

**Independent School District No. 2396  
Atwater/Cosmos/Grove City, Minnesota**

**Financial Statements**

**June 30, 2017**



**Independent School District No. 2396**  
**Table of Contents**

<b>Board of Education and Administration</b>	1
<b>Independent Auditor's Report</b>	2
<b>Management's Discussion and Analysis</b>	5
<b>Basic Financial Statements</b>	
Government-Wide Financial Statements	
Statement of Net Position	19
Statement of Activities	21
Fund Financial Statements	
Balance Sheet – Governmental Funds	22
Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds	23
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	24
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds	25
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	26
Statement of Fiduciary Net Position	27
Statement of Changes in Fiduciary Net Position	27
Notes to Financial Statements	29
<b>Required Supplementary Information</b>	
Schedule of Funding Progress – Other Post Employment Benefits	62
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability – General Employees Fund Retirement Funds	63
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability – TRA Retirement Funds	63
Schedule of District Contributions – General Employees Fund Retirement Funds	64
Schedule of District Contributions – TRA Retirement Funds	64
Notes to the Required Supplementary Information	65
<b>Supplementary Information</b>	
Combining Balance Sheet – Nonmajor Governmental Funds	68
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	69
Uniform Financial Accounting and Reporting Standards Compliance Table	70
<b>Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i></b>	71

**Independent School District No. 2396  
Table of Contents**

<b>Report on Legal Compliance</b>	73
<b>Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control</b>	75

**Independent School District No. 2396  
Board of Education and Administration  
June 30, 2017**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Michael Hendrickson	Chairperson	December 31, 2018
Megan Morrison	Vice Chairperson	December 31, 2018
Jeanna Lilleberg	Clerk	December 31, 2020
Diane Rivard	Treasurer	December 31, 2020
Paul Rasmussen	Director	December 31, 2018
Randy Kaisner	Director	December 31, 2020
Scott Stafford	Director	December 31, 2018

Administration

Sherri Broderius	Superintendent (Retired 6/30/17)
Dan Tait	Director of Finance and Human Resources



## Independent Auditor's Report

To the School Board  
Independent School District No. 2396  
Atwater/Cosmos/Grove City, 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. 2396, Atwater/Cosmos/Grove City, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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



## **Opinions**

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2396, Atwater/Cosmos/Grove City, Minnesota, as of June 30, 2017, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Required Supplementary Information as listed in the Table of Contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

*Bergan KDV, Ltd.*

St. Cloud, Minnesota  
October 9, 2017

## **Independent School District No. 2396 Management's Discussion and Analysis**

The Management Discussion and Analysis (MD&A) is a required and integral component of the annual audit, which for Minnesota public schools, is completed by an independent accounting firm. The GASB passed a federal accounting amendment in 1999 (GASB Statement No. 34), which makes public entity financial reporting more similar to that in the private sector. In a nutshell, public school accounting now requires districts to reflect fixed assets like land, buildings, and equipment, and long-term liabilities such as negotiated employee severance and health insurance.

It is important for readers to understand that this audit and those that will follow in future years will reflect on fund balance and revenues versus expenditures just as prior audits have done. In addition, the new elements will be discussing changes in net position and district-wide methods of evaluating spending, variances between budget and actual and future forecasting.

The District has engaged BerganKDV, Ltd. as their auditor for the 2016-2017 school year.

This section of the District's financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The MD&A is an element of required supplementary information specified in the GASB Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. Comparative information between the current fiscal year and the prior fiscal year are included in the MD&A as required.

### **FINANCIAL HIGHLIGHTS**

Key financial highlights discussed for fiscal year 2016-2017 include the following:

- Net position decreased from the prior year by \$3,256,248.
- Overall revenues were \$10,902,349 an increase of \$86,391 compared to one year ago.
- Overall expenditures were \$11,489,156, an increase of \$462,250 compared to one year ago.
- Overall, the General Fund balance decreased \$415,247, the Food Service Fund balance increased \$963 from the prior year, and the Community Service Fund balance decreased \$5,898.
- The District paid off its outstanding building bonds in fiscal year 2017.
- Salary increase for ACGC Education Minnesota for the 2016-2017 school year was 5.21% on the salary schedule in the second year of a two year settlement. Salary settlements for the support staff union, Minnesota School Employees Association, were 3% for the first year of a two year negotiated agreement.
- Overall utility (natural gas, electricity, water/sewer) costs increased by 9.2% from the prior year or \$22,572 because of a change in accounting.
- Costs for all transportation increased from the previous year by 3.5%, or \$32,403.
- Enrollment increased by 16 students from the preceding year, 818 versus 802 average daily membership (ADM).



## **Independent School District No. 2396 Management's Discussion and Analysis**

### **FINANCIAL HIGHLIGHTS**

- The loss of students open enrolled out of the District continues to be high at 224 resident students attending elsewhere. However, the open enrollment into the District has continued to increase. Once again, during 2016-2017, 152 students came into the District resulting in a net loss of 72 students for that year.
- Students living in the District declined by 123 residents for the period from school year 2006-2007 to 2016-2017. Students attending district schools decreased in that same time period by 123. The District continues to experience a net loss of students to optional enrollments.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial section of the annual report consists of four parts: 1) Independent Auditor's Report, 2) Required Supplementary Information which includes the MD&A (this section), 3) the basic financial statements, and 4) supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- Fiduciary funds statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefits 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. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

**Independent School District No. 2396  
Management's Discussion and Analysis**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

**Figure A-1 Organization of Atwater/Cosmos/Grove City Public Schools'  
Annual Financial Report**

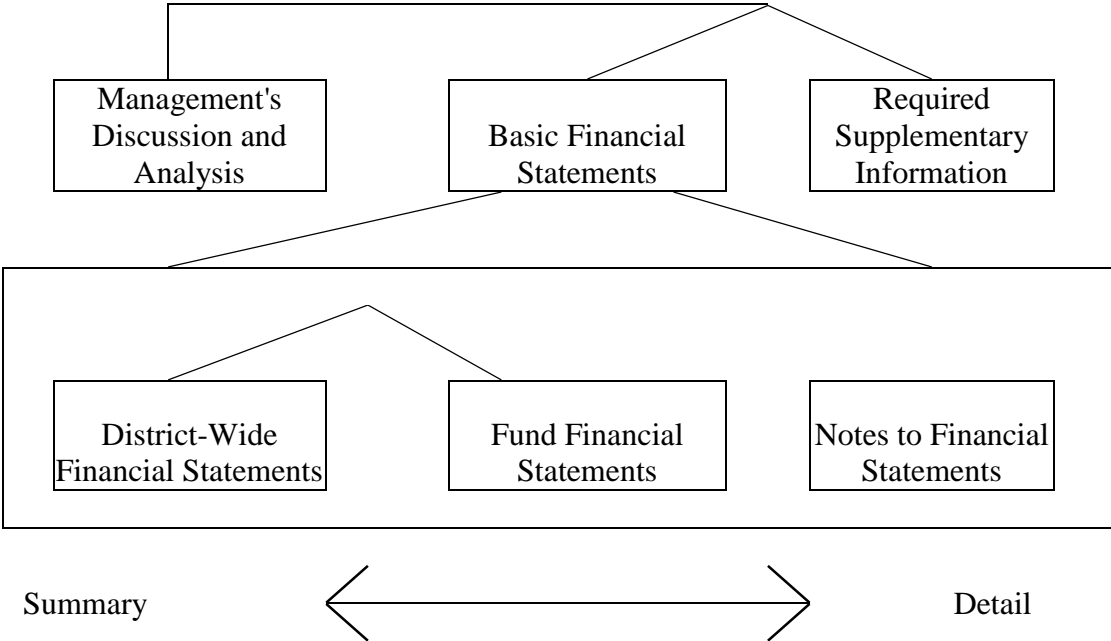


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain. The remainder of this overview section of the MD&A highlights the structure and contents of each of the statements.

**Independent School District No. 2396  
Management's Discussion and Analysis**

**OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

<b>Figure A-2 Major Features of the District-Wide and Fund Financial Statements</b>			
	District-Wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education, and building maintenance, food service, and community education	Instances in which the District administers resources on behalf of someone else, such as flexible benefit plan and local collaborative time study
Required Financial Statements	<ul style="list-style-type: none"> <li>• Statement of Net Position</li> <li>• Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance Sheet</li> <li>• Statement of Revenue, Expenditures, and Changes in Fund Balance</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Fiduciary Net Position</li> <li>• Statement of Changes in Fiduciary Net Position</li> </ul>
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	General assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of Inflow/Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All additions and dedications during the year, regardless of when cash is received or paid

**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 and liabilities. 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.

## **Independent School District No. 2396 Management's Discussion and Analysis**

### **OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)**

#### **District-Wide Statements (Continued)**

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, are a 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 nonfinancial factors such as changes in the District's property tax base, enrollment trends, and the relative condition of school buildings and other facilities.

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

- **Governmental Activities:** Most 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 debt) or to show that it is properly using certain revenues (e.g., federal grants).

The District has two kinds of funds:

- **Governmental funds:** Most 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, governmental fund statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information on the pages following the governmental funds statements that explain the relationship (or differences) between them.
- **Fiduciary funds:** The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarships. The District is responsible for ensuring that assets reported in these funds are used only by those functions holding the assets. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net position and a Statement of Changes in Fiduciary Net position. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

**Independent School District No. 2396  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Net Position**

The District's combined net position was \$7,546,348 on June 30, 2016. Net position on June 30, 2017, was \$4,290,100, a 43% decrease from the prior year. See Table A-1.

**Table A-1  
Net Position**

	<u>2016</u>	<u>2017</u>	<u>Percent Change</u>
<b>Assets</b>			
Current and other assets	\$ 5,139,085	\$ 4,901,000	-5%
Capital assets	<u>10,422,425</u>	<u>10,289,893</u>	<u>-1%</u>
Total assets	<u>\$ 15,561,510</u>	<u>\$ 15,190,893</u>	-2%
<b>Deferred Outflows of Resources</b>	<u>\$ 1,313,767</u>	<u>\$ 13,705,004</u>	943%
<b>Liabilities</b>			
Long-term liabilities	\$ 6,375,717	\$ 21,846,797	243%
Other liabilities	<u>889,677</u>	<u>1,068,085</u>	<u>20%</u>
Total liabilities	<u>\$ 7,265,394</u>	<u>\$ 22,914,882</u>	215%
<b>Deferred Inflows of Resources</b>	<u>\$ 2,063,535</u>	<u>\$ 1,690,915</u>	-18%
<b>Net Position</b>			
Net investment in capital assets	\$ 10,352,425	\$ 10,289,893	-1%
Restricted	1,048,825	920,899	-12%
Unrestricted	<u>(3,854,902)</u>	<u>(6,920,692)</u>	<u>80%</u>
Total net position	<u>\$ 7,546,348</u>	<u>\$ 4,290,100</u>	<u>-43%</u>

**Independent School District No. 2396  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

**Change in Net Position**

Total expenses exceeded revenues for fiscal year 2017 by \$3,256,248 as the District implemented a variety of instructional goals and simultaneously made necessary updates to the facilities. Net position also decreased due to a change in assumptions in the actuarial valuations of the TRA pension obligation, which resulted in a significant increase in the District's share of the net pension liability and an increase in the pension expense recognized related to the District's share of TRA's net pension liability. An aggressive stance remained toward pursuing grant monies. A summary of revenues and expenses is presented in Table A-2 below:

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

	<u>2016</u>	<u>2017</u>	<u>Percent Change</u>
<b>Revenues</b>			
Program revenues			
Charges for services	\$ 906,872	\$ 924,162	2%
Operating grants and contributions	2,398,197	2,422,523	1%
Capital grants and contributions	40,558	-	-100%
General revenues			
Property taxes	1,609,873	1,591,045	-1%
State aid formula grants	5,844,486	5,914,369	1%
Other general revenues	7,184	285,740	3877%
Investment income	5,977	11,208	88%
Total revenues	<u>10,813,147</u>	<u>11,149,047</u>	<u>3%</u>
<b>Expenses</b>			
Administration	556,975	750,721	35%
District support services	332,148	337,736	2%
Elementary and secondary regular instruction	4,263,546	6,184,922	45%
Vocational education instruction	236,316	351,340	49%
Special education instruction	1,468,592	2,242,151	53%
Instructional support services	702,309	675,753	-4%
Pupil support services	988,438	1,053,963	7%
Sites and buildings	1,460,818	1,404,751	-4%
Fiscal and other fixed cost programs	53,410	53,868	1%
Food service	421,338	447,276	6%
Community education	375,421	583,700	55%
Unallocated depreciation	348,200	315,478	-9%
Interest and fiscal charges on long-term debt	3,978	3,636	-9%
Total expenses	<u>11,211,489</u>	<u>14,405,295</u>	<u>28%</u>
Change in net position	<u>(398,342)</u>	<u>(3,256,248)</u>	<u>717%</u>
End of year net position	<u>\$ 7,546,348</u>	<u>\$ 4,290,100</u>	<u>-43%</u>

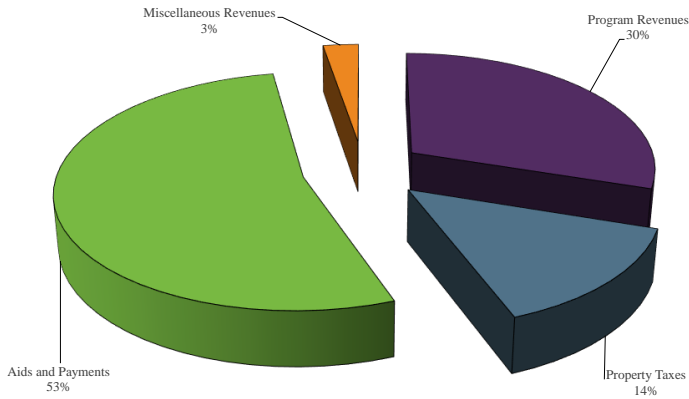
**Independent School District No. 2396  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

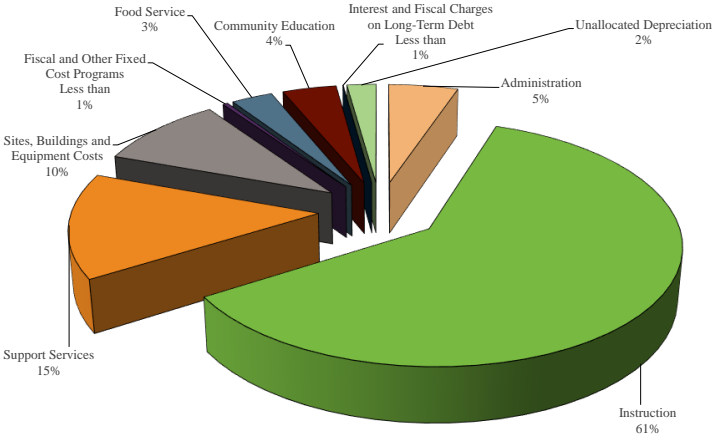
**Change in Net Position (Continued)**

The District's total revenues of \$11,149,047 consisted of property taxes of \$1,591,045, aids, and payments from the state of \$5,914,369, federal funding, and other local contributions of \$285,740 \$656,708 and investment income of \$11,208. The student activity accounts were imported into the General Fund under School Board control on December 31, 2005. Expenses totaling \$14,405,295, consisted mainly of regular, vocational, and special education instruction costs of \$8,778,413, district, instructional, and pupil support services of \$2,067,452, site, buildings and equipment related costs of \$1,404,75, fiscal and fixed cost programs of \$53,868, community education and services of \$583,700, food service of \$447,276, interest and fiscal charges on long-term debt of 3,636, unallocated depreciation of \$315,478, and administrative costs of \$750,721. Pie charts for revenue and expense categories are presented in Tables A-3 and A-4.

**Table A-3: Sources of Revenue**



**Table A-4: Expenses**



**Independent School District No. 2396  
Management's Discussion and Analysis**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)**

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

**Table A-5  
Net Cost of Governmental Activities**

	Expenses			Net Cost of Services		
	2016	2017	Percent Change	2016	2017	Percent Change
<b>Functions/Programs</b>						
Administration	\$ 556,975	\$ 750,721	35%	\$ 556,975	\$ 750,721	35%
District support services	332,148	337,736	2%	332,148	337,736	2%
Elementary and secondary regular instruction	4,263,546	6,184,922	45%	2,959,172	4,853,989	64%
Vocational education instruction	236,316	351,340	49%	224,006	351,340	57%
Special education instruction	1,468,592	2,242,151	53%	392,343	1,163,839	197%
Instructional support services	702,309	675,753	-4%	645,963	609,843	-6%
Pupil support services	988,438	1,053,963	7%	986,317	1,051,193	7%
Sites and buildings	1,460,818	1,404,751	-4%	1,313,479	1,291,934	-2%
Fiscal and other fixed other programs	53,410	53,868	1%	53,410	53,868	1%
Food service	421,338	447,276	6%	2,741	9,304	239%
Community education and services	375,421	583,700	55%	47,130	265,729	464%
Unallocated depreciation	348,200	315,478	-9%	348,200	315,478	-9%
Interest and fiscal charges on long-term debt	3,978	3,636	-9%	3,978	3,636	-9%
Total governmental activities	<u>\$11,211,489</u>	<u>\$14,405,295</u>	<u>28%</u>	<u>\$ 7,865,862</u>	<u>\$11,058,610</u>	<u>41%</u>

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

**Fund Balance**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,216,211. This represented a decrease from \$2,691,433 at the end of the prior year, a decrease of \$475,222. The net decrease in fund balance occurred primarily in the General Fund. A significant investment was made in Community Service decreasing that positive balance to \$148,392. The Food Service Fund increased by \$963. The District continues to enjoy a positive fund balance.



**Independent School District No. 2396  
Management's Discussion and Analysis**

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

**Revenue and Expenditures**

Revenues of the District's governmental funds totaled \$10,902,349, while total expenditures were \$11,489,156. A summary of the revenues and expenditures reported on the governmental fund financial statements appears in Table A-6 below.

**Table A-6  
Revenues and Expenditures - Governmental Funds  
June 30, 2017**

	<u>Revenue</u>	<u>Expenditures</u>	<u>Other Financing Sources</u>	<u>Fund Balance Increase (Decrease)</u>
General Fund	\$ 9,975,557	\$10,502,389	\$ 111,585	\$ (415,247)
Food Service Fund	438,339	437,376	-	963
Community Service Fund	472,093	477,991	-	(5,898)
Debt Service Fund	16,360	71,400	-	(55,040)
<b>Total</b>	<u><u>\$ 10,902,349</u></u>	<u><u>\$11,489,156</u></u>	<u><u>\$ 111,585</u></u>	<u><u>\$ (475,222)</u></u>

**General Fund Budgetary Highlights**

When the initial budget is prepared (a budget must be in place prior to the beginning of the fiscal year on July 1), details of student enrollment numbers, salary negotiations, staffing levels, and other significant information items are not yet known. When these items become known, the budget is normally revised to reflect them.

The District's final budget for the General Fund anticipated that revenues would exceed expenditures by \$32,315. The results for the year show General Fund revenues and other financing sources falling short of expenditures by \$415,247.

- Actual General Fund revenues were \$188,981 less than the budget due to lower state aids in general and special education.
- Actual General Fund expenditures were \$367,666 more than budgeted. These expenditures were distributed fairly evenly across all areas of the school's operation.

**DEBT SERVICE FUNDS**

The debt service outstanding value of bonds payable is \$0 as of June 30, 2017, excluding future interest and paying agent charges.

**Independent School District No. 2396  
Management's Discussion and Analysis**

**OTHER NONMAJOR FUNDS**

Expenditures exceeded revenues in the other nonmajor funds by \$59,975. The Food Service Fund revenues exceeded expenditures by \$963. The food service fund balance at June 30, 2017 was a positive \$42,249. The Community Service Fund had a positive fund balance of \$148,392.

**POST EMPLOYMENT BENEFITS**

During the next few years, the District's annual financial obligation to pay post employment benefits (severance) will peak. A 403(b) match plan will phase out the severance payment at retirement.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2017, the District had invested \$22,457,742 in a broad range of capital assets, including school buildings, land, athletic facilities, computer and audio-visual equipment, and necessary capital improvements (see Table A-7). Total accumulated depreciation for the year was \$12,167,849. Detailed information regarding the District's capital assets can be found in the footnotes.

**Table A-7  
Capital Assets  
Governmental Activities**

	2016	2017	Percent Change
Land	\$ 248,774	\$ 248,774	0.00%
Land improvements	962,556	1,087,087	12.94%
Buildings	18,146,839	18,162,774	0.09%
Furniture and equipment	2,704,581	2,844,117	5.16%
Vehicles	132,023	114,990	-12.90%
Less accumulated depreciation	(11,772,348)	(12,167,849)	3.36%
Total	\$ 10,422,425	\$ 10,289,893	-1.27%

**Long-Term Debt**

At year-end, the District had no G.O. Bonds outstanding, a decrease of \$70,000 from the previous year. Detailed information regarding the District's long-term liabilities can be found in the footnotes.

**FACTORS BEARING ON THE FUTURE OF THE DISTRICT**

The current 2016-2017 budget for the District was approved following budget planning sessions that resulted in no reductions in programs, but major reorganization did take place in District administration. Anticipating "no new" revenue made available through legislative action, the delays in payment of state and federal aid and the budget reductions previously implemented, the projection for the 2017-2018 fiscal year has District expenditures exceeding revenues by approximately \$79,058.

**Independent School District No. 2396  
Management's Discussion and Analysis**

**FACTORS BEARING ON THE FUTURE OF THE DISTRICT (CONTINUED)**

The District began to operate with the \$1,075 per pupil unit operating levy referendum in place for fiscal 2010. The School Board went to the voters on Election Day in November 2007 to seek an increase of \$425 for seven years. That vote failed. Again in May 2008, the School Board went to the voters. The vote passed resulting in a total levy of \$1,075 per pupil unit that will be in place for seven years beginning calendar year 2009. Actions of the legislature have changed that per pupil value to \$804.65 and in the fall of 2014 voters passed a ballot question renewing for ten more years.

The District will strive to maintain a commitment to academic excellence and opportunities for students that will prepare them for future endeavors.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report, or would like additional financial information, contact the District Office at Independent School District No. 2396, 27250 Minnesota Highway 4, Grove City, Minnesota 56243.

## **BASIC FINANCIAL STATEMENTS**

(THIS PAGE LEFT BLANK INTENTIONALLY)

**Independent School District No. 2396**  
**Statement of Net Position**  
**June 30, 2017**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments	\$ 2,333,165
Current property taxes receivable	800,624
Delinquent property taxes receivable	28,762
Due from Department of Education	1,099,898
Due from Federal Government through Department of Education	244,544
Due from other governmental units	116,561
Inventory	10,305
Prepaid items	15,267
Net other post employment benefits (OPEB) asset	251,874
Capital assets	
Land	248,774
Land improvements	1,087,087
Buildings	18,162,774
Furniture and equipment	2,844,117
Vehicles	114,990
Less accumulated depreciation	<u>(12,167,849)</u>
Total assets	<u>15,190,893</u>
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to pensions	<u>13,705,004</u>
Total assets and deferred outflows of resources	<u>\$ 28,895,897</u>
<b>Liabilities</b>	
Accounts payable	\$ 38,169
Salaries and benefits payable	866,649
Due to other Minnesota school districts	7,862
Unearned revenue	7,125
Capital lease payable	
Payable within one year	37,442
Payable after one year	37,442
Compensated absences payable	
Payable within one year	110,838
Payable after one year	116,487
Net pension liability	<u>21,692,868</u>
Total liabilities	<u>22,914,882</u>
<b>Deferred Inflows of Resources</b>	
Property taxes levied for subsequent year's expenditures	1,484,348
Deferred inflows of resources related to pensions	<u>206,567</u>
Total deferred inflows of resources	<u>1,690,915</u>
<b>Net Position</b>	
Net investment in capital assets	10,289,893
Restricted	920,899
Unrestricted	<u>(6,920,692)</u>
Total net position	<u>4,290,100</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 28,895,897</u>

See notes to financial statements.

(THIS PAGE LEFT BLANK INTENTIONALLY)

**Independent School District No. 2396**  
**Statement of Activities**  
**Year Ended June 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Position
Governmental activities					
Administration	\$ 750,721	\$ -	\$ -	\$ -	\$ (750,721)
District support services	337,736	-	-	-	(337,736)
Elementary and secondary regular instruction	6,184,922	284,310	1,046,623	-	(4,853,989)
Vocational education instruction	351,340	-	-	-	(351,340)
Special education instruction	2,242,151	83,521	994,791	-	(1,163,839)
Instructional support services	675,753	16,281	49,629	-	(609,843)
Pupil support services	1,053,963	-	2,770	-	(1,051,193)
Sites and buildings	1,404,751	112,817	-	-	(1,291,934)
Fiscal and other fixed cost programs	53,868	-	-	-	(53,868)
Food service	447,276	174,359	263,613	-	(9,304)
Community education and services	583,700	252,874	65,097	-	(265,729)
Unallocated depreciation	315,478	-	-	-	(315,478)
Interest and fiscal charges on long-term debt	3,636	-	-	-	(3,636)
<b>Total governmental activities</b>	<b>\$ 14,405,295</b>	<b>\$ 924,162</b>	<b>\$ 2,422,523</b>	<b>\$ -</b>	<b>(11,058,610)</b>
General revenues					
Taxes					
Property taxes, levied for general purposes					1,435,066
Property taxes, levied for community service					144,749
Property taxes, levied for debt service					11,230
State aid-formula grants					5,914,369
Other general revenues					285,740
Investment income					11,208
Total general revenues					<u>7,802,362</u>
Change in net position					(3,256,248)
Net position - beginning					<u>7,546,348</u>
Net position - ending					<u>\$ 4,290,100</u>



**Independent School District No. 2396**  
**Balance Sheet - Governmental Funds**  
**June 30, 2017**

	General	Nonmajor Funds	Total Governmental Funds
<b>Assets</b>			
Cash and investments	\$ 1,973,517	\$ 359,648	\$ 2,333,165
Current property taxes receivable	731,281	69,343	800,624
Delinquent property taxes receivable	20,969	7,793	28,762
Due from Department of Education	1,094,903	4,995	1,099,898
Due from Federal Government through Department of Education	244,544	-	244,544
Due from other governmental units	116,561	-	116,561
Inventory	-	10,305	10,305
Prepaid items	15,267	-	15,267
	<u>\$ 4,197,042</u>	<u>\$ 452,084</u>	<u>\$ 4,649,126</u>
<b>Liabilities</b>			
Accounts payable	\$ 38,109	\$ 60	\$ 38,169
Salaries and benefits payable	828,321	38,328	866,649
Due to other Minnesota school districts	7,862	-	7,862
Unearned revenue	-	7,125	7,125
Total liabilities	<u>874,292</u>	<u>45,513</u>	<u>919,805</u>
<b>Deferred Inflows of Resources</b>			
Property taxes levied for subsequent year's expenditures	1,344,681	139,667	1,484,348
Unavailable revenue - delinquent taxes	20,969	7,793	28,762
Total deferred inflows of resources	<u>1,365,650</u>	<u>147,460</u>	<u>1,513,110</u>
<b>Fund Balances</b>			
Nonspendable	15,267	10,305	25,572
Restricted	475,419	248,806	724,225
Committed	227,320	-	227,320
Assigned	131,057	-	131,057
Unassigned	1,108,037	-	1,108,037
Total fund balances	<u>1,957,100</u>	<u>259,111</u>	<u>2,216,211</u>
	<u>\$ 4,197,042</u>	<u>\$ 452,084</u>	<u>\$ 4,649,126</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,197,042</u>	<u>\$ 452,084</u>	<u>\$ 4,649,126</u>

**Independent School District No. 2396  
Reconciliation of the Balance Sheet to  
the Statement of Net Position - Governmental Funds  
June 30, 2017**

Total fund balances - governmental funds	\$ 2,216,211
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.</p>	
Cost of capital assets	22,457,742
Less accumulated depreciation	(12,167,849)
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.</p>	
<p>Long-term liabilities at year-end consist of:</p>	
Capital lease payable	(74,884)
Compensated absences payable	(227,325)
Net pension liability	(21,692,868)
<p>Deferred outflows of resources and deferred inflows of resources are created as a result of differences between actual and expected contributions and earnings on plan investments as well as changes in proportion and are not recognized in the governmental funds.</p>	
Deferred outflows of resources related to pensions	13,705,004
Deferred inflows of resources related to pensions	(206,567)
<p>Net OPEB asset created through employer contributions reducing the actuarial accrued liability is not recognized in governmental funds.</p>	
	251,874
<p>Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.</p>	
	28,762
Total net position - governmental activities	\$ 4,290,100

**Independent School District No. 2396**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2017**

	General	Nonmajor Funds	Total Governmental Funds
<b>Revenues</b>			
Local property taxes	\$ 1,434,466	\$ 160,147	\$ 1,594,613
Other local and county revenues	521,871	275,697	797,568
Revenue from state sources	7,595,308	82,971	7,678,279
Revenue from federal sources	423,090	233,618	656,708
Sales and other conversion of assets	822	174,359	175,181
Total revenues	<u>9,975,557</u>	<u>926,792</u>	<u>10,902,349</u>
<b>Expenditures</b>			
Current			
Administration	617,915	-	617,915
District support services	337,313	-	337,313
Elementary and secondary regular instruction	4,450,921	-	4,450,921
Vocational education instruction	246,813	-	246,813
Special education instruction	1,536,298	-	1,536,298
Instructional support services	594,786	-	594,786
Pupil support services	1,004,127	-	1,004,127
Sites and buildings	1,217,583	-	1,217,583
Fiscal and other fixed cost programs	53,868	-	53,868
Food service	-	437,376	437,376
Community education and services	-	477,991	477,991
Capital outlay			
Elementary and secondary regular instruction	50,362	-	50,362
Vocational education instruction	4,000	-	4,000
Sites and buildings	349,994	-	349,994
Debt service			
Principal	35,951	70,000	105,951
Interest and fiscal charges	2,458	1,400	3,858
Total expenditures	<u>10,502,389</u>	<u>986,767</u>	<u>11,489,156</u>
Excess of revenues over (under) expenditures	(526,832)	(59,975)	(586,807)
<b>Other Financing Sources</b>			
Proceeds from sale of capital assets	750	-	750
Proceeds from capital leases	110,835	-	110,835
Total other financing sources	<u>111,585</u>	<u>-</u>	<u>111,585</u>
Net change in fund balances	(415,247)	(59,975)	(475,222)
<b>Fund Balances</b>			
Beginning of year	<u>2,372,347</u>	<u>319,086</u>	<u>2,691,433</u>
End of year	<u>\$ 1,957,100</u>	<u>\$ 259,111</u>	<u>\$ 2,216,211</u>

See notes to financial statements.

**Independent School District No. 2396  
Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances  
to the Statement of Activities - Governmental Funds  
Year Ended June 30, 2017**

Net change in fund balances - total governmental funds \$ (475,222)

Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over the estimated useful lives as depreciation expense.

Capital outlays	299,883
Depreciation expense	(432,415)

Compensated absences are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	22,661
---	--------

Governmental funds recognize pension contributions as expenditures at the time of payment in the funds whereas the Statement of Activities factors in differences between actual and expected contributions and earnings on plan investments as well as changes in proportion.	(2,643,427)
--	-------------

Net OPEB obligations are recognized as paid in the governmental funds. The impact in the Statement of Activities, however, is the creation of a new OPEB asset which is a combination of employer contributions and the amortization of the net OPEB obligation for the year.	(19,498)
---	----------

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities.	105,951
--	---------

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	222
--	-----

The issuance of long-term debt provides current financial resources to governmental funds and has no effect on net position. These amounts are reported in the governmental funds as a source of financing. These amounts are not shown as revenues in the Statement of Activities, but rather constitute long-term liabilities in the statement of net assets.	(110,835)
---	-----------

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	(3,568)
---	---------

Change in net position - governmental activities	\$ (3,256,248)
--	----------------

See notes to financial statements.

**Independent School District No. 2396**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 1,478,843	\$ 1,478,843	\$ 1,434,466	\$ (44,377)
Other local and county revenues	399,042	438,887	521,871	82,984
Revenue from state sources	7,369,330	7,858,730	7,595,308	(263,422)
Revenue from federal sources	349,584	349,584	423,090	73,506
Sales and other conversion of assets	38,494	38,494	822	(37,672)
Total revenues	<u>9,635,293</u>	<u>10,164,538</u>	<u>9,975,557</u>	<u>(188,981)</u>
<b>Expenditures</b>				
Current				
Administration	652,907	676,339	617,915	(58,424)
District support services	349,776	337,675	337,313	(362)
Elementary and secondary regular instruction	3,941,971	4,285,536	4,450,921	165,385
Vocational education instruction	106,755	244,221	246,813	2,592
Special education instruction	1,253,677	1,469,818	1,536,298	66,480
Instructional support services	731,219	459,468	594,786	135,318
Pupil support services	915,794	919,373	1,004,127	84,754
Sites and buildings	1,173,277	1,089,558	1,217,583	128,025
Fiscal and other fixed cost programs	59,000	59,000	53,868	(5,132)
Capital outlay				
District support services	10,000	10,000	-	(10,000)
Elementary and secondary regular instruction	117,690	117,690	50,362	(67,328)
Vocational education instruction	-	-	4,000	4,000
Instructional support services	63,555	63,555	-	(63,555)
Sites and buildings	375,311	402,490	349,994	(52,496)
Debt service				
Principal	-	-	35,951	35,951
Interest and fiscal charges	-	-	2,458	2,458
Total expenditures	<u>9,750,932</u>	<u>10,134,723</u>	<u>10,502,389</u>	<u>367,666</u>
Excess of revenues over (under) expenditures	(115,639)	29,815	(526,832)	(556,647)
<b>Other Financing Sources</b>				
Proceeds from sale of capital assets	2,500	2,500	750	(1,750)
Proceeds from capital leases	-	-	110,835	110,835
Total other financing sources	<u>2,500</u>	<u>2,500</u>	<u>111,585</u>	<u>109,085</u>
Net change in fund balances	<u>\$ (113,139)</u>	<u>\$ 32,315</u>	(415,247)	<u>\$ (447,562)</u>
<b>Fund Balances</b>				
Beginning of year			<u>2,372,347</u>	
End of year			<u>\$ 1,957,100</u>	

See notes to financial statements.

**Independent School District No. 2396**  
**Statement of Fiduciary Net Position**  
**June 30, 2017**

	Private Purpose Trust Fund
<b>Assets</b>	
Current	
Cash and investments	\$ 390,864
	\$ 390,864
<b>Net Position</b>	
Held in trust for scholarships	\$ 390,864
	\$ 390,864

**Statement of Changes in Fiduciary Net Position**  
**Year Ended June 30, 2017**

	Private Purpose Trust Fund
<b>Additions</b>	
Contributions	\$ 3,000
Investment income	3,852
Gain on market value of investments	746
Total additions	7,598
<b>Deductions</b>	
Scholarships	10,886
Change in net position	(3,288)
<b>Net Position</b>	
Beginning of year	394,152
End of year	\$ 390,864

(THIS PAGE LEFT BLANK INTENTIONALLY)

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**A. Reporting Entity**

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

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

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

The student activity accounts of the District are under the School Board's control. The activity of the student activity accounts is accounted for in the General Fund.

**B. Basic Financial Statement Information**

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the fund financial statement level.

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



**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basic Financial Statement Information (Continued)**

Depreciation expense that can be specifically identified by function is included in the direct expenses of that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

Separate fund financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The Private Purpose Trust Fund is presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the District, this Fund is not incorporated into the government-wide statements.

**C. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 manner listed below and on the following page.

**1. Revenue Recognition**

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

**2. Recording of Expenditures**

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

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (Continued)**

**2. Recording of Expenditures (Continued)**

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned, with the exception that restricted, committed, or assigned fund balance spending may be deferred and unassigned resources spent first if fund balances need to be preserved to facilitate future expenditures plans.

**Description of Funds:**

Major Funds:

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

Nonmajor Funds:

Food Service Special Revenue Fund – This Fund is used to account for food service revenues and expenditures. Local, state, and federal revenues are received in this Fund to specifically support the Food Service Program.

Community Service Special Revenue Fund – This Fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood, and family education, or other similar services. The District receipts property tax and local and state revenues in this Fund that were received for these specific purposes.

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

Fiduciary Fund:

Private Purpose Trust Fund – The Scholarship Trust Fund is used to account for resources received and held by the District in a trustee capacity to be used in making scholarship awards.

**D. 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 individual funds based on the average of month-end cash and investment balances.

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

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Cash and Investments (Continued)**

Cash and investments at June 30, 2017 were comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF) including certificates of deposit and government securities and shares in the Minnesota Trust (MNTrust) Term Series. MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value.

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

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

In accordance with GASB Statement No. 79, the various MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF or MNTrust. Investments in the MSDLAF MAX must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions. MSDLAF+ Term investments have a maturity of 60 days to one year and early withdrawal may result in substantial early redemption penalties. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

**E. Property Tax Receivable**

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

**F. Property Taxes Levied for Subsequent Year's Expenditures**

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2016, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2017. The remaining portion of the levy will be recognized when measurable and available.

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**G. Inventory**

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

**H. Prepaid Items**

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

**I. Property Taxes**

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

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

**J. Capital Assets**

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

Capital assets are defined by the District as assets with an initial individual cost of more than \$1,000, an estimated useful life in excess of five years, and all computer equipment. Such assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available.

Donated assets are recorded as capital assets at its acquisition value at the date of donation.

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

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

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

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The District has one item that qualifies for reporting in this category. A deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

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

**L. Long-Term Obligations**

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

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

**M. Compensated Absences**

District employees earn vacation leave at various rates based on their classification. Vacation must be used prior to June 30 of each year. Upon voluntary termination of employment, certain noncertified staff are entitled to payment for any unused vacation days accrued.

District regular employees are entitled to sick leave at various rates based on their classification.

Employees are not compensated for unused sick leave upon termination of employment, unless taken in conjunction with severance pay as described in Note 1.N. Sick leave pay is shown as an expenditure in the year paid.

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**N. Severance Benefits**

At the time of retirement, each qualifying teacher who has been with the District for ten years shall receive \$20 per day for accumulated sick leave to be paid to the employee's health care savings plan. The maximum number of sick leave days that may be accrued is 140. Therefore, the maximum payout per employee is \$2,800.

Educational support staff and noncertified employees who have been with the District for ten years are paid \$20 a day to a maximum of \$2,800 based on 140 days of accumulated sick leave.

Full-time administrators who have completed at least fifteen years of full-time administration and are employed with the District for at least ten years are eligible to receive severance pay. Administrators will be paid in cash for sick leave balances up to 140 days at \$100 per day, not to exceed \$14,000. Administrators will also receive \$20 per day for accumulated sick leave upon their termination with a maximum of \$2,800.

**O. Post Employment Severance and Health Benefits**

Full-time teachers hired prior to July 1, 2001, who have completed at least 15 years of full-time teaching and are employed with the District for at least 15 years and are positioned on the BA+10 teaching lane or higher, shall be eligible for severance pay. Teachers will be paid one payment to a health care savings plan not to exceed \$18,500. There are different rates of pay based on whether the teacher has been with the District for 15 or 20 years or more. Beginning July 1, 2002, tenured teachers who are regularly employed are eligible to participate in a 403(b) matching contribution plan. Yearly contributions made by the District to an individual's 403(b) plan will be deducted from the payout mentioned above with any balance remaining due to the eligible teacher upon retirement.

Teachers and administrators will also receive an additional one-time payment of \$2,500 to the employee's health care savings plan from the District at the time of retirement.

**P. Pensions**

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

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

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Q. Risk Management**

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2017.

**R. Fund Equity**

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor constraints on the specific purpose for which amounts in these funds can be spent.

- **Nonspendable Fund Balances** – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include inventory and prepaid items.
- **Restricted Fund Balances** – These are subject to externally enforceable legal restrictions.
- **Committed Fund Balances** – These are amounts comprised of unrestricted funds used for a specific purpose pursuant to constraints imposed by formal action of the School Board and that remain binding unless removed by the School Board by subsequent formal action.
- **Assigned Fund Balances** – The School Board delegates the Superintendent and Business Manager the power to assign balances for specific purposes.
- **Unassigned Fund Balances** – These are amounts that have not been restricted, committed, or assigned to a specific purpose in the General Fund. Other funds may also report a negative unassigned fund balance if the total nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.
- **Minimum Fund Balance Policy** – the District will strive to maintain a minimum General Fund balance of 20% of the annual budget.

**S. Net Position**

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

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**T. Use of Estimates**

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

**U. Budgetary Information**

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

1. Prior to July 1, the School Superintendent submits to the School Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. The Superintendent is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds. Formal budgetary integration is not required for Debt Service Funds because effective budgetary control is alternatively achieved through general obligation bond indenture provisions.
4. Budgets for the General, Special Revenue, and Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year-end.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**A. Deposits**

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

Custodial Credit Risk – Deposits: As of June 30, 2017, the District's bank balances were not exposed to custodial credit risk because they were fully insured through FDIC or collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name.

As of June 30, 2017, the District had the following deposits:

Deposits	\$ 935,382
Certificates of deposit	<u>38,608</u>
Total deposits	<u>\$ 973,990</u>



**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments**

As of June 30, 2017, the District had the following investments:

	<u>Fair Value</u>	<u>1 Year or Less</u>	<u>1-2 Years</u>	<u>3-5 Years</u>	<u>6-10 Years</u>	<u>S&amp;P Ratings</u>
MSDLAF	\$ 429,920	\$ 429,920	\$ -	\$ -	\$ -	AAAm
MSDMAX	979,720	979,720	-	-	-	AAAm
Negotiable certificates of deposit	330,144	10,001	165,259	136,909	17,975	NR
Money markets	9,865	9,865	-	-	-	NR
Total investments	<u>\$ 1,749,649</u>	<u>\$ 1,429,506</u>	<u>\$ 165,259</u>	<u>\$ 136,909</u>	<u>\$ 17,975</u>	

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy requires their investments be rated "A" or better for any security which is a federal obligation of any state or local government and "AA" or better for any security which is a revenue obligation of any state or local government as required by *Minnesota Statutes* 118A.04. As of June 30, 2017, the District's investments were rated as shown in the table above.

**Custodial Credit Risk – Deposits:** For deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* 118.03 for an amount exceeding Federal Deposit Insurance Corporation (FDIC), SAIF, BIF, or FCUA coverage.

**Interest Rate Risk:** This is the risk that market value of securities will fall due to the changes in market interest rates. The District's investment policy states the District should manage their interest rates in a manner to attain a market rate of return through various economic and budgetary cycles and taking into account constraints on risk and cash flow requirements.

**Concentration of Credit Risk:** This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's policy states the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. The District's investments were not exposed to concentration of credit risk as none of their investments exceeded 5% of their total investments.

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy requires the District's investments be held in third-party safekeeping by an institution or securities broker-dealer defined in *Minnesota Statutes* 118A.06. The District will receive a safekeeping receipt with information pertinent to identifying the securities held with the third party agent.

The District has the following recurring fair value measurements as of June 30, 2017:

- \$1,749,649 of \$1,749,649 are valued using a quoted market prices (Level 1 inputs)

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$ 973,990	
Petty cash	390	
Investments	1,749,649	
Total deposits and investments		\$ 2,724,029

Deposits and investments are presented in the June 30, 2017 basic financial statements as follows:

Statement of Net Position		
Cash and investments	\$ 2,333,165	
Statement of Fiduciary Net Position		
Cash and investments		390,864
Total		\$ 2,724,029

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 248,774	\$ -	\$ -	\$ 248,774
Capital assets being depreciated				
Improvements other than buildings	962,556	124,531	-	1,087,087
Buildings	18,146,839	15,935	-	18,162,774
Furniture and equipment	2,704,581	159,417	19,881	2,844,117
Vehicles	132,023	-	17,033	114,990
Total capital assets being depreciated	<u>21,945,999</u>	<u>299,883</u>	<u>36,914</u>	<u>22,208,968</u>
Less accumulated depreciation for				
Improvements other than buildings	746,488	17,168	-	763,656
Buildings	8,783,852	337,748	-	9,121,600
Furniture and equipment	2,152,116	67,627	19,881	2,199,862
Vehicles	89,892	9,872	17,033	82,731
Total accumulated depreciation	<u>11,772,348</u>	<u>432,415</u>	<u>36,914</u>	<u>12,167,849</u>
Total capital assets being depreciated, net	<u>10,173,651</u>	<u>(132,532)</u>	<u>-</u>	<u>10,041,119</u>
Governmental activities, capital assets, net	<u>\$ 10,422,425</u>	<u>\$ (132,532)</u>	<u>\$ -</u>	<u>\$ 10,289,893</u>

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 3 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense of \$432,415 for the year ended June 30, 2017, was charged to the following governmental functions:

Elementary and secondary regular instruction	\$ 19,250
Special education	228
Instructional support services	519
Pupil support services	10,754
Sites and buildings	84,696
Food service	1,416
Community education and services	74
Unallocated	<u>315,478</u>
 Total depreciation expense	 <u><u>\$ 432,415</u></u>

**NOTE 4 – LONG-TERM DEBT**

**A. Components of Long-Term Liabilities**

	<u>Principal Outstanding</u>	<u>Due Within One Year</u>
Long-term liabilities		
Capital lease payable	\$ 74,884	\$ 37,442
Compensated absences	<u>227,325</u>	<u>110,838</u>
 Total long-term liabilities	 <u><u>\$ 302,209</u></u>	 <u><u>\$ 148,280</u></u>

The long-term liabilities listed above were issued to finance acquisition of capital assets and to show the projected compensated absences due. Capital leases are liquidated from the General Fund. Other long-term liabilities, such as compensated absences, are also typically liquidated through the General Fund.

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**B. Changes in Long-Term Liabilities**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Long-term liabilities				
G.O. bonds	\$ 70,000	\$ -	\$ 70,000	\$ -
Capital lease payable	-	110,835	35,951	74,884
Compensated absences payable	249,986	88,177	110,838	227,325
	<u>249,986</u>	<u>88,177</u>	<u>110,838</u>	<u>227,325</u>
Total long-term liabilities	<u>\$ 319,986</u>	<u>\$ 199,012</u>	<u>\$ 216,789</u>	<u>\$ 302,209</u>

**C. Capital Lease Obligations**

The District entered into a lease purchase agreement on June 28, 2016 with PCM Financial Services for Chromebooks. The capital lease obligations total \$118,425. The capital lease agreement includes annual principal and interest payments of \$40,008 through June 30, 2019.

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

<u>Year Ending June 30,</u>	
2018	\$ 40,008
2019	40,008
Total minimum lease payments	<u>80,016</u>
Less amount representing interest	<u>(5,132)</u>
	<u>\$ 74,884</u>

**NOTE 5 – FUND BALANCES/NET POSITION**

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

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)**

**A. Fund Balance**

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

	<u>General Fund</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Nonspendable			
Inventory	\$ -	\$ 10,305	\$ 10,305
Prepaid items	15,267	-	15,267
Total nonspendable	<u>15,267</u>	<u>10,305</u>	<u>25,572</u>
Restricted/reserved for			
Health and Safety	(46,190)	-	(46,190)
Basic Skills Programs	158,475	-	158,475
Learning and Development	368,538	-	368,538
Gifted and Talented	22,968	-	22,968
Teacher Development and Evaluation	20,249	-	20,249
Safe Schools - Crime Levy	71,391	-	71,391
Long-Term Facilities Maintenance	(120,012)	-	(120,012)
Community Education	-	111,685	111,685
Early Childhood and Family Education	-	46,890	46,890
School Readiness	-	(10,183)	(10,183)
Food Service	-	31,974	31,974
Debt Service	-	68,440	68,440
Total restricted/reserved	<u>475,419</u>	<u>248,806</u>	<u>724,225</u>
Committed for			
Separation/retirement benefits	227,320	-	227,320
Assigned for			
Student activities	131,057	-	131,057
Unassigned	<u>1,108,037</u>	<u>-</u>	<u>1,108,037</u>
Total fund balance	<u>\$ 1,957,100</u>	<u>\$ 259,111</u>	<u>\$ 2,216,211</u>

Nonspendable for Inventory – This balance represents a portion of the fund balance that is not available since the amounts have already been spent on inventory.

Nonspendable for Prepaid Items – This balance represents a portion of the fund balance that is not available since the amounts have already been spent by the District on expenses for the next year.

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)**

**A. Fund Balance (Continued)**

Restricted/Reserved for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan.

Restricted/Reserved for Basic Skills Programs – This balance represents resources available for the basic skills uses listed in *Minnesota Statutes* 126C.15, subd. 1.

Restricted/Reserved for Learning and Development – Learning and development is funded by general education revenue. This reserve represents available general education revenues for learning and development, which is mainly for reducing the pupil to staff ratio.

Restricted/Reserved for Gifted and Talented – The part of General Education Aid revenue for the gifted and talented program that is unspent at year end must be restricted in this Balance Sheet account.

Restricted/Reserved for Teacher Development and Evaluation – This balance represents resources available for teacher development and evaluation uses listed in *Minnesota Statutes* 122A.40, subd. 8 or 122A.41, subd. 5.

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

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

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

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

Restricted/Reserved for School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes* 124D.16).

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

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)**

**A. Fund Balance (Continued)**

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

Committed for Separation/Retirement Benefits – This balance represents an amount set aside by the School Board for retirement benefits.

Assigned for Student Activities – This balance represents the balance of the student activity accounts that are under School Board control as of June 30, 2017.

**B. Net Position**

Restricted net position is comprised of the total positive General Fund restricted fund balance plus the positive fund balances of the Food Service, Community Service, and Debt Service Funds.

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

The District participates in various pension plans. Total pension expense for the year ended June 30, 2017, was \$3,446,646. The components of pension expense are noted in the following plan summaries.

**Teachers' Retirement Association**

**A. Plan Description**

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

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

**B. Benefits Provided**

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

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



**Independent School District No. 2396  
Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

*Tier I Benefits*

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

With these provisions:

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

*Tier II Benefits*

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

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

**Independent School District No. 2396  
Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

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

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

**C. Contribution Rate**

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year ended June 30, 2015, June 30, 2016, and June 30, 2017, were:

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

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	\$ 354,961,140
Deduct Employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	<u>(442,978)</u>
Total employer contributions	354,544,518
Total non-employer contributions	<u>35,587,410</u>
Total contributions reported in schedule of employer and non-employer pension allocations	<u><u>\$ 390,131,928</u></u>

**Independent School District No. 2396  
Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**C. Contribution Rate (Continued)**

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**

Measurement date	June 30, 2015
Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	4.66%, from the single equivalent interest rate calculation
Price inflation	2.75%
Wage growth rate	3.50%
Projected salary increase	3.50-9.50%
Cost of living adjustment	2.00%

**Mortality Assumption**

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

**Independent School District No. 2396  
Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**D. Actuarial Assumptions (Continued)**

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term</u>
Domestic stocks	45 %	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Cash	2	0.50
Total	<u>100 %</u>	

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

**E. Discount Rate**

The discount rate used to measure the total pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2052 and, as a result, the Municipal Bond Index Rate was used in determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01% was applied to periods on and after 2052, resulting in a SEIR of 4.66%. Based on Fiduciary Net Position at the prior year measurement date, the discount rate of 8.00% was used and it was not necessary to calculate the SEIR.

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**F. Net Pension Liability**

On June 30, 2017, the District reported a liability of \$19,630,514 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.0823% at the end of the measurement period and 0.0813% 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	\$ 19,630,514
State's proportionate share of the net pension liability associated with the District	1,971,245

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date. Post-retirement benefit adjustments are now assumed to remain level at 2.0% annually, while in the previous measurement, the COLA increased to 2.5% in 2034.

For the year ended June 30, 2017, the District recognized pension expense of \$3,159,375. It recognized \$275,252 as an increase to this pension expense for the support provided by direct aid.

On June 30, 2017, the District had deferred resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 199,112	\$ 545
Net difference between projected and actual earnings on plan investment	822,901	-
Changes in assumptions	11,190,314	-
Changes in proportion	153,828	26,748
Contributions to TRA subsequent to the measurement date	388,308	-
Total	\$ 12,754,463	\$ 27,293

**Independent School District No. 2396  
Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Teachers' Retirement Association (Continued)**

**F. Net Pension Liability (Continued)**

\$388,308 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 of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

2018	\$ 2,450,222
2019	2,450,225
2020	2,736,749
2021	2,514,378
2022	2,187,287
Total	\$ 12,338,861

**G. Pension Liability Sensitivity**

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 4.66% as well as the liability measured using 1 percent lower and 1 percent higher.

District proportionate share of NPL		
1% decrease (3.66%)	Current (4.66%)	1% increase (5.66%)
\$ 25,289,008	\$ 19,630,514	\$ 15,021,854

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

**H. Pension Plan Fiduciary Net Position**

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

**Public Employees' Retirement Association**

**A. Plan Description**

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

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**A. Plan Description (Continued)**

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

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

**B. Benefits Provided**

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

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

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

**General Employees Plan Benefits**

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

**C. Contributions**

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

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**C. Contributions (Continued)**

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2017. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2017. The District's contributions to the General Employees Fund for the year ended June 30, 2017, were \$165,394. The District's contributions were equal to the required contributions as set by state statute.

**D. Pension Costs**

General Employees Fund Pension Costs

At June 30, 2017, the District reported a liability of \$2,062,354 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. 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 \$26,902. The net pension liability was measured as of June 30, 2016, 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, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.0254%, which was a decrease of 0.0027% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$287,271 for its proportionate share of the General Employees Plan's pension expense. Included in this amount is \$1,521 the District recognized as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.



**Independent School District No. 2396  
Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

At June 30, 2017, the District reported its proportionate share of 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	\$ 5,624	\$ 162,832
Changes in actuarial assumptions	441,572	-
Difference between projected and actual investments earnings	233,005	-
Changes in proportion	104,946	16,442
Contributions paid to PERA subsequent to the measurement date	165,394	-
	<u>\$ 950,541</u>	<u>\$ 179,274</u>

\$165,394 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ 171,968
2019	128,584
2020	230,826
2021	74,495
Total	<u>\$ 605,873</u>

**E. Actuarial Assumptions**

The total pension liability in the June 30, 2016, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

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

**Independent School District No. 2396  
Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions (Continued)**

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% per year for all future years for the General Employees Plan.

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 in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

- 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 using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

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

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

**Independent School District No. 2396  
Notes to Financial Statements**

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)**

**Public Employees' Retirement Association (Continued)**

**F. Discount Rates**

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in *Minnesota Statutes*. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**G. Pension Liability Sensitivity**

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	\$ 2,929,154	\$ 2,062,354	\$ 1,348,347

**H. Pension Plan Fiduciary Net Position**

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

**NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN**

**A. Plan Description**

The District provides single-employer defined benefit health care insurance and dental insurance upon retirement to certain retirees. Benefits are partially or fully paid on behalf of certain retired District employees meeting age and service requirements. Medical coverage is administered by BlueCross BlueShield. It is the District's policy to periodically review its medical coverage, and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

Additionally, the District provides certain classes of employees retiring at age 55 with 10-25 years of service a contribution to a Minnesota State Retirement System Health Care Savings Plan account in the amount of \$11,000 to \$18,500, less total contributions made to the retiree's 403(b) prior to retirement. Teachers and certain administrators will also receive an additional one-time payment of \$2,500 to the employee's health care savings plan.

**Independent School District No. 2396  
Notes to Financial Statements**

**NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**B. Funding Policy**

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with BlueCross BlueShield. The required contributions are based on projected pay-as-you-go financing requirements. For 2017, the District contributed \$77,201 to the plan. As of June 30, 2017, there were approximately four retirees receiving health benefits from the District's health plan.

**C. Annual Other Post Employment Benefits Cost and Net Other Post Employment Benefits Obligation**

The District's annual OPEB cost is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB costs for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

ARC	\$ 92,614
Interest on net OPEB obligation	(12,212)
Adjustment to ARC	16,297
Annual OPEB cost	<u>96,699</u>
District contributions	<u>(77,201)</u>
Increase in net OPEB obligation	19,498
Net OPEB obligation - beginning of year	<u>(271,372)</u>
Net OPEB obligation - end of year	<u><u>\$ (251,874)</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2017, 2016, and 2015 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
06/30/17	\$ 96,699	\$ 77,201	80%	\$ (251,874)
06/30/16	96,547	106,684	110%	(271,372)
06/30/15	88,219	97,660	111%	(261,235)

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**D. Funded Status and Funding Progress**

As of July 1, 2014, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$735,259 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$735,259. The covered payroll (annual payroll of active employees covered by the plan) was \$4,006,267 and the ratio of the UAAL to the covered payroll was 18.4%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The Schedule of Funding Progress – Other Post Employment Benefits, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**E. Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities, consistent with the long-term perspective of the calculations.

As of July 1, 2014, the actuarial valuation date, the projected unit credit with 30 year amortization of the unfunded liability method was used. The actuarial assumptions included a 4.5% discount rate. The District currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 7.5% initially, reduced incrementally to an ultimate rate of 5% after 10 years. The UAAL is being amortized as a level dollar amount of projected payroll on a closed basis. The remaining amortization period at June 30, 2015, was 30 years.

**NOTE 8 – SUBSEQUENT EVENT**

The School Board approved, at their September 25, 2017 meeting, issuing General Obligation Facilities Maintenance Bonds, Series 2017A in the amount of \$1,435,000.

The District has approved a contract with Upper Midwest Athletic Construction in the amount of \$88,748 to repair the running track, which sustained storm damage.

**Independent School District No. 2396**  
**Notes to Financial Statements**

**NOTE 9 – GASB STANDARD ISSUED BUT NOT YET IMPLEMENTED**

GASB has issued GASB Statement No. 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

(THIS PAGE LEFT BLANK INTENTIONALLY)

**REQUIRED SUPPLEMENTARY INFORMATION**



**Independent School District No. 2396**  
**Schedule of Funding Progress - Other Post Employment Benefits**  
**June 30, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/14	\$ -	\$ 735,259	\$ 735,259	0.0%	\$ 4,006,267	18.4%
07/01/11	-	887,645	887,645	0.0%	3,621,912	24.5%
07/01/08	-	1,073,700	1,073,700	0.0%	3,902,822	27.5%

See Note 7 in the notes to financial statements for more details on this Schedule.

**Independent School District No. 2396**  
**Schedule of District's and Non-Employer Proportionate Share**  
**of Net Pension Liability - General Employees Fund Retirement Funds**  
**Last Ten Years**

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0234%	\$ 1,099,215	\$ -	\$ 1,099,215	\$ 1,228,676	89.5%	78.75%
2016	0.0227%	1,176,432	-	1,176,432	1,321,453	89.0%	78.19%
2017	0.0254%	2,062,354	26,902	2,089,256	1,573,347	131.1%	68.91%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the State of Minnesota's Share of the Net Pension of Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.0853%	\$ 3,930,563	\$ 276,508	\$ 4,207,071	\$ 3,894,359	100.9%	81.5%
2016	0.0813%	5,029,209	617,068	5,646,277	4,172,093	120.5%	76.8%
2017	0.0823%	19,630,514	1,971,245	21,601,759	4,282,040	458.4%	44.9%

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

**Independent School District No. 2396**  
**Schedule of District Contributions**  
**General Employees Fund Retirement Funds**  
**Last Ten Years**

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 89,079	\$ 89,079	\$ -	\$ 1,228,676	7.25%
2015	99,109	99,109	-	1,321,453	7.50%
2016	118,001	118,001	-	1,573,347	7.50%
2017	117,931	117,931	-	1,572,413	7.50%

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

**Schedule of District Contributions**  
**TRA Retirement Funds**  
**Last Ten Years**

Fiscal Year Ending June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 272,605	\$ 272,605	\$ -	\$ 3,894,359	7.00%
2015	312,907	312,907	-	4,172,093	7.50%
2016	321,153	321,153	-	4,282,040	7.50%
2017	339,793	339,793	-	4,530,573	7.50%

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

**Independent School District No. 2396**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund**

**2016 Changes**

Changes in Actuarial Assumptions

- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

**2015 Changes**

Changes of Benefit Terms

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

Changes in Actuarial Assumptions

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

**General Employees Fund**

**2016 Changes**

Changes in Actuarial Assumptions

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

**Independent School District No. 2396**  
**Notes to the Required Supplementary Information**

**General Employees Fund (Continued)**

**2015 Changes**

Changes in Plan Provisions

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

Changes in Actuarial Assumptions

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

**SUPPLEMENTARY INFORMATION**

**Independent School District No. 2396**  
**Combining Balance Sheet -**  
**Nonmajor Governmental Funds**  
**June 30, 2017**

	Special Revenue Funds			Debt Service	Total Nonmajor Funds
	Food Service	Community Service	Total		
<b>Assets</b>					
Cash and investments	\$ 53,298	\$ 237,910	\$ 291,208	\$ 68,440	\$ 359,648
Current property taxes receivable	-	69,343	69,343	-	69,343
Delinquent property taxes receivable	-	2,088	2,088	5,705	7,793
Due from Department of Education	-	4,995	4,995	-	4,995
Inventory	10,305	-	10,305	-	10,305
	<u>10,305</u>	<u>-</u>	<u>10,305</u>	<u>-</u>	<u>10,305</u>
Total assets	<u>\$ 63,603</u>	<u>\$ 314,336</u>	<u>\$ 377,939</u>	<u>\$ 74,145</u>	<u>\$ 452,084</u>
<b>Liabilities</b>					
Accounts payable	\$ -	\$ 60	\$ 60	\$ -	\$ 60
Salaries and benefits payable	14,199	24,129	38,328	-	38,328
Unearned revenue	7,125	-	7,125	-	7,125
Total liabilities	<u>21,324</u>	<u>24,189</u>	<u>45,513</u>	<u>-</u>	<u>45,513</u>
<b>Deferred Inflows of Resources</b>					
Property taxes levied for subsequent year's expenditures	-	139,667	139,667	-	139,667
Unavailable revenue - delinquent taxes	-	2,088	2,088	5,705	7,793
Total deferred inflows of resources	<u>-</u>	<u>141,755</u>	<u>141,755</u>	<u>5,705</u>	<u>147,460</u>
<b>Fund Balances</b>					
Nonspendable	10,305	-	10,305	-	10,305
Restricted	31,974	148,392	180,366	68,440	248,806
Total fund balances	<u>42,279</u>	<u>148,392</u>	<u>190,671</u>	<u>68,440</u>	<u>259,111</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 63,603</u>	<u>\$ 314,336</u>	<u>\$ 377,939</u>	<u>\$ 74,145</u>	<u>\$ 452,084</u>

**Independent School District No. 2396**  
**Combining Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2017**

	Special Revenue Funds			Debt Service	Total Nonmajor Funds
	Food Service	Community Service	Total		
<b>Revenues</b>					
Local property taxes	\$ -	\$ 144,691	\$ 144,691	\$ 15,456	\$ 160,147
Other local and county revenues	274	275,097	275,371	326	275,697
Revenue from state sources	30,088	52,305	82,393	578	82,971
Revenue from federal sources	233,618	-	233,618	-	233,618
Sales and other conversion of assets	174,359	-	174,359	-	174,359
Total revenues	<u>438,339</u>	<u>472,093</u>	<u>910,432</u>	<u>16,360</u>	<u>926,792</u>
<b>Expenditures</b>					
Current					
Food service	437,376	-	437,376	-	437,376
Community education and services	-	477,991	477,991	-	477,991
Debt service					
Principal	-	-	-	70,000	70,000
Interest and fiscal charges	-	-	-	1,400	1,400
Total expenditures	<u>437,376</u>	<u>477,991</u>	<u>915,367</u>	<u>71,400</u>	<u>986,767</u>
Net change in fund balances	963	(5,898)	(4,935)	(55,040)	(59,975)
<b>Fund Balances</b>					
Beginning of year	<u>41,316</u>	<u>154,290</u>	<u>195,606</u>	<u>123,480</u>	<u>319,086</u>
End of year	<u>\$ 42,279</u>	<u>\$ 148,392</u>	<u>\$ 190,671</u>	<u>\$ 68,440</u>	<u>\$ 259,111</u>



**Independent School District No. 2396**  
**Uniform Financial Accounting and Reporting Standards**  
**Compliance Table**  
**Year Ended June 30, 2017**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<b>01 General Fund</b>				<b>06 Building Construction Fund</b>			
Total revenue	\$ 9,975,557	\$ 9,975,555	\$ 2	Total revenue	\$ -	\$ -	\$ -
Total expenditures	10,502,389	10,502,385	4	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	15,267	15,267	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
406 Health and Safety	(46,190)	(46,190)	-	409 Alternative Facility Program	-	-	-
407 Capital Projects Levy	-	-	-	413 Building Projects Funded by COP/LP	-	-	-
408 Cooperative Programs	-	-	-	<i>Restricted:</i>			
413 Building Projects Funded by COP/LP	-	-	-	464 Restricted fund balance	-	-	-
414 Operating Debt	-	-	-	<i>Unassigned:</i>			
416 Levy Reduction	-	-	-	463 Unassigned fund balance	-	-	-
417 Taconite Building Maintenance	-	-	-	<b>07 Debt Service Fund</b>			
424 Operating Capital	-	-	-	Total revenue	\$ 16,360	\$ 16,359	\$ 1
426 \$25 Taconite	-	-	-	Total expenditures	71,400	71,400	-
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	368,538	368,538	-	460 Nonspendable fund balance	-	-	-
434 Area Learning Center	-	-	-	<i>Restricted/reserved:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond refunding	-	-	-
436 State Approved Alternative Program	-	-	-	451 QZAB and QSCB payments	-	-	-
438 Gifted and Talented	22,968	22,968	-	<i>Restricted:</i>			
440 Teacher Development and Evaluation	20,249	20,249	-	464 Restricted fund balance	68,440	68,439	1
441 Basic Skills Programs	158,475	158,475	-	<i>Unassigned:</i>			
445 Career Technical Programs	-	-	-	463 Unassigned fund balance	-	-	-
448 Achievement and Integration	-	-	-	<b>08 Trust Fund</b>			
449 Safe School Crime	71,391	71,391	-	Total revenue	\$ 7,598	\$ 7,598	\$ -
450 Transition for Pre-Kindergarten	-	-	-	Total expenditures	10,886	10,886	-
451 QZAB and QSCB Payments	-	-	-	<i>Unassigned:</i>			
452 OPEB Liabilities not Held in Trust	-	-	-	422 Unassigned fund balance (net position)	390,864	390,865	(1)
453 Unfunded Severance and Retirement Levy	-	-	-	<b>20 Internal Service Fund</b>			
467 Long-term Facilities Maintenance	(120,012)	(120,012)	-	Total revenue	\$ -	\$ -	\$ -
472 Medical Assistance	-	-	-	Total expenditures	-	-	-
<i>Restricted:</i>				<i>Unassigned:</i>			
464 Restricted fund balance	-	-	-	422 Unassigned fund balance (net position)	-	-	-
<i>Committed:</i>				<b>25 OPEB Revocable Trust</b>			
418 Committed for separation/retirement benefits	227,320	227,320	-	Total revenue	\$ -	\$ -	\$ -
461 Committed	-	-	-	Total expenditures	-	-	-
<i>Assigned:</i>				<i>Unassigned:</i>			
462 Assigned fund balance	131,057	131,057	-	422 Unassigned fund balance (net position)	-	-	-
<i>Unassigned:</i>				<b>45 OPEB Irrevocable Trust</b>			
422 Unassigned fund balance (net position)	1,108,037	1,108,038	(1)	Total revenue	\$ -	\$ -	\$ -
<b>02 Food Services Fund</b>				Total expenditures	-	-	-
Total revenue	\$ 438,339	\$ 438,340	\$ (1)	<i>Unassigned:</i>			
Total expenditures	437,376	437,376	-	422 Unassigned fund balance (net position)	-	-	-
<i>Nonspendable:</i>				<b>47 OPEB Debt Service</b>			
460 Nonspendable fund balance	10,305	10,305	-	Total revenue	\$ -	\$ -	\$ -
<i>Restricted/reserved:</i>				Total expenditures	-	-	-
452 OPEB liabilities not held in trust	-	-	-	<i>Nonspendable:</i>			
<i>Restricted:</i>				460 Nonspendable fund balance	-	-	-
464 Restricted fund balance	31,974	31,974	-	<i>Restricted:</i>			
<i>Unassigned:</i>				464 Restricted fund balance	-	-	-
463 Unassigned fund balance	-	-	-	<i>Unassigned:</i>			
<b>04 Community Service Fund</b>				463 Unassigned fund balance	-	-	-
Total revenue	\$ 472,093	\$ 472,092	\$ 1				
Total expenditures	477,991	477,992	(1)				
<i>Nonspendable:</i>							
460 Nonspendable fund balance	-	-	-				
<i>Restricted/reserved:</i>							
426 \$25 Taconite	-	-	-				
431 Community Education	111,685	111,685	-				
432 ECFE	46,890	46,890	-				
440 Teacher Development and Evaluation	-	-	-				
444 School Readiness	(10,183)	(10,183)	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted fund balance	-	-	-				
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-				



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

**Independent Auditor's Report**

To the School Board  
Independent School District No. 2396  
Atwater/Cosmos/Grove City, 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. 2396, Atwater/Cosmos/Grove City, Minnesota, as of and for the year ending June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 9, 2017.

**Internal Control over Financial Reporting**

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

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



### **Internal Control over Financial Reporting (Continued)**

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control as Audit Findings 2002-001, 2007-001, 2008-001, and 2017-001 to be material weaknesses.

### **Compliance and Other Matters**

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

### **District's Response to the Findings**

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control. 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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Bergan KDV, Ltd.*

St. Cloud, Minnesota  
October 9, 2017



## Report on Legal Compliance

### Independent Auditor's Report

To the School Board  
Independent School District No. 2396  
Atwater/Cosmos/Grove City, 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. 2396, Atwater/Cosmos/Grove City, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, and have issued our report thereon dated October 9, 2017.

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as described in the Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control. 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 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.

*Bergan KDV, Ltd.*

St. Cloud, Minnesota  
October 9, 2017

(THIS PAGE LEFT BLANK INTENTIONALLY)

**Independent School District No. 2396  
Schedule of Findings and Corrective Action Plans  
on Legal Compliance and Internal Control**

**CURRENT YEAR INTERNAL CONTROL FINDING:**

**Material Weakness:**

**Audit Finding 2017-001 – Preparation of Revenue Reconciliations and Timely Deposits**

School districts generally receive payments from students, parents, and members of the community throughout the year. Oftentimes, payment comes in the form of cash, which is highly susceptible to theft. Therefore, it is important the District ensure there are adequate internal control procedures in place to ensure all payments made to the District are deposited into the District's bank account.

During our audit, we noted many of the receipts selected for testing did not have adequate back up documentation to allow for reconciling the total money received and deposited to the amount that should have been deposited. The District attaches receipts for cash payments, but while those receipts are pre-numbered, the receipts turned into the District Office had missing receipts in the sequence for the deposit. It was also noted there were instances where collected funds were not deposited within five days.

We recommend the District implement an internal control procedure to help ensure all money collected by District personnel is deposited into the District's account. An internal control procedure that could be implemented is to require reconciliations be completed by employees who are responsible for collecting money. This reconciliation should then be verified by another employee who would be responsible for completing the deposit and reviewed by a third employee to ensure there is adequate documentation to back up the reconciliation and that the amount deposited matches the reconciliation. This reconciling procedure could be implemented by requiring sequentially numbered receipts be given to students, parents, or community members turning in the payment. If a teacher/coach collects payments, the teacher/coach should be provided with a receipt when the funds are turned into the main office for deposit. The teacher/coach should provide the main office with a list of the individual payments received, including whether the payments were cash or checks. At the end of the day, the employee responsible for collecting payments can then reconcile the carbon copies of the sequentially numbered receipts to the amount of money to be deposited. The reconciliation should be in writing and include the receipt numbers used that day, the total cash according to the receipts in that sequence, the total checks according to the receipts in that sequence, the total actual amount of cash, the total actual amount of checks and the difference. If there is a difference, an explanation should be documented as to why there is a difference. In instances such as a la carte and concessions, a cash register could be used. The cash register tape could then be used to reconcile the amount in sales to the amount turned in to be deposited.

During our testing of certain programs within the community education revenues, it was noted students or parents did not receive a carbon copy receipt showing they paid for their activity. Without the receipt, reconciling deposits cannot be completed. We also noted the community education activity is tracked using Quicken. A comparison of receipt activity in Quicken to receipt activity in Smart Finance revealed unexplained differences between the two systems.

**Independent School District No. 2396  
Schedule of Findings and Corrective Action Plans  
on Legal Compliance and Internal Control**

**CURRENT YEAR INTERNAL CONTROL FINDING: (CONTINUED)**

**Material Weakness: (Continued)**

**Audit Finding 2017-001 – Preparation of Revenue Reconciliations and Timely Deposits  
(Continued)**

We recommend for every payment received by the District, a carbon copy receipt be filled out and the receipts reconciled with the deposit. We also recommend receipts collected be locked in a safe or secure location and be deposited daily or, at a minimum, weekly. Receipts should not be kept in the schools over the weekend. We also recommend a reconciliation be completed between Quicken and Smart Finance to ensure all activity is accurately accounted for in Smart Finance.

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
District office personnel have been assigned to handle early childhood funds and individual tuition rates are being reported to allow reconciliation.
3. Official Responsible for Ensuring CAP  
Nels Onstad, Superintendent of Schools, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The Superintendent of Schools will continually monitor the accounting system and improve controls when possible.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

**Independent School District No. 2396  
Schedule of Findings and Corrective Action Plans  
on Legal Compliance and Internal Control**

**CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS:**

**Material Weaknesses:**

**Audit Finding 2002-001 – Lack of Segregation of Accounting Duties**

During the year ended June 30, 2017, the District had a lack of segregation of accounting duties due to a limited number of office employees. The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Management is aware of this condition and has taken certain steps to compensate for the lack of segregation. However, due to the small accounting staff needed to handle all of the accounting duties, the cost of obtaining desirable segregation of accounting duties can often exceed benefits which could be derived. Due to this reason, management has determined a complete segregation of accounting duties is impractical to correct. However, management, along with the School Board, must remain aware of this situation and should continually monitor the accounting system, including changes that occur.

This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The Director of Finance and Human Resources has access to all areas of the accounting system.
- The Director of Finance and Human Resources prepares the bank reconciliations, reviews receipts, and also has the ability to write checks.
- The Director of Finance and Human Resources records and maintains capital asset records.
- The Director of Finance and Human Resources reconciles state and federal receivables and revenues and posts entries to the general ledger to adjust them.
- The Director of Finance and Human Resources reconciles cash monthly, which is not reviewed by another employee and has access to the general ledger.
- The Accounts Payable Clerk enters invoices into the system, prepares coding, verifies totals, signs off on invoices, has access to the digital signatures, and also prepares the checks.
- The Payroll Clerk verifies pay rates, prepares, and prints all payroll checks.
- Employees who collect money also reconcile the receipts, prepare the deposits, and take the deposits to the bank.
- The Director of Finance and Human Resources occasionally prepares journal entries, related documentation, and posts those entries.



**Independent School District No. 2396  
Schedule of Findings and Corrective Action Plans  
on Legal Compliance and Internal Control**

**CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS: (CONTINUED)**

**Material Weaknesses: (Continued)**

**Audit Finding 2002-001 – Lack of Segregation of Accounting Duties (Continued)**

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
Efforts will continue to be made to revise division of duties where practicable. Further consultation through the service cooperative will help monitor the situation.
3. Official Responsible for Ensuring CAP  
Nels Onstad, Superintendent of Schools, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The Superintendent of Schools will continually monitor the accounting system and improve controls when possible.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

**Audit Finding 2007-001 – Preparation of Financial Statements and Related Note Disclosures**

As a function of the audit process, auditors are required to gain an understanding of the District's internal control, including the financial reporting process.

The District does not have an internal control system designed to provide for the preparation of the financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America. As auditors, we were requested to draft the financial statements and accompanying notes to financial statements. This circumstance is not unusual in a district of your size.

**Independent School District No. 2396  
Schedule of Findings and Corrective Action Plans  
on Legal Compliance and Internal Control**

**CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS: (CONTINUED)**

**Material Weaknesses: (Continued)**

**Audit Finding 2007-001 – Preparation of Financial Statements and Related Note Disclosures  
(Continued)**

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected, on a timely basis. Even though all management decisions related to financial reporting are made by the District's management and approval of the financial statements and accompanying note disclosures lies with management, 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.

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
Internal control policies documenting the annual review process of the financial statements will be adopted by the School Board. The policies will continue to be reviewed and updated as necessary.
3. Official Responsible for Ensuring CAP  
Nels Onstad, Superintendent of Schools, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is June 30, 2018.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

**Audit Finding 2008-001 – Year-End Closing Process and Material Audit Adjustments**

During the course of our engagement, there were several journal entries proposed by the audit team, including some that were material. Many of these entries are required year-end adjustments. Since an audit is to serve as an independent verification process, it is important that year-end adjustments are done prior to audit fieldwork.

We also found the District does not have a formal process in place to ensure a timely and efficient close to the year. This resulted in some areas not receiving any adjustment activity prior to audit fieldwork, including accounts payable and capital assets. As a result, we proposed material audit adjustments that would not have been identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's financial statements.

**Independent School District No. 2396  
Schedule of Findings and Corrective Action Plans  
on Legal Compliance and Internal Control**

**CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDINGS: (CONTINUED)**

**Material Weaknesses: (Continued)**

**Audit Finding 2008-001 – Year-End Closing Process and Material Audit Adjustments (Continued)**

In order to ensure financial statements were free from material misstatement, audit adjustments were required to properly record revenue allocations, retiree severance expense and payable, accounts payable, federal revenue and receivable, and capital lease activity.

We recommend the District establish procedures to ensure all year-end adjusting entries are made before the start of audit fieldwork. This will ensure the audit is conducted efficiently and the audit team stays independent as required by U.S. generally accepted auditing standards and *Government Auditing Standards*. It will also ensure the School Board receives timely and accurate information on which to base their decisions.

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The District will continue to request assistance from the service cooperative to review activity and ensure all necessary entries have been made. The District will also employ a systematic, prioritized approach to the year-end to ensure completion of all closing entries prior to the audit.
3. Official Responsible for Ensuring CAP  
Nels Onstad, Superintendent of Schools, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is June 30, 2018.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

**CURRENT YEAR LEGAL COMPLIANCE FINDING**

**Open Meeting Law**

*Minnesota Statutes* 13D.02 requires all closed meetings be recorded at the expense of the governing body.

During our audit, we noted the April 24, 2017 closed meeting was not recorded.

**Independent School District No. 2396  
Schedule of Findings and Corrective Action Plans  
on Legal Compliance and Internal Control**

**CURRENT YEAR LEGAL COMPLIANCE FINDING (CONTINUED)**

**Open Meeting Law (Continued)**

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
The District will ensure all applicable closed sessions are recorded as required by statute.
3. Official Responsible for Ensuring CAP  
Nels Onstad, Superintendent of Schools, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is June 30, 2018.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

**PRIOR YEAR LEGAL COMPLIANCE FINDING**

**Responsible Contractor Requirement**

Minnesota State Statute § 16C.285, subdivision 3, requires that for each construction contract in excess of \$50,000, that the contractor submits a verification of compliance signed under oath by an owner or officer verifying compliance with the statute.

During our 2016 audit, we noted that this verification was not obtained for the parking lot project.

**CORRECTIVE ACTION TAKEN:**

We did not note any contracts during fiscal year 2017 that required this verification.