Financial Statements
June 30, 2018

Independent School District No. 150
Hawley Area Public Schools

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Name	Position	Term Expires
Mark Sellin	Chairperson	2021
Todd Heiberg	Vice Chairperson	2019
Steve Olson	Treasurer	2021
Geralyn Klevgaard	Clerk	2019
Maggie Walker	Director	2019
Scott Grani	Director	2021
Paul Thompson	Director	2021
Administration		
Phil Jensen	Superintendent	
Alison Green	Business Manager	

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Independent Auditor's Report

The School Board of
Independent School District No. 150
Hawley Area Public Schools
Hawley, Minnesota

Report on the Financial Statements
We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 150, Hawley, Minnesota, 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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

Emphasis of Matter
As discussed in Notes 1 and 12 to the financial statements, the District has adopted the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* which has resulted in a restatement of the net position as of July 1, 2017. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the District's total OPEB liability and related ratios, schedule of employers' share of net pension liability and schedule of employer's contributions 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 required supplementary information in accordance with auditing standards generally accepted in the United States of American, which consisted of inquiries of management about the methods or preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The school board and administration, combining and individual fund schedules, schedule of changes in student activity cash balances, and uniform accounting and reporting standards compliance table are presented for purposes of additional analysis and are not a required part of the financial statements.

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

The school board and administration has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2018, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Eide Bailly LLP

Fargo, North Dakota
October 8, 2018

This section of Hawley Public Schools – Independent School District 150's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018.

Financial Highlights

Key financial highlights for the 2017-2018 fiscal year:

- General Fund 01 – The overall revenues were approximately $9.8 million while the overall expenditures were approximately $9.6 million increasing fund balance by approximately $191,000
- Food Service Fund 02 – The revenues were approximately $524,000 and the expenditures were approximately $483,000 increasing fund balance by about $41,000.
- Community Service Fund 04 – The revenues were approximately $525,000 while the expenditures were approximately $465,000 increasing fund balance by about $59,000.
- Debt Service Fund 07 – The overall revenues were approximately $836,000 while the expenditures were approximately $990,000 decreasing fund balance by about $154,000.

Overview of the Financial Statements

The financial section of the annual report consists of three parts – Independent Auditor's Report, required supplementary information which includes the management's discussion and analysis (this section) and the basic financial statements. The basic financial statements include two kinds of statements that present different views of the District:

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The following outline shows how the various parts of this annual report are arranged and related to one another.

1. Management's Discussion and Analysis
2. Basic Financial Statements

- District-Wide Financial Statements
- Fund Financial Statements

Footnote 1 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-Wide Statements

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

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- Governmental Activities – All of the District's basic services are included here, such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.

- The District establishes other funds to control and manage money for particular purposes (e.g., repaying its long-term debts) or to show that it is properly using certain revenues (e.g., federal grants).

The District has two kinds of funds:

Governmental Funds – All of the District's basic services are included in governmental funds, which generally focus on:

1. How cash and other financial assets that can readily be converted to cash flow in and out and
2. The balances left at year-end that are available for spending.

Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explains the relationship (or differences) between them.

Fiduciary Funds – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

Financial Analysis of the District as a Whole

Net Position – The District's combined net position was approximately a positive $1.1 million on June 30, 2018. A condensed version of the Statement of Net Position at June 30, 2018 and 2017 is as follows:

Statement of Net Position
June 30, 2018 and 2017

	2018	2017
Assets		
Current assets	$ 4,909,672	$ 4,467,960
Capital assets	21,014,405	21,579,069
Total assets	25,924,077	26,047,029
Deferred Outflows of Resources	10,642,416	14,186,504
Liabilities		
Other liabilities	841,024	901,337
Long-term liabilities	29,958,686	33,905,688
Total liabilities	30,799,710	34,807,025
Deferred Inflows of Resources	4,651,390	1,646,618
Net Position		
Net investment in capital assets	10,374,405	10,324,069
Restricted	1,049,876	920,676
Unrestricted	(10,308,888)	(7,464,855)
Total net position	$ 1,115,393	$ 3,779,890

Due to the implementation of GASB Statement No. 75 in the current year, figures may not be comparable to prior year for some areas of the financial statements.

Changes in Net Position – The District's total revenues were approximately $11.6 million for the year ended June 30, 2018.

The total cost of all programs and services was approximately $13.8 million. The District's expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position approximately $2.3 million.

Statement of Activities
Years Ended June 30, 2018 and 2017

	2018	2017
Revenues		
Program revenues		
Charges for service	$ 845,984	$ 804,500
Operating grants and contributions	344,052	378,945
General		
Property taxes	1,452,580	1,500,086
Aids and payments from state and other	8,862,628	8,938,748
Unrestricted investment earnings	21,300	12,290
Miscellaneous revenues	43,403	54,518
Total revenues	11,569,947	11,689,087
Expenses		
District and school administration	596,979	566,421
District support services	345,024	415,730
Regular instruction	7,555,535	7,895,160
Vocational instruction	209,020	202,101
Exceptional instruction	1,230,395	1,363,415
Community education and services	463,579	435,983
Instructional support services	304,327	291,469
Pupil support services	1,091,656	1,114,107
Site, buildings and equipment	1,625,650	1,299,493
Fiscal and other fixed-cost programs	418,894	337,803
Total expenses	13,841,059	13,921,682
Change in Net Position	(2,271,112)	(2,232,595)
Net Position - Beginning, as restated on July 1, 2017	3,386,505	6,012,485
Net Position - Ending	$ 1,115,393	$ 3,779,890

Due to the implementation of GASB Statement No. 75 in the current year, figures may not be comparable to prior year for some areas of the financial statements.

Financial Analysis of the District's Funds

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 approximately $3.2 million. Revenues for the District's governmental funds were approximately $11.7 million, while total expenditures were approximately $11.6 million.

General Fund

The General Fund includes the primary operations of the District in providing educational services to students from pre-k/Special Education through grade 12 including pupil transportation activities and capital outlay projects.

The following schedule presents a summary of General Fund Revenues.

	Year Ended June 30,		Amount of Increase	Percent Increase
	2018	2017	(Decrease)	(Decrease)
Local property taxes	$ 579,077	$ 560,812	$ 18,265	3.3%
Other local sources	409,225	236,440	172,785	73.1%
State sources	8,700,077	8,775,987	(75,910)	-0.9%
Federal sources	139,522	191,087	(51,565)	-27.0%
Sales and other conversions	1,092	7,645	(6,553)	-85.7%
Total General Fund revenues	$ 9,828,993	$ 9,771,971	$ 57,022	0.6%

The revenues increased in the General Fund by $57,022 or 0.6% from the previous fiscal year. The increase in state sources was attributed to an increase in student counts from 2017 to 2018, which resulted in additional general education aid. The mix of property tax and state aid can change significantly from year to year without any net change on revenue.

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30,		Amount of Increase	Percent Increase
	2018	2017	(Decrease)	(Decrease)
Salaries and employee benefits	$ 7,446,985	$ 7,160,892	$ 286,093	4.0%
Purchased services	942,340	975,517	(33,177)	-3.4%
Supplies, materials and equipment	582,050	518,125	63,925	12.3%
Capital expenditures	421,940	434,367	(12,427)	-2.9%
Other expenditures	244,301	467,997	(223,696)	-47.8%
Total General Fund expenditures	$ 9,637,616	$ 9,556,898	$ 80,718	0.8%

The expenses increased in the General Fund by $80,718 or .8% from the previous fiscal year. The decrease in other expenditures was attributed to recording the State's direct aid revenue and expense related to PERA and TRA's special funding situation. The mix of property tax and state aid can change significantly from year to year without any net change on revenue.

Basic general education revenue is determined by the state on a per student funding formula. Other state-authorized revenue, including levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenue. The District will continue to look at various cost containment measures to minimize the effect of the uncertainty of education funding by the State of Minnesota.

The total fund balance of approximately $2.8 million at June 30, 2018 represents a $191,377 increase in the fund balance from the previous year.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. These budget amendments fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants, and budgeting for clearing, resale, and gifts.

- Increases in appropriations for significant unbudgeted costs.

- Revising budgets to reflect all salary settlements.

The District's final general fund results when compared to the revised budget are:

- Actual revenues were approximately $421,000 more than expected.

- The actual expenditures were approximately $39,000 less than budgeted.

Other Non-Major Funds

The Food Service Fund maintains a fund balance of $188,460. The Community Service Fund maintains a fund balance of $180,842. Both of these funds continue to operate on a sound financial basis.

Capital Asset and Debt Administration

By the end of 2017-2018, the District had invested approximately $31.9 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. Total depreciation expense for the year was approximately $943,000.

Capital Assets
June 30, 2018 and 2017

	2018	2017
Land	$ 112,700	$ 112,700
Construction in progress	4,778	34,300
Site improvements	765,693	760,893
Buildings	28,822,033	28,605,357
Equipment	2,162,047	2,339,449
Accumulated depreciation	(10,852,846)	(10,273,630)
Total capital assets	$ 21,014,405	$ 21,579,069

See the notes to the financial statements for additional information on capital assets.

Long-Term Liabilities

At year-end, the District had approximately $10.6 million in general obligation bonds and $344,000 in deferred bond premiums. The District had approximately $314,000 in post-employment severance and approximately $537,000 in other post-employment benefit obligations at June 30, 2018. The District had approximately $18.8 million in net pension liability at year-end.

- The District continued to pay down its debt, retiring $615,000 of outstanding bonds.

See the notes to the financial statements for additional information on long-term liabilities.

Factors Bearing on the District's Future

With the exception of the voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. At the time these financial statements were prepared and audited, the District was aware of the following factors that could significantly affect its financial health in the future:

- The political environment at the state level will have a significant effect on future finances. The state legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive.

- Enrollment fluctuations can have a significant effect on the District's revenue. We will continue to monitor enrollment closely and adjust budgets as necessary.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Office, Hawley Public Schools, Independent School District 150, PO Box 608, Hawley, Minnesota 56549.

Assets	
Cash and investments	$ 2,823,422
Receivables	
Current property taxes	878,621
Delinquent property taxes	22,431
Due from other governmental units	952,920
Accounts	106,943
Prepaid items	117,170
Inventories	8,165
	4,909,672
Capital assets	
Non-depreciable	
Land	112,700
Construction in progress	4,778
Depreciable	
Improvements	765,693
Buildings	28,822,033
Equipment	2,162,047
Less accumulated depreciation	(10,852,846)
Total capital assets, net of depreciation	21,014,405
Total assets	25,924,077
Deferred Outflows of Resources	
Other post-employment benefits	31,477
Pension plans	10,610,939
Total deferred outflows of resources	10,642,416
Liabilities	
Accounts payable	56,231
Salaries payable	5,015
Accrued interest payable	65,356
Unearned revenue	672
Long-term liabilities	
Due within one year - bonds and premiums	713,750
Due in more than one year - bonds, premiums, and severance	10,583,748
Due in more than one year - OPEB	536,519
Due in more than one year - net pension liability	18,838,419
Total liabilities	30,799,710
Deferred Inflows of Resources	
Unavailable revenue-property taxes	1,660,291
Pension plans	2,991,099
Total deferred inflows of resources	4,651,390
Net Position	
Net investment in capital assets	10,374,405
Restricted	1,049,876
Unrestricted	(10,308,888)
Total net position	$ 1,115,393

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Governmental activities				
Administration	$ 596,979	$ -	$ -	$ (596,979)
District support services	345,024	-	-	(345,024)
Regular instruction	7,555,535	253,997	69,637	(7,231,901)
Vocational educational instruction	209,020	-	-	(209,020)
Special education instruction	1,230,395	-	69,885	(1,160,510)
Community education and services	463,579	273,930	-	(189,649)
Instructional support services	304,327	-	-	(304,327)
Pupil support services	1,091,656	312,436	204,530	(574,690)
Sites and buildings	1,625,650	5,621	-	(1,620,029)
Fiscal and other fixed-cost programs	418,894	-	-	(418,894)
Total governmental activities	$ 13,841,059	$ 845,984	$ 344,052	(12,651,023)
General Revenues				
Property taxes, levied for general purposes				584,980
Property taxes, levied for community service				49,543
Property taxes, levied for debt service				818,057
Aids and payments from the state				8,847,921
County apportionment				14,707
Unrestricted investment earnings				21,300
Miscellaneous revenues				43,403
Total general revenues				10,379,911
Changes in net position				(2,271,112)
Net position - beginning, as restated (Note 12)				3,386,505
Net position - ending				$ 1,115,393

	General	Debt Service	Other Governmental Funds	Totals
Assets				
Cash and investments	$ 2,063,067	$ 412,745	$ 347,610	$ 2,823,422
Receivables				
Current property taxes	419,309	432,303	27,009	878,621
Delinquent property taxes	8,873	12,779	779	22,431
Due from other governmental units	946,066	1,777	5,077	952,920
Accounts	68,330	-	38,613	106,943
Prepaid items	117,170	-	-	117,170
Inventories	-	-	8,165	8,165
Total assets	$ 3,622,815	$ 859,604	$ 427,253	$ 4,909,672
Liabilities				
Accounts payable	$ 56,231	$ -	$ -	$ 56,231
Salaries payable	5,015	-	-	5,015
Unearned revenue	672	-	-	672
Total liabilities	61,918	-	-	61,918
Deferred inflows of resources				
Unavailable revenue-property taxes	808,427	816,344	57,951	1,682,722
Fund Balance				
Nonspendable	117,170	-	8,165	125,335
Restricted	662,722	43,260	395,692	1,101,674
Committed	313,504	-	-	313,504
Assigned	1,485,000	-	-	1,485,000
Unassigned	174,074	-	(34,555)	139,519
Total fund balance	2,752,470	43,260	369,302	3,165,032
Total liabilities, deferred inflows of resources, and fund balances	$ 3,622,815	$ 859,604	$ 427,253	$ 4,909,672

Total Fund Balances - Governmental Funds	$ 3,165,032
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 in the funds.	21,014,405
Accrued interest payable for long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(65,356)
Delinquent property taxes are not considered available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	22,431
Total OPEB obligation liabilities are not recognized in the funds.	(536,519)
Deferred outflows and inflows of resources related to pensions and OPEB are applicable to future periods and, therefore, are not reported in the funds	7,651,317
Long-term liabilities, including bonds payable, deferred bond premiums, net pension liability and severance payable, are not due and payable in the current period and therefore, are not reported as liabilities in the funds.	(30,135,917)
Total Net Position - Governmental Activities	$ 1,115,393

	General	Debt Service	Other Governmental Funds	Totals
Revenues				
Local property tax levies	$ 579,077	$ 818,057	$ 49,814	$ 1,446,948
Other local and county sources	409,225	-	421,097	830,322
State sources	8,700,077	17,774	96,055	8,813,906
Federal sources	139,522	-	176,397	315,919
Sales and other conversion of assets	707	-	304,811	305,518
Total revenues	9,828,608	835,831	1,048,174	11,712,613
Expenditures				
Administration	603,647	-	-	603,647
District support services	368,922	-	-	368,922
Regular instruction	5,049,241	-	-	5,049,241
Vocational education instruction	208,864	-	-	208,864
Special education instruction	1,367,359	-	-	1,367,359
Community education and service	-	-	465,449	465,449
Instructional support services	304,327	-	-	304,327
Pupil support services	559,547	-	483,076	1,042,623
Sites and buildings	1,108,846	-	-	1,108,846
Fiscal and other fixed cost programs	66,863	990,324	-	1,057,187
Total expenditures	9,637,616	990,324	948,525	11,576,465
Excess (Deficiency) of Revenues Over (Under) Expenditures	190,992	(154,493)	99,649	136,148
Other Financing Sources				
Sale of equipment	385	-	-	385
Net Change in Fund Balance	191,377	(154,493)	99,649	136,533
Fund Balance, Beginning of Year	2,561,093	197,753	269,653	3,028,499
Fund Balance, End of Year	$ 2,752,470	$ 43,260	$ 369,302	$ 3,165,032

Net Change in Fund Balances - Total Governmental Funds	$ 136,533
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation expense exceeds capital outlay and net disposals in the current period.	(564,664)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	5,903
In the statement of activities compensated absences are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.	38,146
In the statement of activities OPEB obligations are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used.	19,118
In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense.	(2,544,442)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principle of long-term debt consumes the current financial resources of governmental funds. Neither transactions, however, has any effect on net position. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	638,294
Change in Net Position of Governmental Activities	$ (2,271,112)

	Original Budget	Final Budget	Actual	Variance With Final Budget
Revenues				
Local property tax levies	$ 582,317	$ 582,317	$ 579,077	$ (3,240)
Other local and county sources	199,107	199,107	409,225	210,118
State sources	8,463,260	8,463,260	8,700,077	236,817
Federal sources	162,296	162,296	139,522	(22,774)
Sales and other conversion of assets	550	550	707	157
Total revenues	9,407,530	9,407,530	9,828,608	421,078
Expenditures				
Administration	586,261	586,261	603,647	(17,386)
District support services	355,983	355,983	368,922	(12,939)
Regular instruction	5,343,623	5,343,623	5,049,241	294,382
Vocational education instruction	209,784	209,784	208,864	920
Special education instruction	1,241,095	1,241,095	1,367,359	(126,264)
Instructional support services	269,411	269,411	304,327	(34,916)
Pupil support services	539,882	539,882	559,547	(19,665)
Sites and buildings	1,082,360	1,082,360	1,108,846	(26,486)
Fiscal and other fixed cost programs	47,940	47,940	66,863	(18,923)
Total expenditures	9,676,339	9,676,339	9,637,616	38,723
Excess (Deficiency) of Revenues Over (Under) Expenditures	(268,809)	(268,809)	190,992	459,801
Other Financing Source				
Sale of equipment	-	-	385	385
Net Change in Fund Balance	$ (268,809)	$ (268,809)	191,377	$ 460,186
Fund Balance, Beginning of Year			2,561,093	
Fund Balance, End of Year			$ 2,752,470	

Statement of Fiduciary Net Position

June 30, 2018

	Student Activities Agency Fund
Assets	
Cash	$ 101,381
Liabilities	
Due to other organizations	$ 101,381

Note 1 - Summary of Significant Accounting Policies

A. Organization

Independent School District No. 150, Hawley Area Public Schools, Hawley, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The financial statements of the District 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 accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

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 include 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 burden or benefit 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 included in these financial statements as an agency fund.

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, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position at the fund financial statement level. Generally, the effect of 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. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other 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 the related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available. For capital assets that can be specifically identified with, or allocated to functional areas, depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

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. Aggregated information for the remaining nonmajor governmental funds is reported in a single column 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 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. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. 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 Minnesota Statutes. Federal revenue is recorded in the year in which the related expenditure is made. 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 principal and interest on long-term debt, severance and healthcare benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions 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. Each fund is accounted for as an independent entity. A description of the funds included in this report are as follows:

Major Governmental Funds

- *General Fund* – The general fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities, equipment purchases, and health and safety projects.

- *Debt Service Fund* – The debt service fund is used to account for the accumulation of resources for, and payment of, general obligation bond principal, interest, and related costs.

Nonmajor Governmental Funds

- *Food Service Fund* – The food service fund is used to account for food service revenues and expenditures.

- *Community Service Fund* – The community service fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, adult or early childhood programs, extended day programs, or other similar services.

Other Funds

- *Agency Fund* – The Student Activities Agency Fund is used to account for assets held by the District as an agent for others. The student activity fund is used for extracurricular student activities.

E. Other Significant Accounting Policies

Budgeting

An operating budget is adopted by July 1 of each fiscal year for all governmental funds on the same modified accrual basis used to reflect actual revenues and expenditures. The superintendent is authorized to transfer budget amounts within line items; however, supplemental appropriations that amend total appropriations of any fund require a board resolution. Reported budgeted amounts are as originally adopted or as amended by board resolution. Unencumbered appropriations lapse at year-end.

Cash and Investments

Cash and 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.

Short-term, highly liquid debt instruments (including commercial paper, banker’s acceptances, and U.S. Treasury and agency obligations) purchased with a remaining maturity of one year or less are reported at amortized cost. Other investments are reported at fair value.

Receivables

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

Prepaid Items

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

Inventories

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

Property Taxes

The majority of district revenue 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.

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 general remits taxes to the District at periodic intervals as they are collected. A portion of the property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund financial statements because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary.

Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historic 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 $2,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 3 to 50 years.

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

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

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

Compensated Absences Payable

- *Vacation* – The District compensates substantially all full-time noncertified employees for unused vacation upon termination; however, no employee is allowed to accumulate more than a one-year vacation allowance. The expenditure for vacation pay is recognized when payment is made. Vacation is immaterial as of June 30, 2018, and is not accrued.

- *Sick Pay* – Substantially all District employees are allowed to accrue sick leave at varying amounts each year and accumulate within specified limits. Employees are not compensated for unused sick leave upon termination of employment. Since the employees accumulating rights to receive compensation for future absences being caused by future illnesses such amounts cannot be reasonably estimated, a liability for unused sick leave has not been recorded in the financial statements. In some instances unused sick leave does enter into the calculation of severance pay for some employees upon termination.

- *Severance Benefits* – The district has a severance pay plan for teachers who have taught at least 10 years of teaching service in the District and 25 years of teaching experience. Eligible teachers, upon resignation, shall receive as severance pay an amount representing a maximum of 108 days of the teacher's final salary, reduced by the amount of contributions to the teacher's 403(b) plan made by the District. As of June 30, 2018, the district owes $313,503 for severance pay of which $261,253 is recorded as a long-term liability on the district-wide statements.

Pensions

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015). Additional information can be found in Note 9.

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.

Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District has three items that qualify for reporting in this category. They are the contributions made to pension plans and the other postemployment benefit plan after the measurement date and prior to the fiscal year-end, and changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category. The District reports unavailable revenues from property taxes on the government-wide statement of net position and the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The other item is changes in the net pension liability not included in pension expense reported in the government-wide statement of net position.

Implementation of GASB Statement No. 75

As of July 1, 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard improves the usefulness of information about and improves accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). The effect of the implementation of this standard on net position is disclosed in Note 12 and the additional disclosures required by this standard is included in Note 7.

Risk Management

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

Net Position

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

Fund Balance

The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either a) not in spendable form or b) legally or contractually required to be maintained intact.

- Restricted fund balances represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either: a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

- Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which is the School Board through an ordinance or resolution.

- Assigned fund balance represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed.

- Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The District's policy is to strive to maintain a minimum unrestricted general fund balance of three months of operating expenditures. The first priority is to utilize the balance as restricted fund balance. Committed funds will be considered second with assigned fund balance third when expenditures is incurred for purposes for which amounts in any of those unrestricted fund balance classification could be used like assigned or unassigned.

Estimates

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

Note 2 - Deposits and Investments

Deposits

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the District's School Board. All such depositories are members of the Federal Reserve System.

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% 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.

At June 30, 2018, all deposits were insured or collateralized by securities held by the District's agent in the District's name.

Investments

Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, certain repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record. The District had no such investments during the year or at year end.

The investment in the Minnesota School District Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40.

The following table presents the District's deposit and investment balances at June 30, 2018:

Minnesota School District Liquid Asset Fund	$ 1,451,485
Investments	983,893
Deposits	489,425
	$ 2,924,803

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

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

Cash and investments - Statement of Net Position	$ 2,823,422
Cash - Statement of Fiduciary Net Position	101,381
	$ 2,924,803

Note 3 - Due from Other Governmental Units

Amounts receivable from other governments as of June 30, 2018, include:

Fund	Federal	State	Total
Major funds			
General	$ 10,012	$ 936,054	$ 946,066
Debt service	-	1,777	1,777
Non-major funds	-	5,077	5,077
	$ 10,012	$ 942,908	$ 952,920

Note 4 - Capital Assets

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

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not being depreciated				
Land	$ 112,700	$ -	$ -	$ 112,700
Construction in progress	34,300	26,523	56,045	4,778
Total capital assets not being depreciated	147,000	26,523	56,045	117,478
Capital assets being depreciated				
Improvements	760,893	4,800	-	765,693
Buildings	28,605,357	216,676	-	28,822,033
Equipment	2,339,449	186,115	363,517	2,162,047
Total capital assets being depreciated	31,705,699	407,591	363,517	31,749,773
Less accumulated depreciation for:				
Improvements	483,333	25,212	-	508,545
Buildings	8,181,271	798,630	-	8,979,901
Equipment	1,609,026	118,891	363,517	1,364,400
Total accumulated depreciation	10,273,630	942,733	363,517	10,852,846
Net capital assets, depreciated	21,432,069	(535,142)	-	20,896,927
Total capital assets, net	$ 21,579,069	$ (508,619)	$ 56,045	$ 21,014,405

Depreciation expense for the year ended June 30, 2018 was charged to the following functions/programs:

Regular instruction	$ 26,683
Vocational instruction	156
Special education	3,451
Business	3,270
Pupil support services	49,031
Sites and buildings	860,142
Total depreciation expense	$ 942,733

Note 5 - Long-Term Liabilities

Changes in long-term liabilities during the year ended June 30, 2018 are as follows:

	Balance July 1, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Bonds payable	$ 11,255,000	$ -	$ 615,000	$ 10,640,000	$ 640,000
Deferred bond premiums	365,495	-	21,500	343,995	21,500
Severance payable	351,649	-	38,146	313,503	52,250
	$ 11,972,144	$ -	$ 674,646	$ 11,297,498	$ 713,750

Following is a summary of bonds payable as of June 30, 2018:

Bond Description	Final Maturities	Interest Rate	Original Principal	Outstanding Balance
General Obligation				
Building Bonds of 2014A	3/19	2.00%-4.00%	$ 10,000,000	$ 10,000,000
Building Bonds of 2014B	3/34	0.60%-1.85%	1,635,000	640,000
				$ 10,640,000

Bond principal and interest payments are made by the debt service fund.

Severance Payable – This amount consists of vested severance benefits as discussed in Note 1.

Remaining principal and interest payments on general long-term debt are as follows:

Years Ending	Bonds Payable		Severance Payable		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 640,000	$ 363,615	$ 52,250	$ -	$ 692,250	$ 363,615
2020	645,000	351,775	52,250	-	697,250	351,775
2021	670,000	325,475	52,250	-	722,250	325,475
2022	700,000	299,225	52,250	-	752,250	299,225
2023	770,000	270,350	52,250	-	822,250	270,350
2024-2028	2,920,000	870,838	52,253	-	2,972,253	870,838
2029-2033	3,515,000	544,350	-	-	3,515,000	544,350
2034	780,000	31,200	-	-	780,000	31,200
	$ 10,640,000	$ 3,056,828	$ 313,503	$ -	$ 10,953,503	$ 3,056,828

Note 6 - Fund Balance

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

At June 30, 2018 the District has recorded the following restrictions of net position for the following purposes:

	General Fund	Debt Service Fund	Other Governmental Funds	Total
Fund balances				
Nonspendable				
Inventories	$ -	$ -	$ 8,165	$ 8,165
Prepaid items	117,170	-	-	117,170
Total nonspendable	117,170	-	8,165	125,335
Restricted				
Medical assistance	16,894	-	-	16,894
Staff development	80,938	-	-	80,938
Gifted and talented	26,591	-	-	26,591
Long term facilities maintenance	538,299	-	-	538,299
Debt service	-	43,260	-	43,260
Food service	-	-	180,295	180,295
Community education	-	-	31,732	31,732
E.C.F.E.	-	-	110,568	110,568
School readiness	-	-	73,097	73,097
Total restricted	662,722	43,260	395,692	1,101,674
Committed				
Severance	313,504	-	-	313,504
Assigned				
Roofing	400,000	-	-	400,000
Facilities repair	150,000	-	-	150,000
Vehicles	55,000	-	-	55,000
Bus	95,000	-	-	95,000
Garage	325,000	-	-	325,000
Flooring	105,000	-	-	105,000
Windows	105,000	-	-	105,000
Technology	50,000	-	-	50,000
Paving/Curb	150,000	-	-	150,000
Tuck pointing	50,000	-	-	50,000
Total assigned	1,485,000	-	-	1,485,000
Unassigned	174,074	-	(34,555)	139,519
Total fund balance	$ 2,752,470	$ 43,260	$ 369,302	$ 3,165,032

The UFARS fund balance reporting standards are slightly different than the reporting standards under GASB 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. Below is a reconciliation between the fund balance reporting under GASB 54 and UFARS reporting standards:

	GASB Balance	Reconciling Items	UFARS Balance
Fund balances			
Nonspendable			
Inventory	$ 8,165	$ -	$ 8,165
Prepaids	117,170	-	117,170
Total nonspendable	125,335	-	125,335
Restricted			
Health and safety	-	(35,834)	(35,834)
Medical assistance	16,894	-	16,894
Staff development	80,938	-	80,938
Gifted and talented	26,591	-	26,591
Safe school - crime levy	-	(50,747)	(50,747)
Long term facilities maintenance	538,299	-	538,299
Debt service	43,260	-	43,260
Food service	180,295	-	180,295
Community education	31,732	-	31,732
E.C.F.E.	110,568	-	110,568
School readiness	73,097	-	73,097
Total restricted	1,101,674	(86,581)	1,015,093
Committed			
Severance	313,504	-	313,504
Assigned			
Roofing	400,000	-	400,000
Facilities repair	150,000	-	150,000
Vehicles	55,000	-	55,000
Bus lease	95,000	-	95,000
Garage	325,000	-	325,000
Flooring	105,000	-	105,000
Windows	105,000	-	105,000
Technology	50,000	-	50,000
Paving/Curb	150,000	-	150,000
Tuck pointing	50,000	-	50,000
Total assigned	1,485,000	-	1,485,000
Unassigned	139,519	86,581	226,100
Total fund balance	$ 3,165,032	$ -	$ 3,165,032

Note 7 - Other Postemployment Benefits

A. Plan Description

All employees are allowed upon meeting the eligibility requirements under Minn. Stat. 471.61 subd, 2b, to participate in the District's health insurance plan after retirement. This plan covers active and retired employees who have reached age 55, with teachers needing at least 3 years of service and all other district employees needing 5 years of service. Benefit provisions are established through negotiations between the District and the union representing District employees and are renegotiated at the end of each contract period. A separately issued report is not available.

B. Benefits Provided

The contract groups have access to other post-retirement benefits of blended medical premiums of $575 for single and $1,534 for family coverage. The implicit rate subsidy is only until Medicare eligibility. There are no subsidized post-employment medical, dental, or life insurance benefits.

C. Employees Covered by Benefit Terms

At the valuation date of July 1, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	4
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	137
	141

D. Total OPEB Liability

The District's total OPEB liability of $536,519 was measured as of July 1, 2017 and was determined by an actuarial valuation as of that date.

E. Actuarial Assumptions and Other Inputs

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

Inflation	2.50 percent	
Salary increases	3.00 percent	
Discount rate	3.40 percent	
Healthcare cost trend rates	6.50 percent as of July 1, 2017 grading to 5.00% over 6 years	
Retiree plan participation	Future retirees electing coverage:	
	- Teachers, administrators, and business managers	50%
	- All others	5%
Percent of married retirees electing spouse coverage	25%	

Since the plan is not funded by an irrevocable trust, the discount rate is equal to the 20-Year Municipal Bond Yield.

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

The actuarial assumptions used in the July 1, 2017 valuation were based on the results of an actuarial experience study as of July 1, 2017.

F. Changes in Total OPEB Liability

Balance at June 30, 2017	$ 524,160
Changes from the Prior Year:	
Service Cost	28,370
Interest Cost	18,209
Benefit Payments	(34,220)
Net Change	12,359
Balance at June 30, 2018	$ 536,519

G. Sensitivity of the Total OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate 1 percentage point lower and 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount rate	2.40%	3.40%	4.40%
Total OPEB Liability	$ 568,519	$ 536,519	$ 505,406

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a healthcare cost trend rate 1 percentage point lower and 1 percentage point higher than the current healthcare cost trend rates:

	1% Decrease in Healthcare Trend Rate	Selected Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
Medical trend rate	5.50% decreasing to 4% over 6 years	6.50% decreasing to 5% over 6 years	7.50% decreasing to 6% over 6 years
Total OPEB Liability	$ 488,825	$ 536,519	$ 592,173

H. OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of $46,579. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Employer contributions made after the measurement date	$ 31,477	$ -

$31,477 reported as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the year ended June 30, 2019.

Note 8 - Defined Benefit Pension Plans

Substantially all employees of the District are required by state law to belong to defined benefit, multi-employer, cost-sharing pension plans administered by the Public Employees' Retirement Association (PERA) or the Teachers' Retirement Association (TRA), all of which are administered on a state-wide basis. Disclosures relating to these plans are as follows:

Public Employees Retirement Association (PERA)

A. Plan Description

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

All full-time and certain part-time employees of the District, other than teachers, are covered by 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.

B. Benefits Provided

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

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

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

GERF benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated 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% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66.

C. Contribution Rate

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively of their annual covered salary in calendar year 2017. The District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members in calendar year 2017. The District's contributions to the GERF for the year ended June 30, 2018, were $98,591. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	GERF
Inflation	2.75% per year
Active Member Payroll Growth	3.50% per year
Investment Rate of Return	8.00% per year

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

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The most recent four-year experience study for GERF was completed in 2015, but assumptions are reviewed annually.

The following changes in actuarial assumptions occurred in 2017:

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

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. 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 Allocations	Long-Term Expected Real Rate of Return
Domestic Stocks	39%	5.10%
International Stocks	19%	5.30%
Bonds	20%	0.75%
Alternative Assets	20%	5.90%
Unallocated Cash	2%	0.00%
Total	100%	

E. Discount Rate

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

F. Pension Costs

At June 30, 2018, the District reported a liability of $1,232,099 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled $15,453. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016, through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2017, the District's proportion was 0.0193%, which was an decrease of 0.0020% from June 30, 2016.

For the year ended June 30, 2018, the District recognized pension expense of $9,941 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional $446 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the GERF.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 40,606	$ 86,607
Changes in actuarial assumptions	225,753	123,518
Difference between projected and actual investment earnings	28,009	-
Change in proportion and differences between contributions made and District's proportionate share of contributions	29,151	132,364
District's contributions to GERF subsequent to the measurement date	98,591	-
Total	$ 422,110	$ 342,489

$98,591 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2019	$ 42,149
2020	59,829
2021	(38,198)
2022	(82,750)
2023	-

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 1 percentage point lower or 1 percentage point higher than the current discount rate:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
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

H. Pension Plan Fiduciary Net Position

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

Teachers Retirement Association (TRA)

A. Plan Descriptions

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

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

B. Benefits Provided

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

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

Tier I Benefits

Tier1	Step Rate Formula	Percentage
Basic	First ten years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First ten years if service years are up to July 1, 2006	1.2% per year
	First ten years if service years are July 1, 2006 or after	1.4% per year
	All other years of service if service years are up to July 1, 2006	1.7% per year
	All other years of service if service years are July 1, 2006 or after	1.9% per year

With these provisions:

(a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
(b) 3 percent per year early retirement reduction 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).

or

Tier II Benefits

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

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

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

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

C. Contribution Rate

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

	Employees	Employers
Basic	11.00%	11.50%
Coordinated	7.50%	7.50%

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

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

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

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information	
Valuation date	July 1, 2017
Experience study	June 5, 2015 November 6, 2017 (economic assumptions)
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	5.12%, from the Single Equivalent Interest Rate calculation
Price inflation	2.50%
Wage growth rate	2.85% for 10 years; 3.25% thereafter
Projected salary increase	2.85 - 8.85% for 10 years; 3.25 - 9.25% thereafter
Cost of living adjustment	2.00%
Mortality assumptions	
Pre-retirement:	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability:	RP-2014 disabled retiree mortality table, without adjustment.

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

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

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

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2017 is 6 years. The "Difference Between Expected and Actual Experience," "Changes of Assumptions," and "Changes in Proportion" use the amortization period of 6 years in the schedule presented. The amortization period for "Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments" is over a period of 5 years as required by GASB 68.

Changes in actuarial assumptions since the 2016 valuation:

- The cost of living adjustment (COLA) was assumed to increase from 2.00% annually to 2.50% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.50%, but remain at 2.00% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.40% to 0.00%, the vested inactive load increased from 4.00% to 7.00% and the non-vested inactive load increased from 4.00% to 9.00%.
- The investment rate of return assumption was changed from 8.00% to 7.50%.
- The price inflation assumption was lowered from 2.75% to 2.50%.
- The payroll growth assumption was lowered from 3.50% to 3.00%.
- The general wage growth assumption was lowered from 3.50% to 2.85% for ten years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

E. Discount Rate

The discount rate used to measure the total pension liability was 5.12 percent. This is an increase from the discount rate at the prior measurement date of 4.66 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2018 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.5%0 percent) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56 percent was applied to periods on and after 2053, resulting in a SEIR of 5.12 percent. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01 percent).

F. Net Pension Liability

At June 30, 2018, the District reported a liability of $17,606,320 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on The District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota. The District's proportionate share was 0.0882% at the end of the measurement period and 0.0876% for the beginning of the year.

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

District's proportionate share of net pension liability	$ 17,606,320
State's proportionate share of the net pension liability associated with the district	$ 1,701,489

For the year ended June 30, 2018, the District recognized pension expense of $483,727. It also recognized $32,633 as an increase to 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 2,949	$ 123,631
Changes in actuarial assumptions	9,507,941	2,466,367
Difference between projected and actual investment earnings	171,958	-
Change in proportion and differences between contributions made and District's proportionate share of contributions	144,006	58,612
District's contributions to TRA subsequent to the measurement date	361,975	-
Total	$ 10,188,829	$ 2,648,610

$361,975 was reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2019	$ 2,077,043
2020	2,077,043
2021	1,925,519
2022	1,592,692
2023	(494,053)

G. Net Pension Liability

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 5.12% as well as the liability measured using one percent lower and one percent higher:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
TRA discount rate	4.12%	5.12%	6.12%
District's proportionate share of the TRA net pension liability	$ 23,236,950	$ 17,606,320	$ 12,859,014

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

H. Pension Plan Fiduciary Net Position

Detailed information about 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, Suite 400, St. Paul, MN, 55103-4000; or by calling (651)-296-2409 or (800)-657-3669.

Note 9 - Flexible Benefit Plan

The District has a flexible benefit plan which is classified as a "cafeteria plan" (the Plan) under section 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the Plan for healthcare and dependent care benefits.

Before the beginning of the Plan year, which is from September 1 to August 31, each participant designates a total amount of pre-tax dollars to be contributed to the Plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions to the medical reimbursement portion of the Plan, whether or not such contributions have been made.

Payment of insurance premiums (health, dental, life, and disability) is made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General Fund and special revenue funds.

Amounts withheld for medical reimbursement and dependent care are paid by the District to an outside administrator upon an employee submitting a request for reimbursement. Payments are made by the outside administrator to participating employees upon submitting a request for reimbursement of eligible expenses actually incurred by the employee.

All property of the Plan and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the plan are equal to those of general creditors of the District in an amount equal to eligible healthcare and dependent care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Note 10 - Employee Benefit Plan 403(b)

Contracted District employees are eligible to participate in the 403(b) program as described by the District. Employee's participation in the 403b program and 403b matching program is in accordance with the Master Agreement between Independent School District No. 150, Hawley Area Public Schools and Education Minnesota Hawley.

Note 11 - Commitments and Contingencies

Federal Revenue

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 funds. 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.

Operating Lease

The District has entered into an operating lease agreement for two photocopiers with Kinetic Leasing, Inc. The lease agreement expires June 30, 2019. Lease expense for the year ended June 30, 2018 was $31,728. Future minimum lease payments for the terms of the lease are as follows:

2019	$ 31,728
2020	23,407
2021	23,407
2022	23,407
Total future lease payments	$ 101,949

Construction Commitment

The District has a construction roofing project on the high school building that is ongoing as of June 30, 2018, with $4,778 of the project being completed. The project is expected to be completed in 2019 with an estimated total cost of $70,000.

Note 12 - Adoption of New Standard

As of July 1, 2017, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of this standard replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, and requires governments calculate and report the cost and obligations associated with other postemployment benefits other than pensions in their financial statements, including additional note disclosures and required supplementary information. Beginning net position for governmental activities was restated to retroactively remove the prior OPEB liability reported under GASB Statement No. 45 and adopt the provisions of GASB Statement No. 75 to report the beginning total OPEB liability as follows:

Net Position - June 30, 2017, as previously reported	$ 3,779,890
Remove previously reported OPEB liability previously reported under GASB Statement No. 45	130,775
Add total OPEB liability under GASB Statement No. 75 at June 30, 2017	(524,160)
Net Position - July 1, 2017, as restated	$ 3,386,505

Note 13 - Issued But Non-effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. The first statement issued but not yet implemented that will significantly affect the District is Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. This statement will be implemented at the District in the year ended June 30, 2019.

The second statement issued but not yet implemented that will significantly affect the District is Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. This statement will be implemented at the District in the year ended June 30, 2020.

The third statement issued but not yet implemented that will significantly affect the District is Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. This statement will be implemented at the District in the year ended June 30, 2021.

The final statement issued but not yet implemented that will significantly affect the District is Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period.* The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period. This statement will be implemented at the District in the year ended June 30, 2021.

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

Required Supplementary Information
June 30, 2018

Independent School District No. 150
Hawley Area Public Schools

Schedule of Changes in the District's Total OPEB Liability and Related Ratios, Last 10 Fiscal Years*

	2018
Service cost	$ 28,370
Interest	18,209
Benefit payments	(34,220)
Net change in total OPEB liability	12,359
Total OPEB liability - beginning	524,160
Total OPEB liability - ending	$ 536,519
Covered-employee payroll	$ 5,716,861
District's total OPEB liability as a percentage of covered-employee payroll	9.38%

*GASB Statement No. 75 require ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Schedule of Employer's Share of Net Pension Liability
Last 10 Fiscal Years *

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b)	Total (d) (a+b)	Employer's Covered-Payroll (e)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Payroll (a/e)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	6/30/2017	0.0193%	$ 1,232,099	$ 15,453	$ 1,247,552	$ 1,242,634	99.2%	75.90%
PERA	6/30/2016	0.0213%	1,729,454	22,610	1,752,064	1,324,481	130.6%	68.91%
PERA	6/30/2015	0.0203%	1,052,051	N/A	1,052,051	1,193,393	88.2%	78.19%
PERA	6/30/2014	0.0209%	981,777	N/A	981,777	1,098,644	89.4%	78.80%
TRA	6/30/2017	0.0882%	$ 17,606,320	$ 1,701,489	$ 19,307,809	$ 4,914,129	358.3%	51.57%
TRA	6/30/2016	0.0876%	20,894,690	2,097,439	22,992,129	3,214,672	650.0%	44.88%
TRA	6/30/2015	0.0870%	5,381,810	660,324	6,042,134	4,413,657	121.9%	76.80%
TRA	6/30/2014	0.0930%	4,285,373	301,342	4,586,715	4,246,288	100.9%	81.50%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Schedule of Employer's Contributions
Last 10 Fiscal Years *

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Payroll (d)	Contributions as a Percentage of Covered-Payroll (b/d)
PERA	6/30/2018	$ 98,591	$ 98,591	$ -	$ 1,339,982	7.4%
PERA	6/30/2017	93,024	93,024	-	1,242,634	7.5%
PERA	6/30/2016	99,148	99,148	-	1,324,481	7.5%
PERA	6/30/2015	88,147	88,147	-	1,193,393	7.4%
TRA	6/30/2018	$ 361,975	$ 361,975	$ -	$ 5,056,459	7.2%
TRA	6/30/2017	356,035	356,035	-	4,914,129	7.2%
TRA	6/30/2016	341,587	341,587	-	3,214,672	10.6%
TRA	6/30/2015	331,026	331,026	-	4,413,657	7.5%

* GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

Notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions

- PERA's CAFR may be obtained on the PERA's website at www.mnpera.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.
- TRA's CAFR may be obtained on the PERA's website at www.MinnesotaTRA.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.

Combining and Individual Fund Schedules
June 30, 2018

Independent School District No. 150

Hawley Area Public Schools

General Fund
Schedule of Changes in UFARS Fund Balances
Year Ended June 30, 2018

	Fund Balance (Deficit) Beginning of Year	Net Change in Fund Balance	Fund Balance (Deficit) End of Year
Nonspendable	$ 67,254	$ 49,916	$ 117,170
Restricted for health and safety	(41,049)	5,215	(35,834)
Restricted for medical assistance	-	16,894	16,894
Restricted for staff development	80,950	(12)	80,938
Restricted for gifted and talented	23,588	3,003	26,591
Restricted for safe school - crime levy	(23,340)	(27,407)	(50,747)
Restricted for long term facilities maintenance	318,415	219,884	538,299
Committed for severance	351,649	(38,145)	313,504
Assigned	1,329,100	155,900	1,485,000
Unassigned	454,526	(193,871)	260,655
	$ 2,561,093	$ 191,377	$ 2,752,470

Nonmajor Governmental Funds
Combining Balance Sheet
June 30, 2018

	Food Service	Community Service	Totals
Assets			
Cash and cash equivalents	$ 180,295	$ 167,315	$ 347,610
Receivables			
Current property taxes	-	27,009	27,009
Delinquent property taxes	-	779	779
Due from other governmental units	-	5,077	5,077
Accounts Receivable	-	38,613	38,613
Inventories	8,165	-	8,165
Total assets	$ 188,460	$ 238,793	$ 427,253
Deferred inflows of resources			
Unavailable revenue-property taxes	$ -	$ 57,951	$ 57,951
Fund Balance			
Nonspendable	8,165	-	8,165
Restricted	180,295	215,397	395,692
Unassigned	-	(34,555)	(34,555)
	188,460	180,842	369,302
Total liabilities, deferred inflows of resources, and fund balances	$ 188,460	$ 238,793	$ 427,253

Nonmajor Governmental Funds
Combining Schedule of Revenues, Expenditures and Changes in Fund Balance
Year Ended June 30, 2018

	Food Service	Community Service	Totals
Revenues			
Local property tax levies	$ -	$ 49,814	$ 49,814
Other local and county sources	14,293	406,804	421,097
State sources	28,133	67,922	96,055
Federal sources	176,397	-	176,397
Sales and other conversion of assets	304,811	-	304,811
Total revenues	523,634	524,540	1,048,174
Expenditures			
Community education and service	-	465,449	465,449
Pupil support services	483,076	-	483,076
Total expenditures	483,076	465,449	948,525
Net Change in Fund Balance	40,558	59,091	99,649
Fund Balance, Beginning of Year	147,902	121,751	269,653
Fund Balance, End of Year	$ 188,460	$ 180,842	$ 369,302

Other Supplementary Information
June 30, 2018

Independent School District No. 150
Hawley Area Public Schools

Activity	Balance 7/1/17	Receipts and and Transfers	Disbursements and Transfers	Balance 6/30/18
Accelerated Reading	$ 1,795	$ 4,918	$ 4,668	$ 2,045
Applied Science	129	176	177	128
Art Club	430	898	458	870
Band	30,096	29,543	17,740	41,899
Baseball	3,505	3,796	5,182	2,119
Boy's Basketball	6,447	4,485	7,736	3,196
Boy's Golf	356	-	-	356
Citizenship Group	56	250	-	306
Class of 2020	-	637	-	637
Class of 2019	-	9,745	8,570	1,175
Class of 2018	1,598	4,117	5,715	-
Class of 2017	257	-	257	-
Close Up	13,732	33,557	37,157	10,132
Concessions	1,200	17,127	17,127	1,200
Cross Country	113	1,267	1,243	137
Danceline	2,654	2,080	1,672	3,062
Drama Club	434	11,103	9,108	2,429
F.F.A.	3,756	54,593	54,884	3,465
F.F.A. Leadership	6,735	3,000	7,922	1,813
Football	2,618	5,308	7,633	293
Girl's Basketball	585	3,696	3,417	864
Girl's Golf	28	7,213	6,628	613
Honor Society	4,438	4,445	3,776	5,107
Interest Income	71	1,159	942	288
Nature Center	68	1,294	-	1,362
Playground Fund	595	-	527	68
PTO Donations	-	595	135	460
Riverwatch	17	-	-	17
School Patrol	1,910	-	1,854	56
School Store	744	10,192	9,747	1,189
Sixth Grade Trip	1,300	15,666	12,197	4,769
Softball	4,184	4,494	4,577	4,101
Spanish Club	712	53	166	599
Summer Student Travel	1,894	6,851	5,496	3,249
Student Council	1,569	3,235	3,622	1,182
Tech Ed Club	116	400	171	345
Track/Cross Country	5	365	-	370
Volleyball	1,675	1,775	2,037	1,413
Wrestling	67	346	346	67
	$ 95,889	$ 248,379	$ 242,887	$ 101,381

Fiscal Compliance Report - 6/30/2018

Help Logoff

District: HAWLEY (150-1)

Back Print

	Audit	UFARS	Audit - UFARS
01 GENERAL FUND			
Total Revenue	$9,828,608	$9,828,609	($1)
Total Expenditures	$9,637,616	$9,637,614	$2
Non Spendable:			
4.60 Non Spendable Fund Balance	$117,170	$117,170	$0
Restricted / Reserved:			
4.03 Staff Development	$80,938	$80,938	$0
4.06 Health and Safety	($35,834)	($35,834)	$0
4.07 Capital Projects Levy	$0	$0	$0
4.08 Cooperative Revenue	$0	$0	$0
4.13 Project Funded by COP	$0	$0	$0
4.14 Operating Debt	$0	$0	$0
4.16 Levy Reduction	$0	$0	$0
4.17 Taconite Building Maint	$0	$0	$0
4.24 Operating Capital	$0	$0	$0
4.26 $25 Taconite	$0	$0	$0
4.27 Disabled Accessibility	$0	$0	$0
4.28 Learning & Development	$0	$0	$0
4.34 Area Learning Center	$0	$0	$0
4.35 Contracted Alt. Programs	$0	$0	$0
4.36 State Approved Alt. Program	$0	$0	$0
4.38 Gifted & Talented	$26,591	$26,591	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.41 Basic Skills Programs	$0	$0	$0
4.45 Career Tech Programs	$0	$0	$0
4.48 Achievement and Integration	$0	$0	$0
4.49 Safe School Crime - Crime Levy	($50,747)	($50,747)	$0
4.50 Pre-Kindergarten	$0	$0	$0
4.51 QZAB Payments	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
4.53 Unfunded Sev & Retiremt Levy	$0	$0	$0
4.59 Basic Skills Extended Time	$0	$0	$0
4.67 LTFM	$538,299	$538,299	$0
4.72 Medical Assistance	$16,894	$16,894	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
4.75 Title VII Impact Aid	$0	$0	$0
4.76 Payments in Lieu of Taxes	$0	$0	$0
Committed:			
4.18 Committed for Separation	$313,504	$313,504	$0
4.61 Committed Fund Balance	$0	$0	$0
Assigned:			
4.62 Assigned Fund Balance	$1,485,000	$1,485,000	$0
Unassigned:			
4.22 Unassigned Fund Balance	$260,655	$260,656	($1)
02 FOOD SERVICES			

	Audit	UFARS	Audit - UFARS
06 BUILDING CONSTRUCTION			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.07 Capital Projects Levy	$0	$0	$0
4.13 Project Funded by COP	$0	$0	$0
4.67 LTFM	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0
07 DEBT SERVICE			
Total Revenue	$835,831	$835,831	$0
Total Expenditures	$990,324	$990,325	($1)
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.25 Bond Refundings	$0	$0	$0
4.33 Maximum Effort Loan Aid	$0	$0	$0
4.51 QZAB Payments	$0	$0	$0
4.67 LTFM	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$43,260	$43,261	($1)
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0
08 TRUST			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0
20 INTERNAL SERVICE			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0
25 OPEB REVOCABLE TRUST			
Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0
45 OPEB IRREVOCABLE TRUST			

Total Revenue	$523,634	$523,637	($3)
Total Expenditures	$483,076	$483,080	($4)
Non Spendable:			
4.60 Non Spendable Fund Balance	$8,165	$8,165	$0
Restricted / Reserved:			
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$180,295	$180,295	$0
Unassigned:			
4.63 Unassigned Fund Balancee	$0	$0	$0

04 COMMUNITY SERVICE

Total Revenue	$524,540	$524,540	$0
Total Expenditures	$465,449	$465,450	($1)
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted / Reserved:			
4.26 $25 Taconite	$0	$0	$0
4.31 Community Education	$31,732	$31,732	$0
4.32 E.C.F.E	$110,568	$110,568	$0
4.40 Teacher Development and Evaluation	$0	$0	$0
4.44 School Readiness	$73,097	$73,097	$0
4.47 Adult Basic Education	$0	$0	$0
4.52 OPEB Liab Not In Trust	$0	$0	$0
Restricted:			
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	($34,555)	($34,554)	($1)

Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
4.22 Unassigned Fund Balance (Net Assets)	$0	$0	$0

47 OPEB DEBT SERVICE

Total Revenue	$0	$0	$0
Total Expenditures	$0	$0	$0
Non Spendable:			
4.60 Non Spendable Fund Balance	$0	$0	$0
Restricted:			
4.25 Bond Refundings	$0	$0	$0
4.64 Restricted Fund Balance	$0	$0	$0
Unassigned:			
4.63 Unassigned Fund Balance	$0	$0	$0

Additional Reports
June 30, 2018

Independent School District No. 150
Hawley Area Public Schools

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

The School Board of
Independent School District No. 150
Hawley Area Public Schools
Hawley, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 150, Hawley, Minnesota, 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 8, 2018.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of audit findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of audit findings as items 2018-A, 2018-B and 2018-C to be material weaknesses.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Response to Findings
The District's responses to the findings identified in our audit are described in the District's corrective action plan. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

Eide Bailly LLP

Fargo, North Dakota
October 8, 2018

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Report on Compliance over Financial Reporting of the Student Activity Accounts

The School Board of
Independent School District No. 150
Hawley Area Public Schools
Hawley, 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 and the provisions of the *Manual for Activity Fund Accounting (MAFA)*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 150, Hawley, Minnesota, 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 8, 2018.

Compliance
As part of obtaining reasonable assurance about whether the District's student activity accounts are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of student activity 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. Finding 2018-D in the attached schedule of audit findings was noted to be noncompliance found through testing of these requirements.

Response to Findings
The District's responses to the findings identified in our audit are described in the District's Corrective Action Plan. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Education, the Minnesota Department of Education, and other state agencies and is not intended to be and should be used by anyone other than those specified parties.

Eide Bailly LLP

Fargo, North Dakota
October 8, 2018

EideBailly

CPAs & BUSINESS ADVISORS

Independent Auditor's Report on *Minnesota Legal Compliance*

The School Board of
Independent School District No. 150
Hawley Area Public Schools
Hawley, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 150 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 8, 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. Our audit considered all of the listed categories.

In connection with our audit, no items 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.

Eide Bailly LLP

Fargo, North Dakota
October 8, 2018

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Section I – Financial Statement Findings

2018-A Segregation of Duties
Material Weaknesses

Criteria: A good system of internal control requires an adequate segregation of duties so that no one individual has incompatible responsibilities. No one person should have more than one duty relating to the authorization (approval), custody of assets (check signers), record keeping, and reconciliation functions.

Condition: The District has a lack of segregation of duties in certain areas due to a limited staff.

Cause: There is a limited amount of office employees.

Effect: Inadequate segregation of duties could adversely affect the District's ability to detect misstatements in amounts that would be material in relation to the financial statements in a timely period by employees in the normal course of performing their assigned functions.

Recommendation: While we recognize that your staff may not be large enough to permit complete segregation of duties in all material respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

View of responsible officials: There is no disagreement with the finding.

2018-B Material Adjustments
Material Weakness

Criteria: A good system of internal accounting control contemplates an adequate system for recording and processing entries to the financial statements and for adequate knowledge and interpretation of reporting standards.

Condition: During the course of our engagement, we proposed audit adjustments that would not have been identified as a result of the District's existing internal controls.

Cause: The District does not have an internal control system designed to identify all necessary adjustments or properly interpret all new reporting standards.

Effect: This deficiency could result in a misstatement to the financial statements that would not be prevented or detected.

Recommendation: A thorough review and reconciliation of accounts in each fund should take place prior to the beginning of the audit. This review should be done at both the accounting staff and accounting supervisor levels.

View of responsible officials: There is no disagreement with the finding.

2018-C Preparation of Financial Statements
Material Weakness

Criteria: A good system of internal accounting control contemplates an adequate system for internally preparing the District's financial statements.

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. The auditors were requested to, and did, draft the financial statements and accompanying notes to the financial statements.

Cause: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited.

Effect: The disclosures in the financial statements could be incomplete.

Recommendation: This circumstance is not unusual in a District of your size. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

View of responsible officials: There is no disagreement with the finding.

Section II – Student Activity Findings

2018-D Unallowable Student Activity Account

Criteria: Page 6 of the Manual for Activity Fund Accounting (MAFA) states that funds from Parent-Teacher Organizations (PTOs) cannot be included in student activity accounts.

Condition: During the course of our engagement we noted a PTO student activity account.

Cause: The District does not have a proper internal control system designed to ensure all student activity accounts are in accordance with MAFA guidelines.

Effect: This could result in misuse of the student activity funds.

Recommendation: Management should put procedures in place to ensure student activity accounts are reviewed for compliance with guidelines.

View of responsible officials: There is no disagreement with the finding.

Section III – Minnesota Legal Compliance Findings

None reported