

**INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA**

AUDITED FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2018**

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INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

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INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

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INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

BOARD OF EDUCATION

<u>Name</u>	<u>Term on Board Expires</u>	<u>Position</u>
Steven Eklund	January, 2022	Chairperson
Mike Thompson	January, 2020	Vice-Chairperson
Allison Londgren	January, 2022	Clerk
Anthony Cuda	January, 2020	Treasurer
Angie Flowers	January, 2020	Director
Darrin Davis	January, 2022	Director
Dan Klemz – appointed	January, 2019	Director

ADMINISTRATION

Ken Gagner	Superintendent
Judy Patzoldt	Business Manager



Burkhardt & Burkhardt, Ltd.

Certified Public Accountants

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35 Oak Ave. N, P.O. Box N
Annandale, MN 55302
P: 320.274.1040
F: 320.274.2260

Experienced... Over 40 years combined experience

Affordable... Exceptional value for a reasonable price

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Mankato Office:
430 S. Broad St., Ste. 100
Mankato, MN 56001
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INDEPENDENT AUDITOR'S REPORT

Members of the School Board
Independent School District No. 314
Braham, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 314, Braham, Minnesota, (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States 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 and each major fund of the Independent School District No. 314, Braham, Minnesota, as of June 30, 2018 and the respective changes in financial position and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the required supplementary information (RSI), as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 supplemental information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Prior Year Comparative Information

We have previously audited the District's 2017 financial statements, and they expressed an unmodified audit opinions on the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information, in our report dated November 20, 2017. In our opinion, the partial comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018 on our consideration of the Independent School District No. 314, Braham, Minnesota'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 District's internal control over financial reporting and compliance.



Mankato, Minnesota
October 15, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

This section of Independent School District No. 314 – Braham Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June, 1999.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2017-18 fiscal year include the following:

- Liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at June 30, 2018 by \$7,556,457 (net position). The District's total net position decreased by \$2,351,322 during the fiscal year ended June 30, 2018
- At June 30, 2018, the District's governmental funds reported total fund balances of \$790,465. Of this amount, \$164,760 (unassigned fund balance) may be used to meet the general District's spending requirements. The unassigned fund balance represents 2.1% of total General Fund expenditures.
- The general and food service fund balances increased \$135,706 and \$7,932 while the debt service, community service, and construction fund balances decreased \$38,241, \$2,787, and \$26,987 respectively.

OVERVIEW OF THE FINANCIAL STATEMENTS

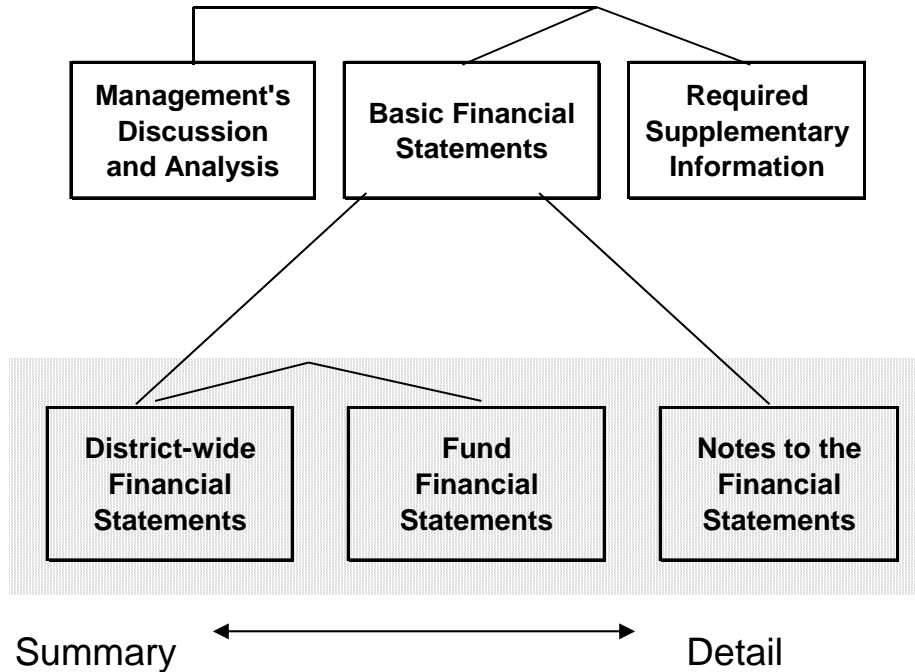
This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components:

- 1) District-wide financial statements, providing information for the District as a whole.
- 2) Fund financial statements, providing detailed information for the District's significant funds.
- 3) Notes to the financial statements, providing additional information that is essential to understanding the District-wide and fund statements.

The financial statements are followed by budget to actual comparisons for the general fund and the major special revenue funds. The diagram on the following page shows how the various parts of this annual report are arranged and related to one another.

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued



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

District-wide Statements

The *District-wide* financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected state aids and earned but not used vacation leave).

In the District-wide financial statements, the District's activities are shown in one category, governmental activities. Most of the District's base services are included here, such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

The District-wide financial statements can be found on pages 15-16 of this report.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governmental units, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has two kinds of funds, governmental and fiduciary.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a governmental unit's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds and governmental activities*.

The District maintains five 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, food service, community service, building and construction, and debt service funds.

The District adopts an annual appropriated budget for its general fund and special revenue funds. Budgetary comparison statements have been provided for the general fund and the special revenue funds to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 17-21 of this report.

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are *not* available to support the District's own programs.

The basic fiduciary fund financial statements can be found on pages 22-23 of this report.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found on pages 25-54 of this report.

Required Supplementary Information. This report presents certain required supplementary information regarding the District's annual pension cost and schedules related to the District's post-employment retirement benefits (OPEB).

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

DISTRICT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a governmental unit's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources by \$7,556,457 at the close of the most recent fiscal year. \$3,798,201 of this amount represents net investment in capital assets

The District uses these capital assets to provide District services; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net Position

The District's combined net position was \$(7,556,457) on June 30, 2018. (See details in the table below.) This is down from \$(5,205,135) at June 30, 2017, a decrease of \$2,351,322.

	<u>2018</u>	<u>2017</u>	<i>Increase (Decrease)</i>
<i>Assets</i>			
Current and other assets	\$ 3,079,301	\$ 3,205,470	\$ (126,169)
Capital assets	12,790,980	13,404,558	(613,578)
	<u>15,870,281</u>	<u>16,610,028</u>	<u>(739,747)</u>
<i>Deferred Outflows of Resources</i>			
Pension plan deferments	8,508,216	11,961,519	(3,453,303)
Other post employment benefits deferments	12,720	8,557	4,163
Deferred refunding debits	1,547	4,199	(2,652)
	<u>8,522,483</u>	<u>11,974,275</u>	<u>(3,451,792)</u>
<i>Liabilities</i>			
Current liabilities	914,511	1,038,292	(123,781)
Long-term liabilities	24,467,189	29,935,909	(5,468,720)
	<u>25,381,700</u>	<u>30,974,201</u>	<u>(5,592,501)</u>
<i>Deferred Inflows of Resources</i>			
Unavailable revenue	1,462,024	1,545,838	(83,814)
Pension plan deferments	5,084,034	1,243,847	3,840,187
Other post employment benefits deferments	21,463	25,552	(4,089)
	<u>6,567,521</u>	<u>2,815,237</u>	<u>3,752,284</u>
Excess of total assets and deferred outflows of resources over total liabilities and deferred inflows of resources	<u>\$ (7,556,457)</u>	<u>\$ (5,205,135)</u>	<u>\$ (2,351,322)</u>
<i>Net Position</i>			
Net Investment in Capital Assets	\$ 3,798,201	\$ 3,727,418	\$ 70,783
Unrestricted	(11,354,658)	(8,932,553)	(2,422,105)
Total net position	<u>\$ (7,556,457)</u>	<u>\$ (5,205,135)</u>	<u>\$ (2,351,322)</u>

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

DISTRICT-WIDE FINANCIAL ANALYSIS - Continued

Change in Net Position

A summary of the revenues and expenses is presented in the table below.

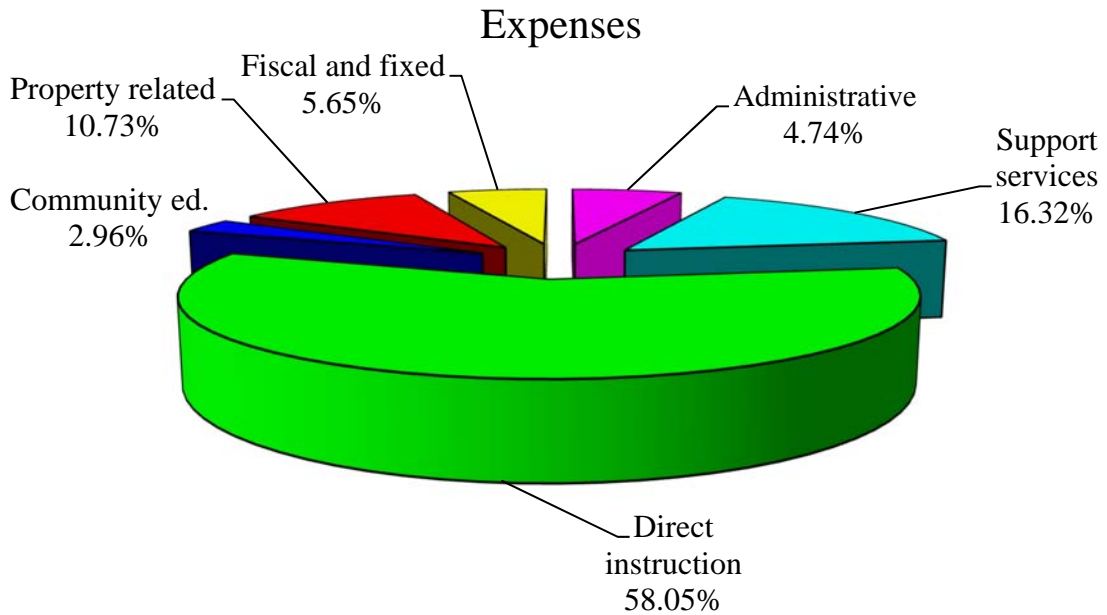
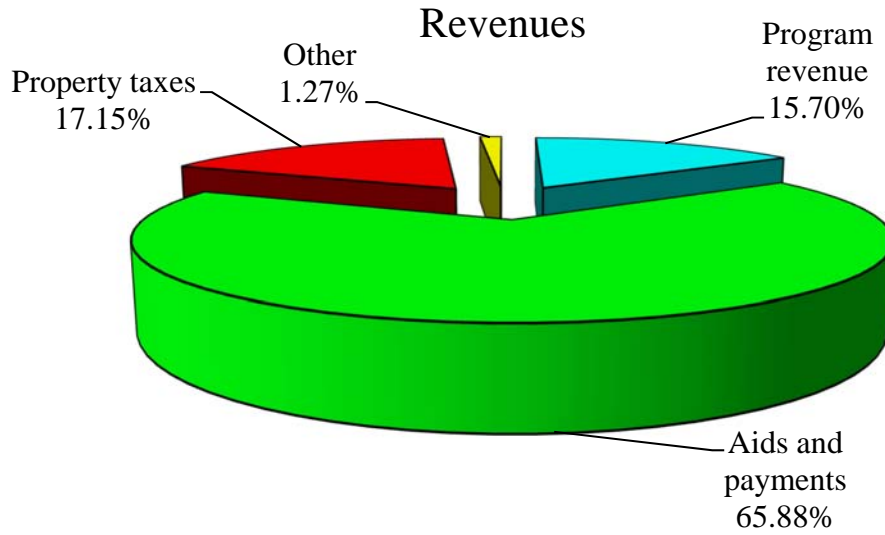
	<u>2018</u>	<u>2017</u>	<u>Increase (Decrease)</u>
<i>Revenues</i>			
Program revenues			
Charges for services	\$ 444,470	\$ 413,773	\$ 30,697
Operating grants and contributions	901,719	805,880	95,839
Capital grants and contributions	167,772	161,915	5,857
General revenues			
Property taxes	1,653,387	1,601,216	52,171
Aids and payments from state and other	6,352,566	6,499,575	(147,009)
Other sources	122,044	267,184	(145,140)
	<u>9,641,958</u>	<u>9,749,543</u>	<u>(107,585)</u>
<i>Expenses</i>			
Administration	755,031	667,698	87,333
District support services	532,158	491,884	40,274
Regular instruction	5,217,062	5,108,646	108,416
Vocational instruction	173,432	143,874	29,558
Exceptional instruction	1,571,168	1,459,183	111,985
Community education and services	354,994	325,399	29,595
Instructional support services	93,217	157,002	(63,785)
Pupil support services	1,331,899	1,334,829	(2,930)
Site, buildings and equipment	1,274,981	1,048,992	225,989
Fiscal and other fixed-cost programs	12,053	30,883	(18,830)
Depreciation - unallocated	329,544	329,543	1
Interest on long-term debt	347,741	457,155	(109,414)
	<u>11,993,280</u>	<u>11,555,088</u>	<u>438,192</u>
Change in net position	<u>(2,351,322)</u>	<u>(1,805,544)</u>	<u>(545,778)</u>
Net Position - beginning	<u>(5,206,135)</u>	<u>(3,400,591)</u>	<u>(1,805,544)</u>
Net position - ending	<u>\$ (7,557,457)</u>	<u>\$ (5,206,135)</u>	<u>\$ (2,351,322)</u>

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

DISTRICT-WIDE FINANCIAL ANALYSIS - Continued

Below are specific graphs that provide comparisons of the governmental activities' direct program revenues with their expenditures. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.



INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

DISTRICT-WIDE FINANCIAL ANALYSIS - Continued

The net cost of governmental activities is their total costs less program revenues applicable to each category. The table below shows the net costs of these services.

	<u>2018</u>	<u>2017</u>	<i>Increase (Decrease)</i>
District and school administration	\$ 755,031	\$ 667,698	\$ 87,333
District support services	532,158	491,884	40,274
Regular instruction	5,217,062	5,108,646	108,416
Vocational instruction	173,432	143,874	29,558
Exceptional instruction	1,571,168	1,459,183	111,985
Community education and services	354,994	325,399	29,595
Instructional support services	93,217	157,002	(63,785)
Pupil support services	1,331,899	1,334,829	(2,930)
Site, buildings and equipment	1,274,981	1,047,992	226,989
Fiscal and other fixed cost programs	12,053	30,883	(18,830)
Depreciation - unallocated	329,544	329,543	1
Interest on long-term debt	347,741	457,155	(109,414)
Total	<u>\$ 11,993,280</u>	<u>\$ 11,554,088</u>	<u>\$ 439,192</u>

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS)**

Fund Balance

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$790,465. This was up from \$714,842 at the end of the prior year, an increase of \$75,623. To further understand the changes from one year to the next, one needs to look at each individual fund balance. The major changes will be discussed here. The general fund unassigned fund balance increased \$135,706 from the previous year. This increase was due to revenue from state sources increasing along with other financing source from a capital lease resource flow. Additionally, the revised budget was made in anticipation of state aid increases in the next couple of years and stabilizing enrollment. The building construction fund saw a decrease in fund balance over the previous year, down \$26,987 from the previous year to \$23,749. This decrease is due to various equipment and infrastructure upgrade purchases with the remaining project funds from the prior year. The debt service fund also saw a decrease in fund balance over the previous year, down \$38,241 from the previous year to \$220,747. This decrease is due increased debt service costs from the prior year and less than anticipated revenue collection. The other funds did not have significant changes.

Revenues and Expenditures

Revenues and other financing sources of the District's governmental funds totaled \$9,701,073 while total expenditures and other financing uses were \$9,625,450. Summaries of the revenues and other financing sources and expenditures and other financing uses reported on the governmental fund financial statements appear in the tables on the following page.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS
(FUND FINANCIAL STATEMENTS) - Continued**

Revenues and Other Financing Sources

	<i>2018</i>	<i>2017</i>	<i>Increase (Decrease)</i>
General fund	\$ 7,932,411	\$ 7,772,173	\$ 160,238
Food service fund	476,273	470,279	5,994
Community service fund	251,106	252,669	(1,563)
Building and construction fund	524	7,907	(7,383)
Debt service fund	1,040,759	1,009,911	30,848
Totals	\$ 9,701,073	\$ 9,512,939	\$ 188,134

Expenditures and Other Financing Uses

	<i>2018</i>	<i>2017</i>	<i>Increase (Decrease)</i>
General fund	\$ 7,796,705	\$ 7,594,228	\$ 202,477
Food service fund	468,341	477,662	(9,321)
Community service fund	253,893	246,061	7,832
Building and construction fund	27,511	895,274	(867,763)
Debt service fund	1,079,000	1,155,507	(76,507)
Totals	\$ 9,625,450	\$ 10,368,732	\$ (743,282)

General Fund Budgetary Highlights

The original budget was approved in June 2017 using the best forecasted data at the time. The budget was updated in January 2018 as the result of the following factors: Special Ed changes, changes in staff and ADM, and levy changes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Note 3 to the financial statements presents an analysis of capital asset transactions occurring during the year ended June 30, 2018. Additions totaling \$203,515 consisted mostly of a new Chromebook lease, football ticket booth, water filling stations and other minor renovations to the school buildings.

Long-Term Debt

At year-end the District had \$24,467,189 of long-term debt. This consisted of bonded indebtedness of \$9,055,000, unamortized bond premium/discount of \$76,200, special assessments payable of \$119,680, capital leases of \$608,448, severance payable of \$124,094, vacation payable of \$12,718, pension liabilities of \$13,788,078, and an OPEB liability of \$682,971.

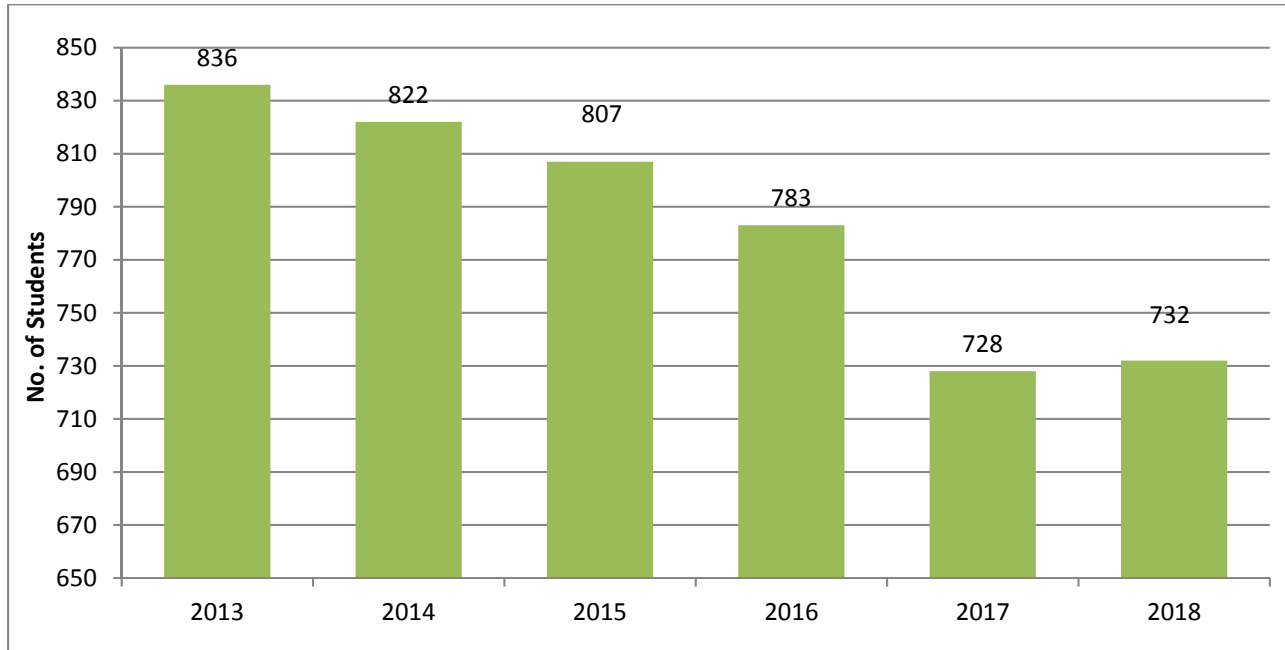
During the fiscal year ended June 30, 2009, the District entered into an agreement with a construction manager for improvements to the mechanical, electrical, ventilation, and temperature control systems that would provide an energy savings, thereby reducing the costs of operation. The capital lease listed above is the debt that is remaining to be paid on this project. The total cost of the project is expected to be recovered in 15 years due to increased efficiencies and utility savings.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018

FACTORS BEARING ON THE DISTRICT'S FUTURE

Enrollment has stabilized from the prior five years that saw decreases year over year in ADM (average daily membership). The District counts on enrollment which drives ADM for its financial future. Since Minnesota school districts are paid based on pupil units served, a decline in enrollment results in less revenue being received for operations. The District's ADM for the current and past five years are illustrated below. The Enrollment-Table below presents this information.



The political environment at the state level could 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.

Labor contracts, which are in effect for a two-year period, have been re-negotiated for the two-year period beginning July 1, 2017. The current contract saw no substantive changes for the prior agreement.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or would like additional information, contact Judy Patzoldt, Business Manager, Braham ISD #314, 531 Elmhurst Ave S, Braham, Minnesota, 55006.

BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

STATEMENT OF NET POSITION
June 30, 2018

	Governmental Activities
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	
Assets:	
Cash and Investments	\$ 1,017,344
Receivables:	
Due from Minnesota Department of Education	754,928
Accounts	78,277
Property Taxes	863,155
Due from Federal through State	213,438
Due from Other Governments	52,038
Inventory	19,421
Prepaid Items	80,700
Capital Assets:	
Assets Not Being Depreciated	310,600
Other Capital Assets, Net of Depreciation	12,480,380
Total Assets	15,870,281
Deferred Outflows of Resources:	
Pension Plan Deferments	8,508,216
Other Post Employment Benefits Plan Deferments	12,720
Deferred Refunding Debits	1,547
Total Deferred Outflows of Resources	8,522,483
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	\$ 24,392,764
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	
Liabilities:	
Payables	\$ 832,261
Due to Other Governments	82,250
Noncurrent Liabilities:	
Due Within One Year	791,797
Due in More Than One Year	23,675,392
Total Liabilities	25,381,700
Deferred Inflows of Resources:	
Property Taxes Levied For Subsequent Year	1,462,024
Pension Plan Deferments	5,084,034
Other Post Employment Benefits Plan Deferments	21,463
Total Deferred Inflows of Resources	6,567,521
Net Position:	
Net Investment in Capital Assets	3,798,201
Unrestricted	(11,354,658)
Total Net Position	(7,556,457)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	\$ 24,392,764

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, 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
GOVERNMENTAL ACTIVITIES:					
District and School Administration	\$ 755,031	\$ 0	\$ 0	\$ 0	\$ (755,031)
District Support Services	532,158	0	0	0	(532,158)
Regular Instruction	5,217,062	104,777	55,579	163,008	(4,893,698)
Vocational Instruction	173,432	0	8,898	4,764	(159,770)
Special Education Instruction	1,571,168	56,661	543,710	0	(970,797)
Community Education and Services	354,994	77,137	30,131	0	(247,726)
Instructional Support Services	93,217	0	0	0	(93,217)
Pupil Support Services	1,331,899	205,222	262,448	0	(864,229)
Site, Buildings, and Equipment	1,274,981	673	953	0	(1,273,355)
Fiscal and Other Fixed Costs	12,053	0	0	0	(12,053)
Unallocated Depreciation	329,544	0	0	0	(329,544)
Interest on Long-term Debt	347,741	0	0	0	(347,741)
Total Governmental activities	\$ 11,993,280	\$ 444,470	\$ 901,719	\$ 167,772	(10,479,319)
General Revenues:					
Taxes:					
Property Taxes Levied for General Purposes					646,553
Property Taxes Levied for Specific Purposes					1,006,834
Aids and Payments from the State					6,273,650
Aids and Payments from Local Sources					78,916
Other General Revenues					112,006
Unrestricted Interest Earnings					10,038
Total General Revenues					8,127,997
Change in Net Position					(2,351,322)
Net Position - Beginning					(5,205,135)
Net Position - Ending					\$ (7,556,457)

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2018

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 336,658	\$ 621,932	\$ 58,756	\$ 1,017,346
Accounts Receivable	77,933	0	344	78,277
Property Taxes Receivable	379,097	456,684	27,374	863,155
Due from Minnesota Department of Education	736,902	8,770	9,256	754,928
Due from Federal Through State	213,438	0	0	213,438
Due from Other Minnesota School Districts	47,113	0	0	47,113
Due from Other Governmental Unit	4,925	0	0	4,925
Inventory	0	0	19,421	19,421
Prepaid Items	80,700	0	0	80,700
TOTAL ASSETS	<u>\$ 1,876,766</u>	<u>\$ 1,087,386</u>	<u>\$ 115,151</u>	<u>\$ 3,079,303</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities:				
Salaries and Benefits Payable	\$ 623,227	\$ 0	\$ 28,355	\$ 651,579
Accounts Payable	44,836	0	1,013	45,849
Due from Other Governments	394	0	0	394
Due to Other Minnesota School Districts	82,250	0	0	82,250
Total Liabilities	<u>750,707</u>	<u>0</u>	<u>29,368</u>	<u>780,075</u>
Deferred Inflows of Resources:				
Unavailable Revenue - Delinquent Taxes	18,263	27,074	1,402	46,739
Property Taxes Levied for Subsequent Year	568,621	839,565	53,838	1,462,024
Total Deferred Inflows of Resources	<u>586,884</u>	<u>866,639</u>	<u>55,240</u>	<u>1,508,763</u>
Fund Balance:				
Nonspendable	80,700	0	19,421	100,121
Restricted	293,715	220,747	44,103	558,565
Unassigned	164,760	0	(32,981)	131,779
Total Fund Balance	<u>539,175</u>	<u>220,747</u>	<u>30,543</u>	<u>790,465</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	<u>\$ 1,876,766</u>	<u>\$ 1,087,386</u>	<u>\$ 115,151</u>	<u>\$ 3,079,303</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION
GOVERNMENTAL FUNDS
June 30, 2018

Total Fund Balances - Governmental Funds	\$	790,465
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.

Cost of capital assets		21,851,182
Less: Accumulated depreciation		(9,060,202)

Long-term liabilities, including compensated absences and severance benefits payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.

Bonds payable		(9,055,000)
Unamortized premiums/discounts		(76,199)
Obligations under capital leases		(608,448)
Special assessments payable		(119,680)
Severance benefits payable		(124,094)
Deferred refunding debit		1,547
Compensated absences payable		(12,718)

Long-term receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred inflows of resources in the funds.

Delinquent property taxes		46,739
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Net pension liabilities and net other post employment benefits (OPEB) liabilities are not recognized under the current financial resources measurement focus and, therefore, has no effect on fund balance

Net pension liability - Teacher's Retirement Association		(12,555,981)
Net pension liability - General Employees Retirement Fund		(1,232,099)
Net OPEB liability		(682,971)

Deferred inflows and outflows of resources related to net pension and net OPEB liabilities are not recognized under the current financial resources measurement focus and, therefore, has no effect on fund balance

Deferred outflow of resources related to pensions and OPEB		8,520,936
Deferred inflows of resources related to pensions and OPEB		(5,105,497)

Governmental funds do not report a liability for accrued interest payable until due and payable.

(134,438)

Total Net Position - Governmental Activities	\$	<u><u>(7,556,457)</u></u>
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INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

	General Fund	Debt Service Fund	Nonmajor Funds	Total Governmental Funds
Revenues:				
Local Property Taxes	\$ 648,929	\$ 958,542	\$ 50,114	\$ 1,657,585
Other Local and County Revenues	264,893	1,464	121,549	387,906
Revenue From State Sources	6,669,606	80,753	110,979	6,861,338
Revenue From Federal Sources	267,467	0	231,436	498,903
Sales and Other Conversions of Assets	2,867	0	213,825	216,692
Total Revenues	<u>7,853,762</u>	<u>1,040,759</u>	<u>727,903</u>	<u>9,622,424</u>
Expenditures:				
District and School Administration	501,886	0	0	501,886
District Support Services	416,718	0	0	416,718
Regular Instruction	3,774,905	0	0	3,774,905
Vocational Instruction	126,429	0	0	126,429
Exceptional Instruction	1,147,115	0	0	1,147,115
Community Education and Services	0	0	253,637	253,637
Instructional Support Services	150,051	0	0	150,051
Pupil Support Services	688,802	0	468,597	1,157,399
Site, Buildings, and Equipment	836,997	0	27,511	864,508
Other Fiscal Expenditures	12,053	0	0	12,053
Debt Service:				
Principal	105,912	730,000	0	835,912
Interest	35,837	349,000	0	384,837
Total Expenditures	<u>7,796,705</u>	<u>1,079,000</u>	<u>749,745</u>	<u>9,625,450</u>
Excess of Revenues Over (Under) Expenditures	57,057	(38,241)	(21,842)	(3,026)
Other Financing Sources:				
Issuance of Captial Lease	78,649	0	0	78,649
Change in Fund Balance	135,706	(38,241)	(21,842)	75,623
Fund Balance - Beginning	403,469	258,988	52,385	714,842
Fund Balance - Ending	<u>\$ 539,175</u>	<u>\$ 220,747</u>	<u>\$ 30,543</u>	<u>\$ 790,465</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2018

Net Change in Fund Balances - Governmental Funds	\$	75,623
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay		203,515
Book value of disposed assets		(54,045)
Depreciation expense		(763,047)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of discounts, premiums and similar items when the debt is first issued, whereas, these amounts are amortized in the Statement of Activities.</p>		
Principal repayments and capital lease retirement		835,912
Amortization of debt premiums/discounts		27,096
Issuance of capital lease		(78,650)
<p>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 accrued, regardless of when it is due.</p>		
		10,000
<p>Pension and OPEB expense in the Statement of Activities is recognized as the change in net pension and net OPEB liabilities, including the amortization of layered deferred inflows and deferred outflows of resources of the current and prior periods, this does not require the use of current financial resources, and therefore is not reported in the governmental funds.</p>		
Pension expense		(2,605,717)
OPEB expense		(505)
<p>Certain revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Delinquent taxes		(4,197)
<p>Postemployment benefits payable in the Statement of Activities differs from the amount reported in the governmental funds because this benefit is recognized as an expenditure in the funds when due. In the Statement of Activities, postemployment benefits payable is recognized when accrued.</p>		
Compensated absences		129
Severance		2,562
		2,562
Change in Net Position - Governmental Activities	\$	(2,351,322)

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual Amount	Over (Under) Budget
Revenues:				
Local Property Taxes	\$ 634,690	\$ 594,678	\$ 648,929	\$ 54,251
Other Local and County Revenues	149,110	206,955	264,893	57,938
Revenue From State Sources	6,432,160	6,557,071	6,669,606	112,535
Revenue From Federal Sources	308,970	271,684	267,467	(4,217)
Sales and Other Conversion of Assets	(1,500)	(1,400)	2,867	4,267
Total Revenues	7,523,430	7,628,988	7,853,762	224,774
Expenditures:				
District and School Administration	521,687	499,860	501,886	2,026
District Support Service	407,439	430,253	416,718	(13,535)
Regular Instruction	3,617,552	3,700,193	3,774,905	74,712
Vocational Instruction	121,471	130,389	126,429	(3,960)
Exceptional Instruction	1,201,363	1,213,782	1,147,115	(66,667)
Instructional Support Services	111,687	83,193	150,051	66,858
Pupil Support Services	641,200	694,111	688,802	(5,309)
Sites, Buildings, and Equipment	741,988	804,872	836,997	32,125
Debt Service:				
Principal	105,912	105,912	105,912	0
Interest	34,453	31,653	35,837	4,184
Other Fiscal Expenditures	0	0	12,053	12,053
Total Expenditures	7,504,752	7,694,218	7,796,705	102,487
Excess of Revenue Over (Under) Expenditures	18,678	(65,230)	57,057	122,287
Other Financing Sources:				
Debt Proceeds	0	0	78,649	(78,649)
Change in Fund Balance	\$ 18,678	\$ (65,230)	135,706	\$ 43,638
Fund Balance - Beginning			403,469	
Fund Balance - Ending			\$ 539,175	

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

STATEMENT OF FIDUCIARY NET POSITION
June 30, 2018

	<u>Private Purpose Trust</u>	<u>Other Post- Employment Benefit Trust</u>
Assets:		
Cash and Investments	\$ 691,176	\$ 0
Cash and Investment held by Trustee	0	277,109
Interest Receivable	1,384	4,817
Total Assets	<u>692,560</u>	<u>281,926</u>
Liabilities		
OPEB Reimbursement for benefits	<u>0</u>	<u>75,442</u>
Net Position		
Held in Trust for Private Purposes/OPEB Beneficiaries	<u>\$ 692,560</u>	<u>\$ 206,484</u>

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended June 30, 2018

	Private Purpose Trust	Other Post- Employment Benefit Trust
Additions:		
Gifts and Bequests	\$ 18,337	\$ 0
Net Increase (Decreases) in Fair Value of Investments	0	2,830
Implicit Subsidy Benefit Contribution	0	59,338
Interest Income	3,264	3,830
Total Additions	21,601	65,998
Deductions:		
Administrative Expense	0	250
Scholarships	40,621	0
OPEB Benefit Payments	0	75,442
Implicit Subsidy Benefit Payment	0	59,338
Total Deductions	40,621	135,030
Change in Net Position	(19,020)	(69,032)
Net Position - Beginning	711,580	275,516
Net Position - Ending	\$ 692,560	\$ 206,484

The Notes to the Financial Statements are an Integral Part of this Statement.

NOTES TO BASIC FINANCIAL STATEMENTS

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Independent School District No. 314 (the District) is an instrumentality of the state of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District. The District's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America 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 financial statements include all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separate 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 depended 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 determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are not included in these financial statements.

C. Government-Wide Financial Statement Presentation

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and Statement of Changes in Fiduciary Net Position at the fund financial statement level. Generally, the effect of material interfund activity has been removed from the government-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues and an allocation of indirect administrative and support service expenses. 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. Other internally directed revenues are reported as general revenues.

The government-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 of related cash flows. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Financial Statement Presentation

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust, private-purpose trust, and agency. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide financial statements.

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

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to funding formulas established by Minnesota Statutes. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred, except for long-term debt, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in the governmental funds. In the General Fund, capital expenditures are included within the applicable functional areas.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes.

Description of Funds

The existence of the various district funds has been established by the Minnesota Department of Education (MDE). Each fund is accounted for as an independent entity. A description of the funds included in this report is as follows:

Major Governmental Funds

General Fund – The General Fund is used to account for all financial resources except those required to be accounted for in another fund. The District maintains separate accounts within the General Fund for secondary education, secondary resale activities, special education, special education resale activities, district support services, capital expenditures, and costs to be reimbursed by others.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation debt principal, interest, and related costs. The regular debt service account is used for all general obligation debt service except for the financial activities of the other post-employment benefits (OPEB) debt service account. The OPEB debt service account is used for the 2009C taxable OPEB bond issue.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Nonmajor Governmental Funds

Food Service Special Revenue Fund – The Food Service Special Revenue Fund is primarily used to account for the District's child nutrition program.

Community Service Fund – This Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs or other similar services. Community Service revenues are restricted for use in those activities permitted by state statute.

Capital Projects – Building Construction Fund – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

Fiduciary Funds

Private-Purpose Trust Fund – The Private-Purpose Trust Fund is used to account for resources held in trust to be used by various third parties to award scholarships to former students.

Post-Employment Benefits Trust Fund – The Post-Employment Benefits Trust Fund is used to administer resources received and held by the District as the trustee for others. The Post-Employment Benefits Trust Fund includes assets held in trust to fund post-employment benefits of eligible employees.

E. Budgetary Information

Each June, the School Board adopts an annual budget for the following fiscal year for all governmental funds. The budget for each fund is prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. During the fiscal year ended June 30, 2018, expenditures exceeded budgeted amounts in the General Fund by \$102,487. Revenues and other financing sources in excess of budget, along with available fund balance, funded these variances.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by Board action. Revisions to budgeted amounts must be approved by the Board.

Total fund expenditures in excess of the budget require approval of the Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

At the end of each fiscal year, if the General Fund has a net unassigned deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota school districts which excludes certain restricted balances specified in Minnesota Statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of the Department of Education.

F. 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.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and investments held by trustee include balances held in segregated accounts that are established for specific purposes. In the Post-Employment Benefits Trust Fund, this represents assets contributed to an irrevocable trust established to finance the District's liability for post-employment insurance benefits. Interest earned on these investments is allocated directly to these accounts.

Investments are generally stated at fair value, except for investments in certain external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the District's recurring fair value measurements as of June 30, 2018.

G. Receivables

All receivables are shown net of any allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are property taxes receivable.

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of purchased food and surplus commodities received from the federal government. Purchased food inventory is recorded at cost on a first-in, first-out basis. Surplus commodities are stated at standardized costs, as determined by the U.S. Department of Agriculture.

I. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are recorded as expenditures/expenses at the time of consumption.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Property Taxes

The majority of the District's revenue in the General Fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is allocated between property taxes and state aids by the Legislature based on education funding priorities.

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District. Currently, the mandated tax shift recognizes \$82,800 of the property tax levy collectible in 2018 as revenue to the District in fiscal year 2017-2018. The remaining portion of the taxes collectible in 2018 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

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

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 reported as a deferred inflow of resources (unavailable revenue) in the fund financial statements because it is not known to be available to finance the operations of the District. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year beginning July 1, 2019, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$5,000 for equipment and vehicles and \$25,000 for building and improvements and an estimated useful life in excess of two years. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

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

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. If material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period as other financing sources or uses, respectively. The face amount of debt issued is reported as other financing sources.

M. Compensated Absences

Under the terms of collectively bargained contracts, eligible employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for unused, accrued vacation to the limit specified in their labor contract or School Board policy upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued when earned in the government-wide financial statements. Compensated absences are accrued in the governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end due to employee termination or similar circumstances.

N. Severance

The District provides lump sum severance benefits to eligible employees in accordance with provisions in certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. Severance benefits are calculated by converting a portion of an eligible employee's unused accumulated sick leave. No individual can receive severance benefits in excess of one year's salary.

Severance benefits payable are recorded as a liability in the government-wide financial statements as they are earned and it becomes probable they will vest at some point in the future. Severance benefits payable are accrued in the governmental fund financial statements as the liability matures due to employee termination.

O. Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the ISD #314 Retiree Benefits Plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the 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 purchase of one year or less, which are reported at cost. Postemployment healthcare expenditures have been funded through a contribution to an irrevocable trust and are being funded through a pay as you go method under which contributions to the plan are generally made at the same time and amount as retiree benefits and expenses become due.

P. State-Wide Pension Plans

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) and additions to/deductions from the PERA's and the TRA's fiduciary net positions have been determined on the same basis as they are reported by the PERA and the 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.

INDEPENDENT SCHOOL DISTRICT NO. 314
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The TRA has a special funding situation created by direct aid contributions made by the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into the TRA in 2006. A second direct aid source is from the state of Minnesota for the merger of the Duluth Teachers Retirement Fund Association (DTRFA) in 2015.

Q. Deferred Inflows/Outflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred outflows of resources related to pensions reported in the government-wide Statement of Net Position. This deferred outflow results from differences between expected and actual experience, changes of assumptions, differences between projected and actual earnings on pension plan investments, and from contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

In addition to liabilities, statements of financial position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items which qualify for reporting in this category.

The first item is property taxes levied for subsequent years, which represents property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available.

The second item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available.

The third item, deferred inflows of resources related to pensions, is reported in the government-wide Statement of Net Position. This deferred inflow results from differences between expected and actual experience, changes of assumptions, and differences between projected and actual earnings on pension plan investments. These amounts are deferred and amortized as required under pension standards.

R. Net Position

In the government-wide and internal service fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

S. Fund Balance Classifications

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the District’s Board Chair, Superintendent, Finance Committee, or Finance Director are authorized to establish assignments of fund balance.
- **Unassigned** – The residual classification for the General Fund which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the District’s policy to first use restricted resources, 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.

T. 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.

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.

U. Use of Estimates

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

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

V. Summarized Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Note 2 DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, including checking accounts, savings accounts, and non-negotiable certificates of deposit.

The following is considered the most significant risk associated with deposits:

Custodial Credit Risk – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes:

- Treasury bills, notes, and bonds;
- Issues of U.S. government agencies;
- General obligations rated "A" or better; revenue obligations rated "AA" or better;
- Irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit.

Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The District's deposit policies do not further limit depository choices.

At year-end, the carrying amount of the District's deposits was \$1,017,344 while the balance on the bank records was \$1,114,601. At June 30, 2018, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District's agent in the District's name.

B. Investments

Investments are subject to various risks, the following of which are considered the most significant:

Custodial Credit Risk – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. Although the District's investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 2 DEPOSITS AND INVESTMENTS (Continued)

Credit Risk – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District’s investments to the following:

- Direct obligations or obligations guaranteed by the United States or its agencies;
- Shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better;
- General obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System;
- Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories;
- Repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers.

For assets held in the Post-Employment Benefits Trust Fund, the investment options available to the District are expanded to include the investment types specified in Minnesota Statute § 356A.06, Subd. 7. The District’s investment policies do not further restrict investing in specific financial instruments.

Concentration Risk – This is the risk associated with investing a significant portion of the District’s investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District’s investment policies do not address concentration risk. At June 30, 2018, the District’s investment portfolio includes the following percentages of specific issuers:

Negotiable certificates of deposit:

CITI Bank	6.6%
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Interest Rate Risk – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District’s investment policies do not limit the maturities of investments; however, when purchasing investments the District considers such things as interest rates and cash flow needs.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 2 DEPOSITS AND INVESTMENTS (Continued)

The following table presents the District's deposits and investments at year-end:

Deposit/Investments	Credit Risk		Fair Value	Interest Risk -		Total
	Rating	Agency	Measurements Using	Maturity	Duration in Years	
				Less Than 1	1 to 5	
Negotiable certificates of deposit	N/R	N/R	Level 1	\$ 132,567	\$ -	\$ 132,567
Investment pools/mutual funds						
Minnesota School District						
Liquid Asset Fund	AAAm	S&P	NAV	N/A	N/A	939,592
MNTrust Investment Shares Portfolio	AAAm	S&P	Level 1	N/A	N/A	168,309
Total investments						<u>1,240,469</u>
Deposits						<u>745,160</u>
Total deposits and investments						<u>\$ 1,985,629</u>

NAV - Investments measured at the net asset value

N/A - Not applicable

N/R - Not rated

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

Statement of Net Position	
Cash and investments	\$ 1,017,344
Statement of Fiduciary Net Position	
Cash and investments - Private Purpose Trust Fund	691,176
Cash and investments - Post-Employment Benefits Trust Fund	<u>277,109</u>
Total deposits and investments	<u>\$ 1,985,629</u>

The Minnesota School District Liquid Asset Fund (MSDLAF) and the MNTrust Investment Shares Portfolio are regulated by Minnesota Statutes and are external investment pools not registered with the Securities Exchange Commission (SEC). The District's investment in the MSDLAF is measured at the net asset value (NAV) per share provided by the pool, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The NAV method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the investments. For MSDLAF investments valued at the NAV, there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice for the Liquid Class; the redemption notice period is 14 days for the MAX Class.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 3 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated				
Land	\$ 310,600	\$ -	\$ -	\$ 310,600
Total capital assets not being depreciated	<u>310,600</u>	<u>-</u>	<u>-</u>	<u>310,600</u>
Capital assets being depreciated				
Land improvements	7,025,391	2,201	-	7,027,592
Buildings	12,789,932	107,541	-	12,897,473
Machinery and equipment	1,684,669	93,774	(162,924)	1,615,519
Total capital assets being depreciated	<u>21,499,992</u>	<u>203,515</u>	<u>(162,924)</u>	<u>21,540,583</u>
Less accumulated depreciation for				
Land improvements	(1,362,536)	(340,506)	-	(1,703,042)
Buildings	(5,901,263)	(341,448)	-	(6,242,711)
Machinery and equipment	(1,142,235)	(81,094)	108,878	(1,114,451)
Total accumulated depreciation	<u>(8,406,034)</u>	<u>(763,047)</u>	<u>108,878</u>	<u>(9,060,203)</u>
Total capital assets being depreciated, net	<u>13,093,958</u>	<u>(559,532)</u>	<u>(54,046)</u>	<u>12,480,380</u>
Capital assets, net	<u>\$13,404,558</u>	<u>\$ (559,532)</u>	<u>\$ (54,046)</u>	<u>\$12,790,980</u>

Depreciation expense was charged to the following governmental functions:

Administration	\$ 2,348
District support	3,669
Regular instruction	40,245
Vocational support	1,869
Special Education	1,041
Community education	828
Instructional support	-
Pupil support	12,214
Site, buildings and equipment	371,289
Unallocated	329,544
Total depreciation expense	<u>\$ 763,047</u>

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 4 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

The District currently has the following long-term obligations outstanding:

Issue	Issue Date	Interest Rate	Face/ Par Value	Final Maturity	Principal Outstanding
General obligation bonds					
2009 Alternative facilities	4/7/2009	4.00-4.25%	\$ 2,520,000	2/1/2023	\$ 2,520,000
2009 Capital facilities	4/7/2009	3.00-4.40	515,000	2/1/2024	250,000
2009 OPEB bonds	9/16/2009	1.75-5.50	1,550,000	2/1/2025	865,000
2013 Refunding	12/4/2013	2.00-3.00	2,705,000	2/1/2019	470,000
2015 School building	7/23/2015	2.25-3.50	4,950,000	2/1/2036	4,950,000
Total general obligation bonds payable					9,055,000
Unamortized premium/discount					76,200
Special assessments payable					119,680
Capital leases payable					608,446
Net pension liability - Teacher's Retirement Association					12,555,983
Net pension liability - General Employees Retirement Fund					1,232,097
Net OPEB liability					682,971
Severance benefits payable					124,094
Compensated absences payable					12,718
Total long-term obligations					\$ 24,467,189

B. Descriptions of Long-Term Liabilities

General Obligation Bonds Payable – These obligations were issued to finance acquisition, construction, and/or improvements of capital facilities to finance the retirement (refunding) of prior bond issues, or to finance OPEB obligations. Assets of the Debt Service Fund, together with scheduled deferred ad valorem tax levies, are dedicated for the retirement of these obligations. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

Capital Leases Payable – The District has purchased various assets through capitalized lease-purchase agreements. Annual principal and interest on these leases will be paid from the General Fund.

Asset Leased	Asset Value Capitalized	Interest Rate	Lease Date	Final Maturity	Principal Outstanding
Sun Trust equipment lease	\$ 1,020,126	5.20%	2/12/2009	2/15/2025	\$ 556,936
SHI equipment lease	60,628	3.50%	9/1/2017	9/1/2019	51,510
\$ 1,080,754					\$ 608,446

Amortization of assets capitalized through these lease agreements is included in depreciation expense in the government-wide financial statements. The amount charged to depreciation for the year ended June 30, 2018 was \$77,223.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 4 LONG-TERM LIABILITIES (Continued)

The assets acquired through these capital leases are reported as follows:

Asset	Amount
Building Improvements	\$ 1,020,126
Equipment	78,649
Less accumulated depreciation	(408,764)
Total	<u>\$ 690,011</u>

Net Pension Liability – PERA and TRA – The District offers a number of benefits to its employees, including pensions. The details of these benefit liabilities are discussed elsewhere in these notes. The amounts reported as long-term debt represent the District’s proportionate share of the obligations of their respective plans. Such benefits are financed primarily from the General Fund and special revenue funds.

Severance Benefits Payable – Severance benefits payable consist of early retirement incentive pay or convertible sick leave benefits payable to employees upon retirement. Severance benefits are paid by the General Fund and special revenue funds. Annual payments to retire the severance benefits liability have not been determined and will depend on actual employee turnover.

Severance Pay Non-Certified Staff – Severance pay shall be paid to all employees who have provided 20 years of uninterrupted service to the District. Payment shall be at 50% of unused sick leave at the hourly rate in effect the year prior to the year of severance. Payment shall be in two equal installments with the first payment made in January immediately following the date of severance.

Severance Pay Certified Staff – Certified District employees are not eligible for severance benefits.

Compensated Absences Payable – Under the terms of union contracts, certain employees accrue vacation at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation and related benefits upon termination. Compensated absence benefits are paid by the General Fund and special revenue funds. Annual payments to retire this liability have not been determined and will depend on actual employee utilization and turnover.

Special Assessment Payable – The City of Braham completed a street reconstruction project and has levied special assessments to the District of \$137,374, payable over 11 years. Annual payments are \$16,601 with the final payment due in 2027. As of June 30, 2018 the remaining principal balance of the special assessment was \$119,680.

Non-exchange financial guaranteed obligations - The District has non-exchange financial guaranteed obligations outstanding during the year on its general obligation bonds. The state of Minnesota through their department of education (MDE) has guaranteed to make all required payments that the District is unable to make. The District is required to repay MDE with interest for any payments MDE makes pursuant to the guarantees. As of June 30, 2018, the District has made all required debt service payments on the guaranteed debt. At June 30, 2018, the outstanding principal amount of the guaranteed debt was \$9,055,000.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 4 LONG-TERM LIABILITIES (Continued)

C. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
General obligation bonds	\$ 9,785,000	\$ -	\$ (730,000)	\$ 9,055,000	\$ 680,000
Discount/Premium	105,947	-	(29,747)	76,200	-
Total bonds payable	<u>9,890,947</u>	<u>-</u>	<u>(759,747)</u>	<u>9,131,200</u>	<u>680,000</u>
Capital leases payable	624,142	78,649	(94,345)	608,446	96,074
Special assessments payable	131,248	-	(11,568)	119,680	12,404
Severance benefits payable	126,657	-	(2,563)	124,094	-
Compensated absences payable	12,847	30,582	(30,711)	12,718	3,320
Net OPEB liability	674,215	74,754	(65,998)	682,971	-
Net pension liability - TRA	16,648,965	12,064,675	(16,157,657)	12,555,983	-
Net pension liability - GERS	1,826,888	1,235,668	(1,830,459)	1,232,097	-
Total long-term liabilities	<u>\$ 29,935,909</u>	<u>\$ 13,484,329</u>	<u>\$ (18,953,048)</u>	<u>\$ 24,467,189</u>	<u>\$ 791,797</u>

D. Minimum Debt Payments

Minimum annual principal and interest to maturity for general obligation bonds and other long-term debt outstanding as follows:

Year Ending June 30	General Obligation Bonds			Capital Leases		
	Principal	Interest	Total	Principal	Interest	Total
2019	\$ 680,000	\$ 349,650	\$ 1,029,650	\$ 96,074	\$ 29,431	\$ 125,505
2020	730,000	303,800	1,033,800	100,728	24,776	125,504
2021	760,000	273,500	1,033,500	78,473	19,892	98,365
2022	790,000	241,675	1,031,675	82,634	15,731	98,365
2023	820,000	206,853	1,026,853	87,015	11,350	98,365
2024-2028	1,460,000	758,370	2,218,370	163,522	8,613	172,135
2029-2033	1,985,000	506,265	2,491,265	-	-	-
2034-2037	1,830,000	161,663	1,991,663	-	-	-
Total	<u>\$ 9,055,000</u>	<u>\$ 2,801,776</u>	<u>\$ 11,856,776</u>	<u>\$ 608,446</u>	<u>\$ 109,793</u>	<u>\$ 718,239</u>

Year Ending June 30	Special Assessments Payable		
	Principal	Interest	Total
2019	\$ 12,404	\$ 4,198	\$ 16,602
2020	12,854	3,747	16,601
2021	13,321	3,280	16,601
2022	13,805	2,797	16,602
2023	14,306	2,295	16,601
2024-2027	52,990	3,815	56,805
Total	<u>\$ 119,680</u>	<u>\$ 20,132</u>	<u>\$ 139,812</u>

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 5 FUND BALANCES

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

A. **Classifications**

	GASB Balance	Reconciling Transfer	UFARS Balance
Nonspendable			
Inventory	\$ 19,421	\$ -	\$ 19,421
Prepaid items	80,700	-	80,700
Total nonspendable	100,121	-	100,121
Restricted			
Health and safety	14,486	-	14,486
Operating capital	2,864	-	2,864
Long-term facilities maintenance	166,055	-	166,055
Medical assistance	110,310	-	110,310
Food service	20,354	-	20,354
Community education	-	(20,449)	(20,449)
ECFE	-	(75,181)	(75,181)
School readiness	-	53,861	53,861
Community education programs	-	8,788	8,788
Building construction	23,749	-	23,749
Debt service	220,747	-	220,747
Total restricted	558,565	(32,981)	525,584
Unassigned	131,779	32,981	164,760
Total fund balance	\$ 790,465	\$ -	\$ 790,465

B. **Minimum Unassigned Fund Balance Policy**

The School Board has formally adopted a fund balance policy regarding the minimum unassigned fund balance for the General Fund. The policy establishes a minimum unassigned General Fund balance of not less than 5% or more than 25% of the annual budget. At June 30, 2018, the unassigned fund balance (excluding restricted account deficits) was 2.10 percent of fiscal 2018 budgeted expenditures.

C. **Deficit Fund Equity**

As of June 30, 2018 the Community Service Fund had an overall deficit fund equity of \$32,981. The fund deficits are planned to be eliminated with future receipts.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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. Plan Descriptions

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

1. General Employees Retirement Fund (GERF)

The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Teachers Retirement Association (TRA)

The 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. The TRA is a separate statutory entity and administered by a Board of Trustees. The Board of Trustees 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 City of St. Paul and the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by Minnesota State Colleges and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement (DCR) Plan administered by MnSCU.

B. Benefits Provided

The PERA and the TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statutes and can only be modified by the State Legislature.

- PERA – Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded status, or have fallen below 80.0 percent, are given 1.0 percent increases.
- TRA – Post-retirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0 percent. After the TRA funded ratio exceeds 90.0 percent for two consecutive years, the annual post-retirement benefit will increase to 2.5 percent.

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

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

1. GERS Benefits

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 the PERA's Coordinated and Basic 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 Basic Plan member is 2.2 percent of average salary for each of the first 10 years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first 10 years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent 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. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

2. TRA Benefits

The 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 Statutes 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 the TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

Tier I Benefits

Tier I	Step Rate Formula	Percentage
Basic	First 10 years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First 10 years if service years are up to July 1, 2006	1.2% per year
	First 10 years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are up to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

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

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statutes. 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.

INDEPENDENT SCHOOL DISTRICT NO. 314
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NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

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.

C. Contributions

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

1. GERF Contributions

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent of pay, respectively, in fiscal year 2018. In fiscal year 2018, the District was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for the Coordinated Plan.

The District’s contributions to the GERF for the year ended June 30, 2018 were \$97,463. The District’s contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

	Year Ended June 30,			
	2017		2018	
	Employee	Employer	Employee	Employer
Basic Plan	11.0%	11.5%	11.0%	11.5%
Coordinated Plan	7.5%	7.5%	7.5%	7.5%

The District’s contributions to the TRA for the year ended June 30, 2018 were \$244,638. The District’s contributions were equal to the required contributions for each year as set by state statutes.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

The following is a reconciliation of employer contributions in the TRA’s Comprehensive Annual Financial Report (CAFR) Statement of Changes in Fiduciary Net Position to the employer contributions used in the Schedule of Employer and Non-Employer Pension Allocations:

Employer contributions reported in the TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 367,791,000
Add (deduct) employer contributions not related to future contribution efforts	810,000
Deduct the TRA's contributions not included in allocation	<u>(456,000)</u>
Total employer contributions	368,145,000
Total non-employer contributions	<u>35,588,000</u>
Total contributions reported in Schedule of Employer and Non-Employer Pension Allocations	<u><u>\$ 403,733,000</u></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. The TRA has rounded percentage amounts to the nearest ten thousandths.

D. Pension Costs

1. GERF Pension Costs

At June 30, 2018, the District reported a liability of \$1,232,097 for its proportionate share of the GERF’s net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions received by the 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 the PERA’s participating employers. At June 30, 2017, the District’s proportion was 0.0193 percent, which was a decrease of 0.0032 percent from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of \$33,905 for its proportionate share of GERF’s pension expense. In addition, the District recognized an additional \$447 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$6 million to the General Employees Fund.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 40,606	\$ 79,264
Differences between projected and actual investment earnings	217,159	270,443
Changes in actuarial assumptions	204,555	123,518
Changes in proportion	-	235,116
District's contributions subsequent to the measurement date	97,463	-
Total	<u>\$ 559,783</u>	<u>\$ 708,341</u>

A total of \$97,463 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to the GERF pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2019	\$ (97,613)
2020	(7,818)
2021	(88,288)
2022	(52,300)
2023	-
Thereafter	\$ -

2. TRA Pension Costs

At June 30, 2018, the District reported a liability of \$12,555,983 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. At June 30, 2017, the District's proportionate share was 0.0629%, which was a decrease of 0.0069% from its proportionate share measured as of June 30, 2016.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

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:

Description	Amount
District's proportionate share of net pension liability	\$ 12,555,981
State's proportionate share of the net pension liability associated with the District	\$ 1,214,092

For the year ended June 30, 2018, the District recognized pension expense of \$2,571,812. It also recognized \$23,285 as pension expense for the support provided by direct aid.

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 94,265	\$ 88,170
Differences between projected and actual investment earnings	804,380	902,768
Changes in actuarial assumptions	6,805,150	1,758,895
Changes in proportion	-	1,625,860
District's contributions subsequent to the measurement date	244,638	-
Total	\$ 7,948,433	\$ 4,375,693

A total of \$244,638 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 will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2018	\$ 925,231
2019	1,156,343
2020	1,047,000
2021	843,178
2022	(643,648)
Thereafter	\$ -

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

E. Actuarial Assumptions

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

Assumptions	GERF	TRA
Inflation	2.50% per year	2.50%
Active member payroll growth	3.25% per year	2.85% to 8.85% for 10 years and 3.25 to 9.25%, thereafter
Investment rate of return	7.50%	5.12%

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 1.0% per year for all future years for the General Employees Plan. Cost of living benefit increases for retirees are assumed to be 2.0% per year for all future years for the TRA.

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 and TRA was completed in 2016.

The following changes in actuarial assumptions for General Employees Fund occurred in 2017:

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

The following changes in actuarial assumptions for Teacher’s Retirement Association occurred in 2017:

- 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 to 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 payroll growth assumption was lowered from 3.50 percent to 3.00 percent.
- The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

The long-term expected rate of return on pension plan investments is 7.50% for GERF and 5.12% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best 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.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
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Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Domestic stocks	45%	5.50%
International stocks	15%	6.00%
Bonds	18%	1.45%
Alternative assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

F. Discount Rate

The discount rate used to measure the total General Employees Plan 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 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

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

G. 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, 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:

Description	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	\$ 1,911,078	\$ 1,232,099	\$ 676,232
TRA discount rate	4.12%	5.12%	6.12%
District's proportionate share of the TRA net pension liability	\$ 16,571,475	\$ 12,555,981	\$ 9,170,431

INDEPENDENT SCHOOL DISTRICT NO. 314
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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 6 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

H. Pension Plan Fiduciary Net Position

Detailed information about GERF's fiduciary's net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

Detailed information about TRA's fiduciary net position is available in a separately issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-2409 or 1-800-652-9026.

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

A. Plan Description

The District provides post-employment benefits to certain eligible employees through its OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements.

The assets of the plan are reported in the District's financial report in the Other Post-Employment Benefits Trust Fund, administered by the District. Plan assets may be used only for the payment of benefits of the plan, in accordance with the terms of the plan. The plan does not issue a publicly available financial report.

B. Benefits Provided

Eligible participants and their dependents are allowed access to the health plans. Participants meeting additional requirements are eligible for a direct subsidy of the premium paid by the District as described in below.

All retirees of the District have the option under state law to continue their medical insurance coverage through the District from the time of retirement. For members of certain employee groups, the District pays for all or part of the eligible retiree's premiums for medical insurance from the time of retirement until the employee reaches the age of eligibility for Medicare or a limited number of years depending on contractual language.

Benefits paid by the District differ by bargaining unit and date of hire, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these district-paid premium benefits must pay the full district premium rate for their coverage.

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees until the retiree reaches Medicare eligibility, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District's younger and statistically healthier active employees.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

C. Contributions

Postemployment healthcare expenditures are being funded through a contribution to an irrevocable trust and are being funded through a pay as you go method under which contributions to the plan are generally made at the same time and amount as retiree benefits and expenses become due.

The implicit subsidy is provided to all retirees and dependents who elect non-Medicare medical coverage, provided the retiree has satisfied the applicable pension plan requirements and is eligible. The implicit subsidy is the difference between the actual and apparent cost of OPEB coverage. The actual cost for early retirees is usually higher than the average per person premium for the active/retiree group. Plans in which retirees pay the average active/retiree rate (the apparent cost) give rise to an implicit rate subsidy: the employer pays the difference between the actual and apparent cost.

The direct subsidies (i.e., fringe benefit amounts) amounts increased 0% from 2016 to 2017 and 2.44% from 2017 to 2018. The fringe benefit amount is assumed to increase 3% annually after 2018.

D. Membership

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

Active employees electing coverage	77
Active employees waiving coverage	14
Retirees electing coverage	<u>16</u>
Total	<u><u>107</u></u>

E. Net OPEB Liability

The components of the District's Net OPEB liability at June 30, 2018, were as follows:

Total OPEB liability	\$ 889,455
Plan fiduciary net position	(206,484)
District's Net OPEB liability	<u><u>\$ 682,971</u></u>
Plan fiduciary net position as a percentage of total OPEB liability	23.21%

F. Actuarial Assumptions

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

Inflation	2.75 percent
Salary increases	3.50 percent, average, including inflation
Investment rate of return	2.50 percent
Healthcare cost trend rates	6.60 percent for 2017, actual premium increase rates for FY2018 and 6.50% for FY2019, gradually decreasing over several decades to an ultimate rate of 4.40% in 2076 and later years.

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

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

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2005–April 30, 2017.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimates 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 asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the current asset allocation percentage (or target allocation, if available) and by adding expected inflation (2.75%). All results are then rounded to the nearest quarter percentage point.

The best-estimates of expected future asset class returns were published in the 2017 Survey of Capital Market Assumptions produced by Horizon Actuarial Services. These expected returns, along with expected asset class standard deviations and correlation coefficients, are based on Horizon’s annual survey of investment advisory firms. The expected inflation assumption was developed based on an analysis of historical experience blended with forward-looking expectations available in market data.

The following changes in actuarial assumptions for OPEB occurred in 2018:

- The discount rate was increased 0.12% from 3.47 to 3.59% in 2018.
- The index rate for 20-year, tax-exempt municipal bonds increased 0.09% from 3.53 to 3.62% in 2018.

G. Rate of Return

For the current year ended, the annual money-weighted rate of return on investments, net of investment expense, was 2.50 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Best-estimates of geometric real and nominal rates of return for each major asset class included in the OPEB plan’s asset allocation as of the measurement date are summarized in the following table:

Asset Class	Allocation at Measurement Date	Long-Term Expected Real Rate of Return	Long-Term Expected Nominal Rate of Return
Domestic equity	0%	5.39%	8.14%
International equity	0%	5.20%	7.95%
Fixed income	0%	1.98%	4.73%
Real estate and alternative	0%	4.25%	7.00%
Cash and equivalents	100%	0.79%	3.54%
Total	<u>100%</u>		<u>3.52%</u>
Reduction for assumed investment expense			0.00%
Reduction for short-term adverse deviation			<u>(1.00%)</u>
Net assumed investment return			<u>2.50%</u>

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NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

H. Discount rate

The discount rate used to measure the total OPEB liability was 3.59 percent. The projection of cash flows and OPEB trust assets used to determine the discount rate were based on recent employer contribution history and their stated funding policy (if any). The OPEB trust's long-term assumed investment return was used to discount projected benefit payments for as long as projected trust assets are available to fund OPEB payments. Once projected trust assets are exhausted, any remaining benefit payments after the trust fund is exhausted are discounted at the 20-year municipal bond rate. The equivalent single rate is the discount rate. The contribution and benefit payment history, as well as the funding policy have also been taken into account. The District discount rate used in the prior measurement date was 3.47 percent.

I. Changes in the Net OPEB Liability

The following table presents the changes in net pension liability during the year:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (c) = (a) - (b)
Balance at Previous			
Fiscal Year 6/30/2017	\$ 949,731	\$ 275,516	\$ 674,215
Changes for the year:			
Service cost	35,551	-	35,551
Interest	31,851	-	31,851
Differences between expected and actual experience	-	-	-
Changes of assumptions	7,102	-	7,102
Changes of benefit terms	-	-	-
Employer contributions	-	59,338	(59,338)
Net investment incomes	-	6,660	(6,660)
Other additions (e.g. receivables)	-	-	-
Benefit payments, including member contribution refunds	(134,780)	(134,780)	-
Administrative expense	-	(250)	250
Other deductions (e.g. payables)	-	-	-
Net changes	(60,276)	(69,032)	8,756
Balance at Current			
Fiscal Year 6/30/2018	\$ 889,455	\$ 206,484	\$ 682,971

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

J. Sensitivity of the Net OPEB Liability to changes in the discount rate and 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 a discount rate that is 1-percentage-point lower (2.59 percent) or 1-percentage-point higher (4.59 percent) than the current discount rate:

Description	Changes in the Discount Rate		
	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
OPEB discount rate	2.59%	3.59%	4.59%
District's Net OPEB liability	\$ 727,801	\$ 682,971	\$ 638,413

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 1-percentage-point lower (5.50 percent decreasing to 3.40 percent) or 1-percentage-point higher (7.60 percent decreasing to 4.40 percent) than the current healthcare cost trend rates:

Changes in Trend Rates		
1 percent decrease in rate	Current Trend Rate	1 percent increase in rate
\$ 601,833	\$ 682,671	\$ 778,677

K. OPEB expense and deferred outflows and deferred inflows of resources related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$505. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ -	\$ -
Changes in actuarial assumptions	6,122	21,463
Differences between projected and actual investment earnings	6,598	-
Total	\$ 12,720	\$ 21,463

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2018

Note 7 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

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

Year Ending June 30,	OPEB Expense Amount
2018	\$ (1,949)
2019	(1,949)
2020	(1,949)
2021	(1,949)
2022	(4,088)
Thereafter	\$ (5,110)

Note 8 COMMITMENTS AND CONTINGENCIES

A. Federal and State Programs

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

B. Contingencies

The District has the usual and customary types of legal claims pending at year-end, mostly of a minor nature and usually covered by insurance carried for that purpose. The District's management believes that the District will not incur any material liabilities relating to these claims, and none have been accrued at year-end.

Note 9 JOINT VENTURE

Pursuant to an agreement authorized by state statutes, the District joined with six other Districts to establish the Rum River Special Education Cooperative (RRSEC), an entity through which the member District's may jointly and cooperatively share services that no one District could efficiently provide. One member of the School Board of each member District serves on the governing Board of the RRSEC. The operating and capital budget are charged to member Districts based on the annual assessment manual which allocates costs based on enrollment and program usage. RRSEC is an agency of seven-member school districts that have joined together to provide services to students ages B-21, identified as having a disability. The RRSEC also provides resources and staff development to school staff, administrators and parents/guardians. This technical assistance helps support districts in their efforts to provide appropriate services to all children with disabilities that might otherwise be difficult for an individual school district to provide. For the year ended June 30, 2018, the cost of services provided to the District by RRSEC was \$262,083. RRSEC is separately audited from the District, complete financial statements can be obtained by contacting the RRSEC business office, Rum River Special Education Cooperative District 6079, 140 Buchanan Street North, Suite 150 Cambridge, MN 55008.

Note 10 INTERFUND BALANCES AND OPERATING TRANSFERS

The District had no interfund receivable or payable balances at June 30, 2018.

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REQUIRED SUPPLEMENTARY INFORMATION

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
PUBLIC EMPLOYEE RETIREMENT ASSOCIATION
Year Ended June 30, 2018

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District	Total	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2015	6/30/2014	0.0246%	\$ 1,155,585	\$ -	\$ 1,155,585	\$ 1,398,206	82.6%	78.7%
6/30/2016	6/30/2015	0.0236%	\$ 1,223,074	\$ -	\$ 1,223,074	\$ 1,365,960	89.5%	78.2%
6/30/2017	6/30/2016	0.0225%	\$ 1,826,888	\$ 23,866	\$ 1,850,754	\$ 1,394,880	132.7%	68.9%
6/30/2018	6/30/2017	0.0193%	\$ 1,232,099	\$ 15,492	\$ 1,247,591	\$ 1,296,998	96.2%	75.9%

SCHEDULE OF DISTRICT CONTRIBUTIONS
PUBLIC EMPLOYEE RETIREMENT ASSOCIATION
Year Ended June 30, 2018

District Fiscal Year-End Date	PERA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/2015	6/30/2014	\$ 93,471	\$ 93,471	\$ -	\$ 1,246,280	7.50%
6/30/2016	6/30/2015	\$ 102,447	\$ 102,447	\$ -	\$ 1,365,960	7.50%
6/30/2017	6/30/2016	\$ 104,616	\$ 104,616	\$ -	\$ 1,394,880	7.50%
6/30/2018	6/30/2017	\$ 93,248	\$ 93,248	\$ -	\$ 1,243,307	7.50%

Note 1: **Change of 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. 2) 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.

Note 2: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This information is not available for previous fiscal years.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY
TEACHERS RETIREMENT ASSOCIATION
Year Ended June 30, 2018

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportionate Share of the Net Pension Liability Associated with the District	Total	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
6/30/2015	6/30/2014	0.0787%	\$ 3,626,439	\$ 255,005	\$ 3,881,444	\$ 3,666,125	105.9%	81.5%
6/30/2016	6/30/2015	0.0706%	\$ 4,367,308	\$ 535,964	\$ 4,903,272	\$ 3,581,147	136.9%	76.8%
6/30/2017	6/30/2016	0.0698%	\$ 16,648,965	\$ 1,670,989	\$ 18,319,954	\$ 3,629,867	504.7%	44.9%
6/30/2018	6/30/2017	0.0629%	\$ 12,555,981	\$ 1,214,092	\$ 13,770,073	\$ 3,245,298	424.3%	51.6%

SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHERS RETIREMENT ASSOCIATION
Year Ended June 30, 2018

District Fiscal Year-End Date	TRA Fiscal Year-End Date (Measurement Date)	Statutorily Required Contributions	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
6/30/2015	6/30/2014	\$ 251,353	\$ 251,353	\$ -	\$ 3,351,373	7.50%
6/30/2016	6/30/2015	\$ 268,586	\$ 268,586	\$ -	\$ 3,581,147	7.50%
6/30/2017	6/30/2016	\$ 272,240	\$ 272,240	\$ -	\$ 3,629,867	7.50%
6/30/2018	6/30/2017	\$ 254,110	\$ 254,110	\$ -	\$ 3,388,133	7.50%

Note 1: **Changes of Benefit Terms.** The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

Note 2: **Change of Assumptions.** 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 to 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 payroll growth assumption was lowered from 3.50 percent to 3.00 percent. The general wage growth assumption was lowered from 3.50 percent to 2.85 percent for ten years followed by 3.25 percent thereafter. The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption. Details, if necessary, can be obtained from the TRA CAFR.

Note 3: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This information is not available for previous fiscal years.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF CHANGES IN THE DISTRICT'S
NET OPEB LIABILITY AND RELATED RATIOS
Year Ended June 30, 2018

Total OPEB Liability	<u>2017</u>	<u>2018</u>
Service cost	\$ 36,893	\$ 35,551
Interest	29,238	31,851
Difference between expected and actual experience	-	-
Changes of assumptions	(29,640)	7,102
Changes in benefit terms	-	-
Benefit payments, including member contribution refunds	(166,002)	(134,780)
Net change in total OPEB liability	<u>(129,511)</u>	<u>(60,276)</u>
Total OPEB Liability - beginning of year	1,079,242	949,731
Total OPEB Liability - end of year	<u><u>\$ 949,731</u></u>	<u><u>\$ 889,455</u></u>
 Plan Fiduciary Net Position		
Employer Contributions	\$ -	\$ 59,338
Net investment income	337	6,660
Other additions (e.g. receivable)	-	-
Benefit payments, including member contribution refunds	(166,002)	(134,780)
Administrative expenses	(250)	(250)
Other deductions (e.g. payables)	-	-
Net change in plan fiduciary net position	<u>(165,915)</u>	<u>(69,032)</u>
Plan Fiduciary Net Position - beginning of year	441,431	275,516
Plan Fiduciary Net Position - end of year	<u><u>\$ 275,516</u></u>	<u><u>\$ 206,484</u></u>
Net OPEB (Asset) Liability - end of year	<u><u>\$ 674,215</u></u>	<u><u>\$ 682,971</u></u>
FNP as a percentage of the NOL	29.01%	23.21%
Covered employee payroll	\$ 4,322,281	\$ 4,250,892
Net OPEB Liability as a percent of covered employee payroll	15.60%	16.07%

Note 1: **Change of Assumptions.** The discount rate was changed from 3.47% to 3.59% based on updated expectations of long-term returns on trust assets and 20-year municipal bond rates. Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans. Medical per capita claims costs were updated to reflect recent experience. The spouse age assumption was changed from assuming husbands are the same age as wives to assuming husbands are 3 years older than wives. This assumption change had no impact on liabilities.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF DISTRICT'S CONTRIBUTIONS
Year Ended June 30, 2018

	Fiscal Year Ending June 30,		
	2018	2017	2016
Actuarially determined contribution (ADC)	N/A	N/A	N/A
Contributions in relation to the ADC	N/A	N/A	N/A
Contribution deficiency (excess)	N/A	N/A	N/A
Payroll for reporting period (fiscal year)	N/A	N/A	N/A
Contributions as a percent of payroll	N/A	N/A	N/A

SCHEDULE OF INVESTMENT RETURNS
Year Ended June 30, 2018

	Fiscal Year Ending June 30,		
	2018	2017	2016
Annual money-weighted rate of return, net investment expense	2.42%	0.80%	N/A

Note 1: **Change of Assumptions.** The discount rate was changed from 3.47% to 3.59% based on updated expectations of long-term returns on trust assets and 20-year municipal bond rates. Healthcare trend rates were reset to reflect updated cost increase expectations, including an adjustment to reflect the impact of the Affordable Care Act's Excise Tax on high-cost health insurance plans. Medical per capita claims costs were updated to reflect recent experience. The spouse age assumption was changed from assuming husbands are the same age as wives to assuming husbands are 3 years older than wives. This assumption change had no impact on liabilities.

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SUPPLEMENTARY INFORMATION SECTION

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

COMBINING BALANCE SHEET
NONMAJOR FUNDS
June 30, 2018

	Food Service Fund	Community Service Fund	Building Construction Fund	Total Nonmajor Funds
ASSETS				
Cash and Investments	\$ 25,116	\$ 9,891	\$ 23,749	\$ 58,756
Accounts Receivable	0	344	0	344
Property Taxes Receivable	0	27,374	0	27,374
Due from Minnesota Department of Education	0	9,256	0	9,256
Inventory	19,421	0	0	19,421
TOTAL ASSETS	\$ 44,537	\$ 46,865	\$ 23,749	\$ 115,151
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE				
Liabilities:				
Salaries and Benefits Payable	\$ 3,749	\$ 24,606	\$ 0	\$ 28,355
Accounts Payable	1,013	0	0	1,013
Total Liabilities	4,762	24,606	0	29,368
Deferred Inflows of Resources:				
Unavailable Revenue - Delinquent Taxes	0	1,402	0	1,402
Property Taxes Levied for Subsequent Year	0	53,838	0	53,838
Total Deferred Inflows of Resources	0	55,240	0	55,240
Fund Balance:				
Nonspendable	19,421	0	0	19,421
Restricted	20,354	0	23,749	44,103
Unassigned	0	(32,981)	0	(32,981)
Total Fund Balance	39,775	(32,981)	23,749	30,543
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 44,537	\$ 46,865	\$ 23,749	\$ 115,151

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - NONMAJOR FUNDS
For the Year Ended June 30, 2018

	Food Service Fund	Community Service Fund	Building Construction Fund	Total Nonmajor Funds
Revenues:				
Local Property Taxes	\$ 0	\$ 50,114	\$ 0	\$ 50,114
Other Local and County Revenues	0	121,025	524	121,549
Revenue From State Sources	31,012	79,967	0	110,979
Revenue From Federal Sources	231,436	0	0	231,436
Sales and Other Conversions of Assets	213,825	0	0	213,825
Total Revenues	476,273	251,106	524	727,903
Expenditures:				
Community Education and Services	0	253,637	0	253,637
Pupil Support Services	468,341	256	0	468,597
Site, Buildings, and Equipment	0	0	27,511	27,511
Total Expenditures	468,341	253,893	27,511	749,745
Excess of Revenues Over (Under) Expenditures	7,932	(2,787)	(26,987)	(21,842)
Fund Balance - Beginning	31,843	(30,194)	50,736	52,385
Fund Balance - Ending	\$ 39,775	\$ (32,981)	\$ 23,749	\$ 30,543

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

COMBINING BALANCE SHEET - DEBT SERVICE FUNDS
June 30, 2018

	Regular Debt Service	Other Post- Employment Benefit Bonds	Totals
ASSETS			
Cash and Cash Equivalents	\$ 512,017	\$ 109,915	\$ 621,932
Property Taxes Receivable	379,496	77,188	456,684
Due From Minnesota Department of Revenue	8,276	494	8,770
TOTAL ASSETS	\$ 899,789	\$ 187,597	\$ 1,087,386
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE			
Deferred Inflows of Resources:			
Unavailable Revenue - Delinquent Property Taxes	\$ 22,825	\$ 4,249	\$ 27,074
Property Taxes Levied For Subsequent Year	688,363	151,202	839,565
Total Deferred Inflows of Resources	711,188	155,451	866,639
Fund Balance:			
Restricted for Debt Service	188,601	32,146	220,747
TOTAL DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 899,789	\$ 187,597	\$ 1,087,386

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

COMBINING SCHEDULE OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE - DEBT SERVICE FUNDS
For the Year Ended June 30, 2018

	Regular Debt Service	Other Post- Employment Benefit Bonds	Totals
Revenue:			
Local Property Taxes	\$ 811,970	\$ 146,572	\$ 958,542
Other Local and County Revenues	1,294	170	1,464
Revenue From State Sources	75,813	4,940	80,753
Total Revenues	889,077	151,682	1,040,759
Expenditures:			
Principal	630,000	100,000	730,000
Interest and Other Fiscal Expenditures	298,530	50,470	349,000
Total Expenditures	928,530	150,470	1,079,000
Change in Fund Balance	(39,453)	1,212	(38,241)
Fund Balance - Beginning	228,054	30,934	258,988
Fund Balance - Ending	\$ 188,601	\$ 32,146	\$ 220,747

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

BALANCE SHEET
GENERAL FUND

June 30, 2018

(With Comparative Amounts for June 30, 2017)

	2018	2017
ASSETS		
Cash and Investments	\$ 336,658	\$ 413,303
Accounts Receivable	77,933	182,256
Property Taxes Receivable	379,097	352,088
Due from Minnesota Department of Education	736,902	411,708
Due from Federal Through State	213,438	279,734
Due from Other Minnesota School Districts	47,113	26,630
Due from Other Governmental Unit	4,925	0
Prepaid Items	80,700	126,017
TOTAL ASSETS	\$ 1,876,766	\$ 1,791,736
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Salaries and Benefits Payable	\$ 623,227	\$ 635,482
Accounts Payable	44,836	58,239
Due to Other Governments	394	197
Due to Other Minnesota School Districts	82,250	148,773
Total Liabilities	750,707	842,691
 Deferred Inflows of Resources:		
Unavailable Revenue - Delinquent Taxes	18,263	20,639
Property Taxes Levied for Subsequent Year	568,621	524,937
Total Deferred Inflows of Resources	586,884	545,576
 Fund Balance:		
Nonspendable	80,700	126,017
Restricted	293,715	159,138
Unassigned	164,760	118,314
Total Fund Balance	539,175	403,469
 TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	 \$ 1,876,766	 \$ 1,791,736

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2018
(With Comparative Amounts for the Year Ended June 30, 2017)

	2018 Original Budget	2018 Final Budget	2018 Amount	Over (Under) Budget	2017 Amount
Revenues:					
Local Property Taxes	\$ 634,690	\$ 594,678	\$ 648,929	\$ 54,251	\$ 662,910
Other Local and County Revenues	149,110	206,955	264,893	57,938	334,902
Revenue From State Sources	6,432,160	6,557,071	6,669,606	112,535	6,482,310
Revenue From Federal Sources	308,970	271,684	267,467	(4,217)	286,968
Sales and Other Conversion of Assets	(1,500)	(1,400)	2,867	4,267	5,083
Total Revenues	<u>7,523,430</u>	<u>7,628,988</u>	<u>7,853,762</u>	<u>224,774</u>	<u>7,772,173</u>
Expenditures:					
District and School Administration	521,687	499,860	501,886	2,026	482,544
District Support Service	407,439	430,253	416,718	(13,535)	387,163
Regular Instruction	3,617,552	3,700,193	3,774,905	74,712	3,782,743
Vocational Instruction	121,471	130,389	126,429	(3,960)	106,976
Exceptional Instruction	1,201,363	1,213,782	1,147,115	(66,667)	1,105,638
Instructional Support Services	111,687	83,193	150,051	66,858	116,578
Pupil Support Services	641,200	694,111	688,802	(5,309)	691,520
Sites, Buildings, and Equipment	741,988	804,872	836,997	32,125	737,627
Debt Service:					
Principal	105,912	105,912	105,912	0	111,174
Interest and Other Fiscal Expenditures	34,453	31,653	35,837	4,184	32,002
Other Fiscal Expenditures	0	0	12,053	12,053	40,263
Total Expenditures	<u>7,504,752</u>	<u>7,694,218</u>	<u>7,796,705</u>	<u>102,487</u>	<u>7,594,228</u>
Excess of Revenue Over (Under) Expenditures	18,678	(65,230)	57,057	122,287	177,945
Other Financing Sources:					
Debt Proceeds	<u>0</u>	<u>0</u>	<u>78,649</u>	<u>(78,649)</u>	<u>0</u>
Change in Fund Balance	<u>\$ 18,678</u>	<u>\$ (65,230)</u>	135,706	<u>\$ 43,638</u>	177,945
Fund Balance - Beginning			<u>403,469</u>		<u>225,524</u>
Fund Balance - Ending			<u>\$ 539,175</u>		<u>\$ 403,469</u>

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

BALANCE SHEET
FOOD SERVICE FUND

June 30, 2018

(With Comparative Amounts for June 30, 2017)

	2018	2017
ASSETS		
Cash and Investments	\$ 25,116	\$ 25,200
Inventory	19,421	17,466
TOTAL ASSETS	\$ 44,537	\$ 42,666
LIABILITIES AND FUND BALANCE		
Liabilities:		
Salaries and Benefits Payable	\$ 3,749	\$ 10,018
Accounts Payable	1,013	805
Total Liabilities	4,762	10,823
Fund Balance:		
Nonspendable	19,421	17,466
Restricted	20,354	14,377
Total Fund Balance	39,775	31,843
TOTAL LIABILITIES AND FUND BALANCE	\$ 44,537	\$ 42,666

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - FOOD SERVICE FUND
For the Year Ended June 30, 2018
(With Comparative Amounts for the Year Ended June 30, 2017)

	<u>2018 Original Budget</u>	<u>2018 Final Budget</u>	<u>2018 Amount</u>	<u>Over (Under) Budget</u>	<u>2017 Amount</u>
Revenues:					
Other Local and County Revenues	\$ 0	\$ 0	\$ 0	\$ 0	\$ 115
Revenue From State Sources	26,200	26,200	31,012	4,812	32,609
Revenue From Federal Sources	240,345	240,345	231,436	(8,909)	241,389
Sales and Other Conversion of Assets	<u>240,032</u>	<u>240,032</u>	<u>213,825</u>	<u>(26,207)</u>	<u>196,166</u>
Total Revenues	<u>506,577</u>	<u>506,577</u>	<u>476,273</u>	<u>(30,304)</u>	<u>470,279</u>
Expenditures:					
Pupil Support Services	<u>485,555</u>	<u>491,403</u>	<u>468,341</u>	<u>(23,062)</u>	<u>477,662</u>
Excess of Revenue Over (Under) Expenditures	<u>\$ 21,022</u>	<u>\$ 15,174</u>	7,932	<u>\$ (7,242)</u>	(7,383)
Fund Balance - Beginning			<u>31,843</u>		<u>39,226</u>
Fund Balance - Ending			<u>\$ 39,775</u>		<u>\$ 31,843</u>

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

BALANCE SHEET
COMMUNITY SERVICE FUND

June 30, 2018

(With Comparative Amounts for June 30, 2017)

	2018	2017
ASSETS		
Cash and Investments	\$ 9,891	\$ 11,214
Accounts Receivable	344	0
Property Taxes Receivable	27,374	25,751
Due from Minnesota Department of Education	9,256	9,685
TOTAL ASSETS	\$ 46,865	\$ 46,650
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE		
Liabilities:		
Salaries and Benefits Payable	\$ 24,606	\$ 24,303
Accounts Payable	0	340
Total Liabilities	24,606	24,643
 Deferred Inflows of Resources:		
Unavailable Revenue - Delinquent Taxes	1,402	1,528
Property Taxes Levied for Subsequent Year	53,838	50,673
Total Deferred Inflows of Resources	55,240	52,201
 Fund Balance:		
Restricted	(32,981)	(30,194)
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	\$ 46,865	\$ 46,650

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - COMMUNITY SERVICE FUND
For the Year Ended June 30, 2018
(With Comparative Amounts for the Year Ended June 30, 2017)

	<u>2018 Original Budget</u>	<u>2018 Final Budget</u>	<u>2018 Amount</u>	<u>Over (Under) Budget</u>	<u>2017 Amount</u>
Revenues:					
Local Property Taxes	\$ 67,749	\$ 50,178	\$ 50,114	\$ (64)	\$ 47,574
Other Local and County Revenues	113,000	134,431	121,025	(13,406)	115,604
Revenue From State Sources	<u>87,518</u>	<u>78,546</u>	<u>79,967</u>	<u>1,421</u>	<u>89,491</u>
Total Revenues	<u>268,267</u>	<u>263,155</u>	<u>251,106</u>	<u>(12,049)</u>	<u>252,669</u>
Expenditures:					
Pupil Support Services	0	0	256	256	240
Community Education and Services	<u>269,332</u>	<u>266,884</u>	<u>253,637</u>	<u>(13,247)</u>	<u>245,821</u>
Total Expenditures	<u>269,332</u>	<u>266,884</u>	<u>253,893</u>	<u>(12,991)</u>	<u>246,061</u>
Excess of Revenue Over (Under) Expenditures	<u>\$ (1,065)</u>	<u>\$ (3,729)</u>	(2,787)	<u>\$ 942</u>	6,608
Fund Balance - Beginning			<u>(30,194)</u>		<u>(36,802)</u>
Fund Balance - Ending			<u>\$ (32,981)</u>		<u>\$ (30,194)</u>

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA
UNIFORM ACCOUNTING AND REPORTING STANDARDS
For the Year Ended June 30, 2018

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$7,852,162	<u>\$7,852,161</u>	\$1	Total Revenue	\$524	<u>\$524</u>	\$0
Total Expenditures	\$7,796,705	<u>\$7,796,705</u>	\$0	Total Expenditures	\$27,511	<u>\$27,511</u>	\$0
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$80,700	<u>\$80,700</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.03 Staff Development	\$0	<u>\$0</u>	\$0	4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0
4.06 Health and Safety	\$14,486	<u>\$14,486</u>	\$0	4.13 Project Funded by COP	\$0	<u>\$0</u>	\$0
4.07 Capital Projects Levy	\$0	<u>\$0</u>	\$0	4.67 LTFM	\$0	<u>\$0</u>	\$0
4.08 Cooperative Revenue	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.13 Project Funded by COP	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$23,749	<u>\$23,749</u>	\$0
4.14 Operating Debt	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
4.16 Levy Reduction	\$0	<u>\$0</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.17 Taconite Building Maint	\$0	<u>\$0</u>	\$0	07 DEBT SERVICE			
4.24 Operating Capital	\$2,939	<u>\$2,939</u>	\$0	Total Revenue	\$889,077	<u>\$889,076</u>	\$1
4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0	Total Expenditures	\$928,530	<u>\$928,530</u>	\$0
4.27 Disabled Accessibility	\$0	<u>\$0</u>	\$0	<i>Non Spendable:</i>			
4.28 Learning & Development	\$0	<u>\$0</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
4.34 Area Learning Center	\$0	<u>\$0</u>	\$0	<i>Restricted / Reserved:</i>			
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	\$0	4.25 Bond Refundings	\$0	<u>\$0</u>	\$0
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	\$0	4.33 Maximum Effort Loan Aid	\$0	<u>\$0</u>	\$0
4.38 Gifted & Talented	\$0	<u>\$0</u>	\$0	4.51 QZAB Payments	\$0	<u>\$0</u>	\$0
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0	4.67 LTFM	\$0	<u>\$0</u>	\$0
4.41 Basic Skills Programs	\$0	<u>\$0</u>	\$0	<i>Restricted:</i>			
4.45 Career Tech Programs	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$188,601	<u>\$188,600</u>	\$1
4.48 Achievement and Integration	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
4.49 Safe School Crime - Crime Levy	(\$75)	<u>(\$75)</u>	\$0	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.50 Pre-Kindergarten	\$0	<u>\$0</u>	\$0	08 TRUST			
4.51 QZAB Payments	\$0	<u>\$0</u>	\$0	Total Revenue	\$21,601	<u>\$21,602</u>	(\$1)
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	Total Expenditures	\$40,621	<u>\$40,621</u>	\$0
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$692,560	<u>\$692,560</u>	\$0
4.59 Basic Skills Extended Time	\$0	<u>\$0</u>	\$0	20 INTERNAL SERVICE			
4.67 LTFM	\$166,055	<u>\$166,055</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
4.72 Medical Assistance	\$110,310	<u>\$110,310</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
<i>Restricted:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	\$0	25 OPEB REVOCABLE TRUST			
4.75 Title VII Impact Aid	\$0	<u>\$0</u>	\$0	Total Revenue	\$0	<u>\$0</u>	\$0
4.76 Payments in Lieu of Taxes	\$0	<u>\$0</u>	\$0	Total Expenditures	\$0	<u>\$0</u>	\$0
<i>Committed:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	\$0
4.18 Committed for Separation	\$0	<u>\$0</u>	\$0	45 OPEB IRREVOCABLE TRUST			
4.61 Committed Fund Balance	\$0	<u>\$0</u>	\$0	Total Revenue	\$6,660	<u>\$6,660</u>	\$0
<i>Assigned:</i>				Total Expenditures	\$75,692	<u>\$75,692</u>	\$0
4.62 Assigned Fund Balance	\$0	<u>\$0</u>	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$206,484	<u>\$206,484</u>	\$0
<i>Unassigned:</i>				47 OPEB DEBT SERVICE			
4.22 Unassigned Fund Balance	\$164,760	<u>\$164,759</u>	\$1	Total Revenue	\$151,682	<u>\$151,682</u>	\$0
02 FOOD SERVICES				Total Expenditures	\$150,470	<u>\$150,470</u>	\$0
Total Revenue	\$476,273	<u>\$476,274</u>	(\$1)	<i>Non Spendable:</i>			
Total Expenditures	\$468,341	<u>\$468,341</u>	\$0	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
<i>Non Spendable:</i>				<i>Restricted:</i>			
4.60 Non Spendable Fund Balance	\$19,421	<u>\$19,421</u>	\$0	4.25 Bond Refundings	\$0	<u>\$0</u>	\$0
<i>Restricted / Reserved:</i>				4.64 Restricted Fund Balance	\$32,146	<u>\$32,145</u>	\$1
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
<i>Restricted:</i>				4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.64 Restricted Fund Balance	\$20,354	<u>\$20,355</u>	(\$1)	04 COMMUNITY SERVICE			
<i>Unassigned:</i>				Total Revenue	\$251,106	<u>\$251,105</u>	\$1
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0	Total Expenditures	\$253,893	<u>\$253,892</u>	\$1
04 COMMUNITY SERVICE				<i>Non Spendable:</i>			
Total Revenue	\$251,106	<u>\$251,105</u>	\$1	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0
Total Expenditures	\$253,893	<u>\$253,892</u>	\$1	<i>Restricted / Reserved:</i>			
<i>Non Spendable:</i>				4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	\$0	4.31 Community Education	(\$20,450)	<u>(\$20,450)</u>	\$0
<i>Restricted / Reserved:</i>				4.32 E.C.F.E	(\$75,180)	<u>(\$75,180)</u>	\$0
4.26 \$25 Taconite	\$0	<u>\$0</u>	\$0	4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0
4.31 Community Education	(\$20,450)	<u>(\$20,450)</u>	\$0	4.44 School Readiness	\$53,861	<u>\$53,861</u>	\$0
4.32 E.C.F.E	(\$75,180)	<u>(\$75,180)</u>	\$0	4.47 Adult Basic Education	\$0	<u>\$0</u>	\$0
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	\$0	4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0
4.44 School Readiness	\$53,861	<u>\$53,861</u>	\$0	<i>Restricted:</i>			
4.47 Adult Basic Education	\$0	<u>\$0</u>	\$0	4.64 Restricted Fund Balance	\$8,788	<u>\$8,788</u>	\$0
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	\$0	<i>Unassigned:</i>			
<i>Restricted:</i>				4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	\$0
4.64 Restricted Fund Balance	\$8,788	<u>\$8,788</u>	\$0				

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OTHER REPORTS



Burkhardt & Burkhardt, Ltd.

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MINNESOTA LEGAL COMPLIANCE

Independent Auditor's Report

Members of the School Board
Independent School District No. 314
Braham, 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 the Independent School District No. 314, Braham, Minnesota, (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, and have issued our report thereon dated October 15, 2018.

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

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

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

Burkhardt & Burkhardt, Ltd.

Mankato, Minnesota
October 15, 2018

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

Members of the School Board
Independent School District No. 314
Braham, 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 the Independent School District No. 314, Braham, Minnesota (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 15, 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2018-001, 2018-002 and 2018-003 that we consider to be significant deficiencies.

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Compliance and Other Matters

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

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Burkhardt & Burkhardt, Ltd.

Mankato, Minnesota
October 15, 2018

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INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF FINDINGS
June 30, 2018

CURRENT YEAR FINDINGS

Significant Deficiencies

2018-001. Segregation of Duties

- Condition:* The District has a limited number of office personnel and accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties. An effective internal control structure provides an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.
- Criteria:* Internal controls should be in place that provides reasonable assurance that proper segregation of duties is achieved.
- Cause:* The District has a limited number of office personnel and inadequate internal controls.
- Effect:* The failure to properly segregate duties increases the risk that misstatements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
- Recommendation:* While it is recognized that the District's office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective internal control structure, it is important that the District be aware of this situation.
- Response:* The Board has already taken measures to attempt to comply even though the District is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Board has addressed this circumstance by active participation in the District's affairs. This includes approval of disbursements, regular review of financial reports, regular review of bank reconciliations and budget comparisons.

Corrective Action Plan (CAP)

- a) *Actions Planned in Response to the Finding:* The District has determined the benefit of adequately segregating duties is less than the cost. Based on this assessment, the District is accepting the risk posed by the deficiency while also evaluating mitigating controls that will help reduce the risk of material misstatement of the financial statements. Management is attempting to mitigate the associated risks by doing the following:
1. Identifying areas lacking segregation of duties and where there are higher risks of fraud occurring.
 2. Implementing limited segregation to the extent possible to reduce risks without impairing efficiency.
 3. Using the knowledge of management and the School Board to review accounting records and reports,
- b) *Official Responsible for Ensuring Corrective Action:* The Business Manager will monitor the effectiveness of the above actions and make changes as considered appropriate.
- c) *Planned Completion Date for the Corrective Action:* The corrective action plan for this finding will be ongoing.
- d) *Explanation of Disagreement:* There is no disagreement with the audit finding.
- e) *Plan to Monitor Completion of Corrective Action:* The School Board will be monitoring this corrective action plan to review the recommendations and take appropriate action.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF FINDINGS
June 30, 2018

2018-002. Preparation of financial statements and related footnotes

- Condition:* The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. District personnel do prepare periodic financial statements and other financial information for internal use that meets the needs of management and the School Board. However, the District does not have the internal resources to prepare full-disclosure financial statements required by GAAP for external reporting. As auditors, we were requested to draft the financial statements and accompanying footnotes.
- Criteria:* Internal controls over financial reporting include those related to the actual preparation and review of the audited financial statements. In order to prepare a complete set of financial statements in conformity with GAAP, the preparer must have the necessary expertise.
- Cause:* The District does not have the resources to compile their own financial statements.
- Effect:* This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.
- Recommendation:* This control deficiency is not unusual in a small district. However, it is the responsibility of management and the School Board to decide whether to accept the degree of risk associated with this condition based on the cost of correction and other considerations.
- Response:* The District will consider putting new procedures in place to ensure that all balances are properly adjusted at year-end. The District will review all adjusting entries posted at year-end and decide if they are appropriate and complete.

Corrective Acton Plan (CAP)

- a) *Actions Planned in Response to the Finding:* The District does not plan to take any action but is aware of the condition. Based on the cost of correcting this deficiency, the District has decided to accept the risk associated with this deficiency.
- b) *Official Responsible for Ensuring Corrective Action:* The Business Manager and Superintendent will review the financial statements and related footnotes and approve them
- c) *Planned Completion Date for the Corrective Action:* The corrective action plan for this funding will be ongoing.
- d) *Explanation of Disagreement:* There is no disagreement with the audit finding.
- e) *Plan to Monitor Completion of Corrective Action:* The School Board will be monitoring this corrective action plan.

2018-003. Adjusting journal entries

- Condition:* The audit firm proposed and the District posted to its general ledger journal entries to correct certain year-end general ledger balances
- Criteria:* Internal controls should be in place that provides reasonable assurance that all general ledger accounts of the District are properly adjusted at year-end.
- Cause:* The District does not have adequate internal controls in place to prevent or detect material misstatement of the financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF FINDINGS
June 30, 2018

2018-003. Adjusting journal entries – (continued)

- Effect:* The potential exists that a material misstatement could exist in the financial statements and not be prevented or detected by the District's internal controls.
- Recommendation:* The District should continue to evaluate their internal processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year-end balances.
- Response:* The District is aware of the control deficiency, which is an unavoidable consequence of the financial restrictions of small districts. Management recognizes that it is not economically feasible to fully correct this finding. However, we are aware of the deficiency and will rely on oversight by management and the Board to monitor the deficiency. The District will also explore options and cost effective feasibility of training existing personnel to adequately prepare the annual financial reports.

Corrective Acton Plan (CAP)

- a) *Actions Planned in Response to the Finding:* The District will consider putting new procedures in place to ensure that all balances are properly adjusted at year-end in the District's general ledger. The District will review all adjusting entries posted this year and make all such necessary adjustments in the future. The business manager will continue to monitor all financial activity and adjust account balances as needed throughout the year and at year end to prevent material misstatements from occurring.
- b) *Official Responsible for Ensuring Corrective Action:* The Business Manager will monitor the effectiveness of the above actions and make changes as considered appropriate.
- c) *Planned Completion Date for the Corrective Action:* The corrective action plan for this finding will be ongoing.
- d) *Explanation of Disagreement:* There is no disagreement with the audit finding.
- e) *Plan to Monitor Completion of Corrective Action:* The School Board will be monitoring this corrective action plan to review the recommendations and take appropriate action.

STATUS OF PRIOR AUDIT FINDINGS

The prior audit contained two findings:

2017-001. Segregation of Duties

- Condition:* The District has a limited number of office personnel and, accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties. This finding was again noted for the current year.
- Current status:* This condition is noted during the current year audit of the financial statements.

2017-002. Preparation of financial statements and related footnotes

- Condition:* Prior period adjustments were proposed that were not identified as a result of the District's internal controls in prior years.
- Current status:* This condition is noted during the current year audit of the financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA

SCHEDULE OF FINDINGS
June 30, 2018

2017-003. Adjusting journal entries

Condition: The audit firm proposed and the District posted to its general ledger journal entries to correct certain year-end general ledger balances

Current status: This condition is noted during the current year audit of the financial statements.

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STUDENT ACTIVITY ACCOUNTS



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INDEPENDENT AUDITOR'S REPORT

Members of the School Board, Advisors, and Students
Independent School District No. 314
Braham, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statement of the cash receipts and disbursements of the student activity accounts of Independent School District No. 314, Braham, Minnesota, for the year ended June 30, 2018, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the regulatory basis of accounting described in the Note to the financial statement; 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in the note to the financial statement, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statement is prepared by the Independent School District No. 314 in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in the note to the financial statement and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District No. 314 as of June 30, 2018, or changes in financial position for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

We were unable to audit cash receipts because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. We were unable to obtain sufficient appropriate audit evidence about the completeness of cash receipts by other auditing procedures.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion on Regulatory Basis paragraph, the financial statement referred to in the first paragraph present fairly, in all material respects, the cash balances of the Student Activity Funds of Independent School District No. 314 as of June 30, 2018, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the note to the financial statement.

Burkhardt & Burkhardt, Ltd.

Mankato, Minnesota
October 15, 2018

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INDEPENDENT SCHOOL DISTRICT NO. 314
STUDENT ACTIVITY ACCOUNT
BRAHAM, MINNESOTA

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
For The Year Ended June 30, 2018

	Beginning Balance	Receipts	Disbursements	Ending Balance
FFA	\$ 452	\$ 5,007	\$ 1,583	\$ 3,876
Baseball	2,906	1,565	246	4,225
Fall musical/spring play	845	1,933	859	1,919
Echelon - Jazz	-	2,287	1,954	333
Football	11,834	8,685	7,374	13,145
Interest Earned	254	5	53	205
Boys Basketball	1,605	3,569	3,631	1,543
Girls Basketball	2,717	8,857	9,432	2,143
Golf	2	1,557	1,271	289
Softball	6,777	16,523	20,938	2,362
Volleyball	(474)	11,263	7,175	3,614
Wrestling	4,307	1,522	335	5,493
Track	7,482	6,353	5,180	8,655
German class	700	2,315	3,015	-
Cross Country	3,026	2,212	2,264	2,974
Class of 2018	1,063	-	1,063	-
Class of 2019	-	7,990	6,774	1,216
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals	<u>\$ 43,496</u>	<u>\$ 81,643</u>	<u>\$ 73,149</u>	<u>\$ 51,989</u>

The Accompanying Note to the Financial Statement is an Integral Part of This Statement.

INDEPENDENT SCHOOL DISTRICT NO. 314
BRAHAM, MINNESOTA
NOTES TO STUDENT ACTIVITY FUNDS FINANCIAL STATEMENTS
June 30, 2018

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 fundraising 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.



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE
MANUAL FOR STUDENT ACTIVITY ACCOUNTING

To the School Board,
Advisors and Students
Independent School District No. 314
Braham, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the Statements of Receipts and Disbursements of the student activity accounts of Independent School District No. 314, Braham, Minnesota, for the year ended June 30, 2018, and the related Notes to the Financial Statements and have issued our report thereon dated October 15, 2018.

The *Manual for Student Activity Accounting*, issued by the Minnesota Department of Education, pursuant to *Minnesota Statutes* Section 123B.49, 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 Student Activity Accounting*, except as described in the accompanying schedule of findings. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above referenced provisions.

The purpose of this report is solely to describe the scope of our testing 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.

Burkhardt & Burkhardt, Ltd.

Mankato, Minnesota

October 15, 2018

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