,775	16,860,776	(1)	Total Expenditures	25,421,645	25,421,645	
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
460 Non Spendable Fund Balance				460 Non Spendable Fund Balance			
<i>Restricted/Reserve:</i>				<i>Restricted/Reserve:</i>			
403 Staff Development				407 Capital Projects Levy			
406 Health & Safety	11,567	11,564	3	413 Projects Funded By COP			
407 Capital Projects Levy	20,038	20,036	2	467 LTFM			
408 Cooperative Revenue				<i>Restricted:</i>			
413 Project Funded by Cop				464 Restricted Fund Balance	6,870,058	6,870,058	
414 Operating Debt				467 LTFM			
416 Levy Reduction	164,027	164,027		<i>Unassigned:</i>			
417 Taconite Building Maintenance				463 Unassigned Fund Balance			
423 Certain Teacher Programs				Reconciliation of Building Construction	32,835,889	32,835,889	
424 Operating Capital	186	184	2				
426 \$25 Taconite				07 DEBT SERVICE			
427 Disabled Accessibility				Total Revenue	3,138,608	3,138,608	
428 Learning & Development				Total Expenditures	2,970,100	2,970,100	
434 Area Learning Center	470,956	470,952	4	<i>Non Spendable:</i>			
435 Contracted Alt Programs				460 Non Spendable Fund Balance			
436 State Approved Alt Program				<i>Restricted/Reserve:</i>			
438 Gifted & Talented				425 Bond Refundings			
440 Teacher Development and Eval				451 QZAB Payments			
441 Basic Skills Programs				<i>Restricted:</i>			
445 Career and Technical Programs				464 Restricted Fund Balance	287,200	287,199	1
448 Achievement and Integration				<i>Unassigned:</i>			
449 Safe Schools Levy	134,433	134,433		463 Unassigned Fund Balance			
450 Prekindergarten				Reconciliation of Debt Service	6,395,908	6,395,907	1
451 QZAB Payments							
452 OPEB Liab Not In Trust				08 TRUST			
453 Unfnded Sev & Retirement Levy				Total Revenue	5	5	
467 LTFM	647,654	647,651	3	Total Expenditures	1,279	1,280	(1)
472 Medical Assistance				422 Unassigned Fund Balance			
<i>Restricted:</i>				Reconciliation of Trust	1,284	1,285	(1)
464 Restricted Fund Balance							
<i>Committed:</i>				20 INTERNAL SERVICE			
418 Committed for Separation	195,000	195,000		Total Revenue			
461 Committed Fund Balance				Total Expenditures			
<i>Assigned:</i>				422 Unassigned Fund Balance			
462 Assigned Fund Balance				Reconciliation of Internal Service			
<i>Unassigned:</i>							
422 Unassigned Fund Balance	2,433,388	2,433,402	(14)	25 OPEB REVOCABLE TRUST FUND			
Reconciliation of General	37,954,154	37,954,154		Total Revenue			
				Total Expenditures			
02 FOOD SERVICE				422 Unassigned Fund Balance			
Total Revenue	966,631	966,630	1	Reconciliation of OPEB Revocable Trust			
Total Expenditures	1,002,846	1,002,847	(1)				
<i>Non Spendable:</i>				45 OPEB IRREVOCABLE TRUST FUND			
460 Non Spendable Fund Balance	39,468	39,468		Total Revenue	13,126	13,126	
<i>Restricted:</i>				Total Expenditures	119,866	119,866	
452 OPEB Liab Not In Trust				422 Unassigned Fund Balance	1,335,226	1,335,228	(2)
464 Restricted Fund Balance	197,815	197,815		Reconciliation of OPEB Irrevocable Trust	1,468,218	1,468,220	(2)
<i>Unassigned:</i>							
463 Unassigned Fund Balance				47 OPEB DEBT SERVICE FUND			
Reconciliation of Food Service	2,206,760	2,206,760		Total Revenue			
				Total Expenditures			
04 COMMUNITY SERVICE				<i>Non Spendable:</i>			
Total Revenue	519,998	519,999	(1)	460 Non Spendable Fund Balance			
Total Expenditures	470,946	470,946		<i>Restricted:</i>			
<i>Non Spendable:</i>				464 Restricted Fund Balance			
460 Non Spendable Fund Balance				<i>Unassigned:</i>			
<i>Restricted/Reserve:</i>				463 Unassigned Fund Balance			
426 \$25 Taconite				Reconciliation of OPEB Debt Service			
431 Community Education	19,834	19,836	(2)				
432 E.C.F.E.	93,730	93,729	1				
440 Teacher Development and Eval							
444 School Readiness	41	41					
447 Adult Basic Education							
452 OPEB Liab Not In Trust							
<i>Restricted:</i>							
464 Restricted Fund Balance	44,149	44,148	1				
<i>Unassigned:</i>							
463 Unassigned Fund Balance							
Reconciliation of Community Service	1,148,698	1,148,699	(1)				