

November 7, 2017

Kim Sandry, Business Manager  
Independent School District No. 2180  
Clara City, MN 56222

Dear Kim:

In accordance with your request, we are attaching the accompanying PDF file, which contains an electronic final version of the financial statements of Independent School District No. 2180 as of June 30, 2017. We understand that your request for the electronic copy has been made as a matter of convenience. You understand that electronic transmissions are not entirely secure and that it is possible for confidential financial information to be intercepted by others.

These financial statements and our report(s) on them are not to be modified in any manner. This final version supersedes all prior drafts. Any preliminary draft version of the financial statements previously provided to you in an electronic format should be deleted from your computer, and all printed copies of any superseded preliminary draft versions should likewise be destroyed.

Professional standards and our firm policies require that we perform certain additional procedures whenever our reports are included, or we are named as accountants, auditors, or "experts," in a document used in a public or private offering of equity or debt securities. Accordingly, as provided for and agreed to in the terms of our arrangement letter, Independent School District No. 2180 will not include our reports, or otherwise make reference to us, in any public or private securities offering without first obtaining our consent. Any request to consent is also a matter for which separate arrangements will be necessary. After obtaining our consent, Independent School District No. 2180 also agrees to provide us with printer's proofs final reproduced material for our approval before it is distributed. In the event our auditor/client relationship has been terminated when Independent School District No. 2180 seeks such consent, we will be under no obligation to grant such consent or approval.

Thank you for the opportunity to serve you.

Sincerely,

**SCHLENNER WENNER & CO.**  
St. Cloud, Minnesota

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
CLARA CITY, MINNESOTA**

**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2017**

**SCHLENNER WENNER & CO.  
Certified Public Accountants  
& Business Consultants**

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
CLARA CITY, MINNESOTA  
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**INTRODUCTORY  
SECTION**

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
BOARD OF EDUCATION AND ADMINISTRATION  
FOR THE YEAR ENDED JUNE 30, 2017**

**BOARD OF EDUCATION**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Lane Schwitters	Chairperson	December 31, 2018
Scott Ruitter	Vice-Chairperson	December 31, 2020
Julie Alsum	Clerk	December 31, 2020
Debra Brandt	Director	December 31, 2018
Tate Mueller	Director	December 31, 2018
Carmel Thein	Director	December 31, 2020

**ADMINISTRATION**

<u>Name</u>	<u>Title</u>
Brian Koslofsky	Superintendent
Kim Sandry	Business Manager

**FINANCIAL  
SECTION**

## INDEPENDENT AUDITORS' REPORT

November 7, 2017

Members of the School Board  
Independent School District No. 2180  
Clara 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. 2180, Clara City, Minnesota, (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2180, Clara City, Minnesota, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Schedule, Schedule of Funding Progress for Postemployment Benefit Plan, and Schedules of District's Proportionate Share of Net Pension Liability and District Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining non-major funds financial statements, and the Uniform Financial Accounting and Reporting Standards Compliance Table are presented for the purposes of additional analysis and are not a required part of the basic financial statements.

The combining non-major funds financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining non-major funds financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2017 on our consideration of Independent School District No. 2180'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 Independent School District No. 2180's internal control over financial reporting and compliance.



## **Report on Other Legal and Regulatory Requirements**

In accordance with Minnesota Statutes, we have also issued our report dated November 7, 2017, on our consideration of Independent School District No. 2180's compliance with provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minnesota Statute Section 6.65. The purpose of the report is to determine if the District has complied with Minnesota laws and regulations. That report is an integral part of an audit performed in the State of Minnesota.

*Schlenner Wenner & Co.*

**SCHLENNER WENNER & CO.**

St. Cloud, Minnesota

**REQUIRED SUPPLEMENTARY  
INFORMATION**

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

As management of Independent School District No. 2180 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$6,553,391 (net position). Of this amount, negative \$3,313,393 (*unrestricted net position*) may be used to meet the District's ongoing obligations.
- The District's total net position decreased \$1,748,893 as a result of current year operations.
- At the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,752,929, an increase of \$563,534 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,542,567, or 41 percent of total General Fund expenditures.
- The District's total debt decreased by \$555,692 (8 percent) in the current fiscal year, not including the District's net pension liability of \$16,569,066.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain are summarized in the following table. The remainder of the overview section of the Management Discussion and Analysis highlights the structure and contents of each of the statements.

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

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

	Government-Wide	Fund Financial Statements
		Governmental Funds
<b>Scope</b>	Entire District	All of the activities of the District, such as regular instruction, special education, support services, building maintenance, food service, and community education
<b>Required financial statements</b>	Statements of Net Position  Statement of Activities	Balance Sheet  Statement of Revenues, Expenditures, and Changes in Fund Balances
<b>Accounting basis and measurement focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus
<b>Type of asset/deferred outflows/liability/deferred inflows information</b>	All assets, deferred outflows, liabilities, and deferred inflows of resources both financial and capital short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; deferred inflows of resources recorded to defer unavailable assets; no capital assets or long-term liabilities included
<b>Type of outflow/inflow information</b>	All revenue and expenses during the year, regardless of when cash is received or paid	Revenue 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

**Government-Wide Financial Statements**

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

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

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and accrued but unpaid interest).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the District include administration, district support services, regular instruction, vocational instruction, exceptional instruction, community education and services, instructional support services, pupil support services, sites and buildings, fiscal and other fixed cost programs, and interest and other fiscal charges. The District currently does not report any business-type activities.

The government-wide financial statements start on page 15 of this report.

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

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

**Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Although governments often report multiple types of funds, all of the funds of the District are classified as governmental funds.

**Governmental Funds**

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

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

The District maintains two individual major governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Debt Service Fund, both of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The basic governmental fund financial statements start on page 17 of this report.

**Notes to the Financial Statements**

The notes provide additional information essential to a full understanding of the data provided in the district-wide and fund financial statements. The notes to the financial statements start on page 21 of this report.

**Other Information**

The combining statements referred to earlier in connection with non-major governmental funds are presented as other supplementary information. Combining fund statements and schedules start on page 52 of this report.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources, for a net balance of \$6,553,391 at the close of the most recent fiscal year.

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

**Net Position (Continued)**

A significant portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although, the District's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Net Position  
Table 1**

	Governmental Activities		
	2017	2016	Increase (Decrease)
Assets			
Current and Other Assets	\$ 6,440,045	\$ 5,967,310	\$ 472,735
Capital Assets	15,792,352	16,689,595	(897,243)
Total Assets	22,232,397	22,656,905	(424,508)
Deferred Outflows of Resources	10,226,573	932,306	9,294,267
Liabilities			
Current and Other Liabilities	560,182	637,778	(77,596)
Noncurrent Liabilities	22,954,101	11,948,789	11,005,312
Total Liabilities	23,514,283	12,586,567	10,927,716
Deferred Inflows of Resources	2,391,296	2,700,360	(309,064)
Net Position			
Net Investment in Capital Assets	9,438,458	9,719,277	(280,819)
Restricted	428,326	423,452	4,874
Unrestricted	(3,313,393)	(1,840,445)	(1,472,948)
Total Net Position	\$ 6,553,391	\$ 8,302,284	\$ (1,748,893)

An additional portion of the District's net position (\$428,326) represents resources that are subject to external restrictions on how they may be used. The remaining unrestricted balance of net position may be used to meet the District's ongoing obligations to citizens and creditors. The balance of unrestricted net position is negative \$3,313,393 at year end.

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

**Changes in Net Position**

The District's net position decreased \$1,748,893 during the most recent fiscal year. Key elements of this decrease are as follows:

**Changes in Net Position  
Table 2**

	Governmental Activities		
	2017	2016	Increase (Decrease)
Revenues			
Program Revenues:			
Charges for Services	\$ 456,707	\$ 356,490	\$ 100,217
Operating Grants and Contributions	1,413,284	1,177,772	235,512
Capital Grants and Contributions	37,520	-	37,520
General Revenues:			
Property Taxes	2,289,733	2,093,288	196,445
State Aid Not Restricted to Specific Programs	6,193,763	5,940,936	252,827
Local Aid Not Restricted to Specific Programs	74,036	212,777	(138,741)
Earnings on Investments	5,876	1,964	3,912
Miscellaneous	349,176	208,030	141,146
Total Revenues	10,820,095	9,991,257	828,838
Expenses			
Administration	834,047	699,202	134,845
District Support Services	261,875	257,856	4,019
Regular Instruction	5,244,854	3,834,835	1,410,019
Vocational Instruction	179,098	78,702	100,396
Exceptional Instruction	1,674,981	1,164,964	510,017
Community Education and Services	353,767	204,094	149,673
Instructional Support Services	604,551	444,603	159,948
Pupil Support Services	1,271,789	1,230,590	41,199
Sites and Buildings	1,969,147	2,163,918	(194,771)
Fiscal and Other Fixed Costs Programs	51,442	61,304	(9,862)
Interest and Other Fiscal Charges	123,437	211,133	(87,696)
Total Expenses	12,568,988	10,351,201	2,217,787
Change in Net Position	(1,748,893)	(359,944)	(1,388,949)
Net Position - Beginning of Year	8,302,284	8,662,228	(359,944)
Net Position - End of Year	\$ 6,553,391	\$ 8,302,284	\$ (1,748,893)

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

**Changes in Net Position (Continued)**

- The current year change in net position is a decrease of \$1,388,949 compared to that of the prior year. This is a result of a 8.3 percent increase in revenues and an 21.4 percent increase in expenses during fiscal year 2017.
- State aid not restricted to specific programs and operating grants and contributions increased \$252,827 and \$235,5112, respectively, due to changes in general education aid funding formulas and an increase in the number of students served, as well as an increase in special education and basic skills funding.
- Expenses related to Regular and Exceptional Instruction increased \$1,410,109 and \$510,017, respectively, from the prior year primarily due to the increase in pension expense. Sites and buildings decreased \$194,771 compared to the prior year, due to fewer building improvements and updates completed throughout the current year.

**Total and Net Cost of Governmental Activities**

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

**Total and Net Costs of Services**

**Table 3**

	Total Cost of Services			Net Cost of Services		
	2017	2016	Increase (Decrease)	2017	2016	Increase (Decrease)
Administration	\$ 834,047	\$ 699,202	\$ 134,845	\$ 834,047	\$ 699,202	\$ 134,845
District Support Services	261,875	257,856	4,019	261,006	256,996	4,010
Regular Instruction	5,244,854	3,834,835	1,410,019	4,844,214	3,613,823	1,230,391
Vocational Instruction	179,098	78,702	100,396	179,098	78,702	100,396
Exceptional Instruction	1,674,981	1,164,964	510,017	923,094	517,181	405,913
Community Education and Services	353,767	204,094	149,673	175,775	102,030	73,745
Instructional Support Services	604,551	444,603	159,948	541,503	444,603	96,900
Pupil Support Services	1,271,789	1,230,590	41,199	758,714	668,047	90,667
Sites and Buildings	1,969,147	2,163,918	(194,771)	1,969,147	2,163,918	(194,771)
Fiscal and Other Fixed Costs Programs	51,442	61,304	(9,862)	51,442	61,304	(9,862)
Interest and Other Fiscal Charges	123,437	211,133	(87,696)	123,437	211,133	(87,696)
<b>Totals</b>	<u>\$12,568,988</u>	<u>\$10,351,201</u>	<u>\$ 2,217,787</u>	<u>\$10,661,477</u>	<u>\$ 8,816,939</u>	<u>\$ 1,844,538</u>

Some significant items to note include the following:

- The net costs of services related to Regular and Exceptional Instruction increased by \$1,230,391 (34.0 percent) and \$405,913 (78.5 percent), respectively, primarily due to pension expense allocated to each program in the current year.
- The net cost of services related to Sites and Buildings decreased \$194,771 (9.0 percent), primarily due to fewer building improvements completed throughout the current year.



**INDEPENDENT SCHOOL DISTRICT NO. 2180  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

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

**Governmental Funds**

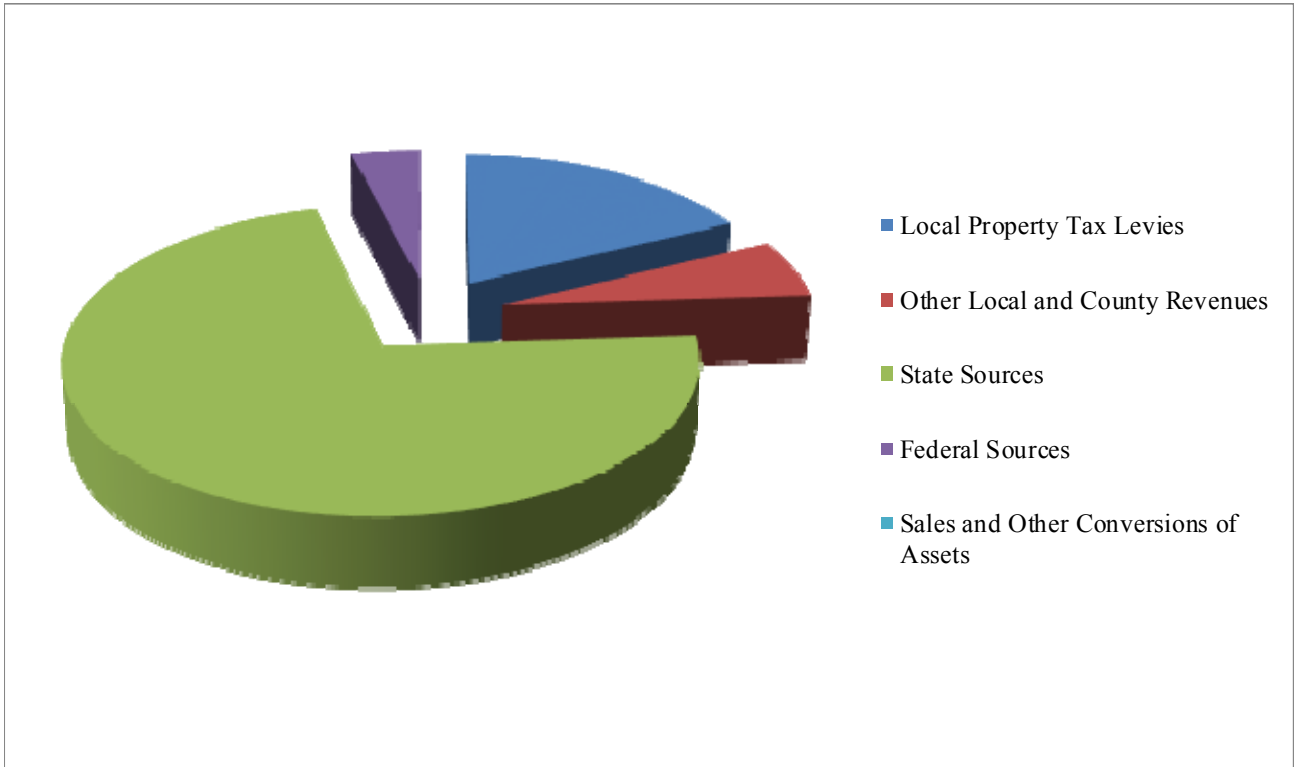
The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,752,929, an increase of \$563,534 in comparison with prior year. The following is a summary of the District's major funds:

Major Funds	Fund Balance June 30,		Increase (Decrease)
	2017	2016	
<b>General</b>	\$ 3,557,845	\$ 2,972,974	\$ 584,871

The fund balance of the General Fund increased by \$584,871. Revenues increased approximately 6.9 percent from the prior year and expenditures increased approximately 4.2 percent.

**General Fund Revenue**



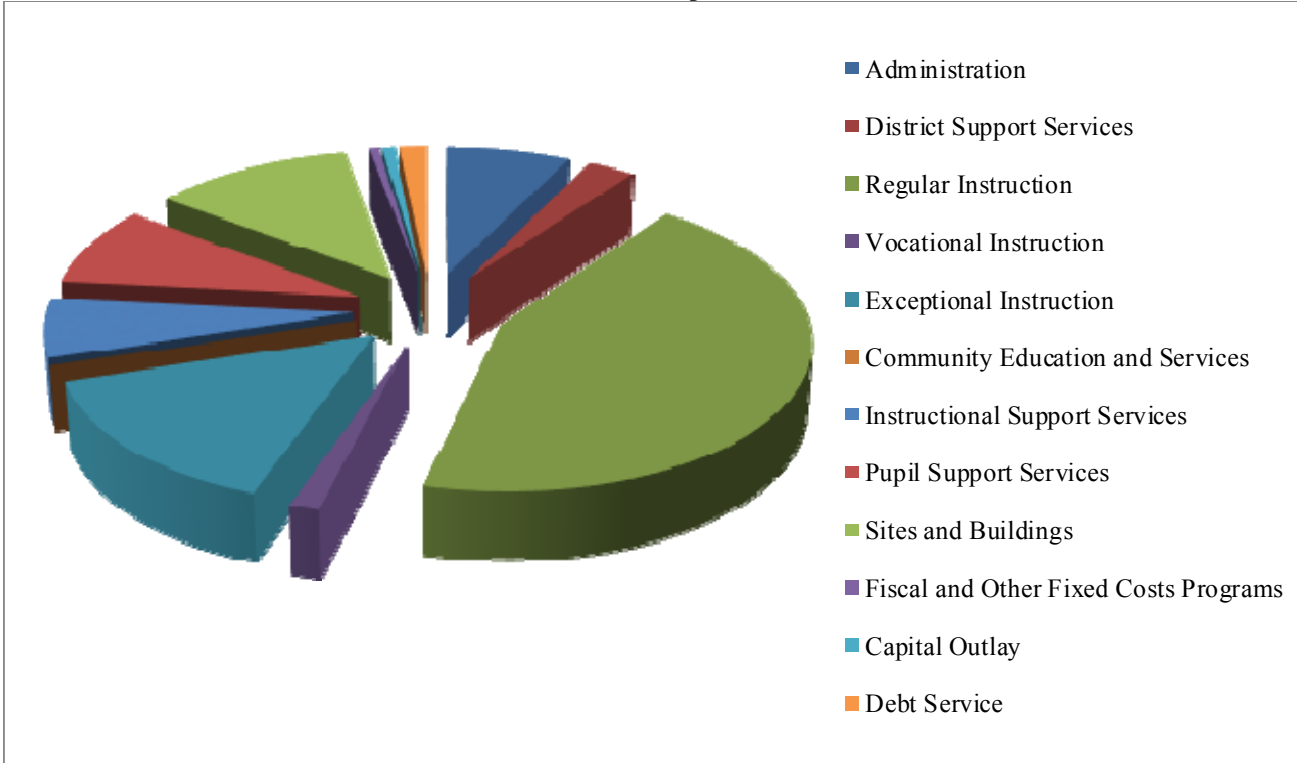
The District receives the vast majority of its funding in the General Fund from the State of Minnesota (72 percent), which is subject to fluctuation based on the number of pupils served by the District and changes in State legislation. In addition, the District receives approximately 18 percent of its General Fund revenues from local property tax levies.

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

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

**Governmental Funds (Continued)**

**General Fund Expenditures**



A significant portion of the District's General Fund expenditures are used for regular, vocational, and exceptional instruction (60 percent). Expenditures for various support services total 18 percent, and the remaining 22 percent consists of expenditures for administration, sites and buildings, and other items.

Major Funds	Fund Balance June 30,		Increase (Decrease)
	2017	2016	
<b>Debt Service</b>	\$ 79,507	\$ 102,768	\$ (23,261)

The Debt Service fund balance decreased \$23,261 during the year. This is primarily due to the increase in Interest and Other Fiscal Charges, specifically bond interest paid.

**General Fund Budgetary Highlights**

The District's General Fund budget was amended during the year. The revenues budget was increased by \$896,241, and the expenditures budget was increased in several functions for an overall of \$875,437 from original to final. The final budget called for expenditures of \$8,590,858 and an increase in fund balance of \$183,743. Actual revenues and expenditures were approximately equal to budgeted amounts, with the exception of revenues from other local and county sources and regular instruction expenditures, which exceeded budgeted amounts and revenues from federal sources, which were less than budgeted amounts.

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The District's investment in capital assets for its governmental activities as of June 30, 2017, amounts to \$15,792,352 (net of accumulated depreciation). This investment in capital assets includes land, site improvements, buildings and improvements, equipment, and vehicles. The total decrease in the District's investment in capital assets for the current fiscal year was approximately 5 percent.

Capital asset events during the current fiscal year included the purchase of a welder, freezer, and a phone system. The District did not dispose of any capital assets during the year.

**Capital Assets Net of Depreciation**

**Table 4**

	Governmental Activities		
	2017	2016	Increase (Decrease)
Buildings and Improvements	\$ 15,529,632	\$ 16,439,242	\$ (909,610)
Equipment and Vehicles	262,720	250,353	12,367
<b>Total</b>	<b>\$ 15,792,352</b>	<b>\$ 16,689,595</b>	<b>\$ (897,243)</b>

Additional information on the District's capital assets can be found in Note 3.B. on page 30 of this report.

**Noncurrent Liabilities**

At the end of the current fiscal year, the District had total long-term debt outstanding of \$6,385,035, excluding the District long-term net pension liability of \$16,569,066. A summary of long-term debt activity as of June 30, 2017 follows:

**Noncurrent Liabilities**

**Table 5**

	Governmental Activities		
	2017	2016	Increase (Decrease)
G.O. Alternative and Capital Facilities Bonds	\$ 5,031,030	\$ 5,555,034	\$ (524,004)
Capital Leases	1,322,864	1,415,284	(92,420)
Severance Liability	9,561	11,857	(2,296)
OPEB Liability (Asset)	21,580	(41,448)	63,028
<b>Total</b>	<b>\$ 6,385,035</b>	<b>\$ 6,940,727</b>	<b>\$ (555,692)</b>

The District's total debt decreased by \$555,692 (8 percent) during the current fiscal year. Additional information on the District's long-term debt can be found in Note 3.C. on page 31 of this report.

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2017**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The District's appointed and elected officials considered many factors when setting the fiscal year 2018 budget. These factors included the following:

- The District's enrollment has increased in the past few years.
- Budgets include normal inflationary increases in expenditures, with more significant increases expected in utility and food costs.
- The District faces challenges when it comes to maintaining multiple sites and looks to consider how to reduce expenditures related to this challenge.

**REQUESTS FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, please contact the Business Manager, Kim Sandry, Independent School District No. 2180, P.O. Box 690, 711 Wolverine Drive, Clara City, MN 56222.

## **BASIC FINANCIAL STATEMENTS**

The basic financial statements include integrated sets of financial statements as required by GASB. In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

<b>ASSETS</b>	<u>Governmental Activities</u>
Cash and Temporary Investments	\$ 4,120,542
Property Tax Receivable	1,066,408
Accounts Receivable	232,688
Due from Other Minnesota School Districts	145,217
Due from Government Agencies	857,173
Inventory	10,729
Prepays	7,288
Capital Assets Being Depreciated (Net)	<u>15,792,352</u>
<b>TOTAL ASSETS</b>	<b>22,232,397</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Pensions	10,226,573
<b>LIABILITIES</b>	
Accounts Payable	75,237
Salaries Payable	264,782
Accrued Interest	17,015
Payroll Deduction and Employer Contributions	203,148
Noncurrent Liabilities:	
Amount Due Within One Year	610,617
Amount Due After One Year	5,752,838
Net OPEB Liability	21,580
Net Pension Liability	<u>16,569,066</u>
<b>TOTAL LIABILITIES</b>	<b>23,514,283</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property Taxes Levied for Subsequent Years	2,099,595
Pensions	<u>291,701</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b><u>2,391,296</u></b>
<b>NET POSITION</b>	
Net Investment in Capital Assets	9,438,458
Restricted:	
General Fund Mandated Restrictions	111,784
Debt Service	79,507
Food Service	152,206
Community Service	84,829
Unrestricted	<u>(3,313,393)</u>
<b>TOTAL NET POSITION</b>	<b><u>\$ 6,553,391</u></b>

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Administration	\$ 834,047	\$ -	\$ -	\$ -	\$ (834,047)
District Support Services	261,875	869	-	-	(261,006)
Regular Instruction	5,244,854	126,043	274,597	-	(4,844,214)
Vocational Instruction	179,098	-	-	-	(179,098)
Exceptional Instruction	1,674,981	25,229	726,658	-	(923,094)
Community Education and Services	353,767	142,654	35,338	-	(175,775)
Instructional Support Services	604,551	10,546	14,982	37,520	(541,503)
Pupil Support Services	1,271,789	151,366	361,709	-	(758,714)
Sites and Buildings	1,969,147	-	-	-	(1,969,147)
Fiscal and Other Fixed Costs Programs	51,442	-	-	-	(51,442)
Interest and Other Fiscal Charges	123,437	-	-	-	(123,437)
<b>Total Governmental Activities</b>	<b><u>\$ 12,568,988</u></b>	<b><u>\$ 456,707</u></b>	<b><u>\$ 1,413,284</u></b>	<b><u>\$ 37,520</u></b>	<b>(10,661,477)</b>
General Revenues:					
Property Taxes					2,289,733
State Aid not Restricted to Specific Programs					6,193,763
Local Aid not Restricted to Specific Programs					74,036
Earnings on Investments					5,876
Miscellaneous					<u>349,176</u>
<b>Total General Revenues</b>					<b><u>8,912,584</u></b>
<b>CHANGE IN NET POSITION</b>					<b>(1,748,893)</b>
<b>NET POSITION - BEGINNING OF YEAR</b>					<b><u>8,302,284</u></b>
<b>NET POSITION - END OF YEAR</b>					<b><u>\$ 6,553,391</u></b>

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Temporary Investments	\$ 3,562,764	\$ 408,833	\$ 148,945	\$ 4,120,542
Property Taxes Receivable:				
Current	721,926	273,116	27,012	1,022,054
Delinquent	30,879	12,383	1,092	44,354
Accounts Receivable	215,024	-	17,664	232,688
Due from Other Minnesota School Districts	145,217	-	-	145,217
Due from Government Agencies	848,002	2,260	6,911	857,173
Inventory	-	-	10,729	10,729
Prepays	-	7,288	-	7,288
	<u>\$ 5,523,812</u>	<u>\$ 703,880</u>	<u>\$ 212,353</u>	<u>\$ 6,440,045</u>
<b>TOTAL ASSETS</b>				
<b>LIABILITIES</b>				
Accounts Payable	\$ 61,538	\$ -	\$ 13,699	\$ 75,237
Salaries Payable	243,324	-	21,458	264,782
Payroll Deduction and Employer Contributions	203,148	-	-	203,148
Total Liabilities	<u>508,010</u>	<u>-</u>	<u>35,157</u>	<u>543,167</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unearned Revenue:				
Delinquent Property Taxes	30,879	12,383	1,092	44,354
Property Taxes Levied for Subsequent Years	1,427,078	611,990	60,527	2,099,595
Total Deferred Inflows of Resources	<u>1,457,957</u>	<u>624,373</u>	<u>61,619</u>	<u>2,143,949</u>
<b>FUND BALANCES</b>				
Nonspendable	-	7,288	10,729	18,017
Restricted	5,717	72,219	213,759	291,695
Assigned	9,561	-	-	9,561
Unassigned	3,542,567	-	(108,911)	3,433,656
Total Fund Balances	<u>3,557,845</u>	<u>79,507</u>	<u>115,577</u>	<u>3,752,929</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
	<u>\$ 5,523,812</u>	<u>\$ 703,880</u>	<u>\$ 212,353</u>	<u>\$ 6,440,045</u>



**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**RECONCILIATION OF THE BALANCE SHEET-GOVERNMENTAL FUNDS**  
**TO THE STATEMENT OF NET POSITION**  
**JUNE 30, 2017**

Total fund balances - governmental funds \$ 3,752,929

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

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

Capital Assets	\$ 29,073,175	
Accumulated Depreciation	<u>(13,280,823)</u>	
Capital Assets (Net)		15,792,352

Long-term liabilities, including bonds and capital leases, are not due and payable in the current period and therefore are not reported as liabilities in the funds:

Bond Principal Payable	(4,905,000)	
Bond Premium, Net of Accumulated Amortization	(126,030)	
Capital Lease Payable	(1,322,864)	
Other Postemployment Benefits Payable	(21,580)	
Severance Payable	<u>(9,561)</u>	
		(6,385,035)

The net pension liability and related inflows/outflows represent the allocation of the pension obligations of the statewide plans to the District. Such balances are not reported in the funds:

Net Pension Liability	(16,569,066)	
Deferred Outflows - Pensions	10,226,573	
Deferred Inflows - Pensions	<u>(291,701)</u>	
		(6,634,194)

Interest on long-term debt is recognized as an expenditure when due and payable in the governmental funds. Therefore, interest is not accrued in the governmental funds Balance Sheet, but is accrued in the Statement of Net Position:

(17,015)

**TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES**

**\$ 6,553,391**

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>				
Local Property Tax Levies	\$ 1,642,598	\$ 593,446	\$ 58,842	\$ 2,294,886
Other Local and County Revenues	573,450	132	171,935	745,517
State Sources	6,664,997	22,597	86,668	6,774,262
Federal Sources	363,157	-	277,192	640,349
Sales and Other Conversions of Assets	2,866	-	151,366	154,232
<b>TOTAL REVENUES</b>	<u>9,247,068</u>	<u>616,175</u>	<u>746,003</u>	<u>10,609,246</u>
<b>EXPENDITURES</b>				
Current:				
Administration	638,592	-	-	638,592
District Support Services	242,866	-	-	242,866
Regular Instruction	3,793,910	-	-	3,793,910
Vocational Instruction	123,275	-	-	123,275
Exceptional Instruction	1,280,741	-	-	1,280,741
Community Education and Services	-	-	287,904	287,904
Instructional Support Services	555,778	-	-	555,778
Pupil Support Services	751,684	-	451,768	1,203,452
Sites and Buildings	1,022,404	-	532	1,022,936
Fiscal and Other Fixed Costs Programs	51,442	-	-	51,442
Capital Outlay	61,329	-	3,875	65,204
Debt Service:				
Principal	92,420	510,000	-	602,420
Interest and Other Fiscal Charges	47,756	129,436	-	177,192
<b>TOTAL EXPENDITURES</b>	<u>8,662,197</u>	<u>639,436</u>	<u>744,079</u>	<u>10,045,712</u>
<b>NET CHANGE IN FUND BALANCES</b>	584,871	(23,261)	1,924	563,534
<b>FUND BALANCES - BEGINNING</b>	<u>2,972,974</u>	<u>102,768</u>	<u>113,653</u>	<u>3,189,395</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 3,557,845</u>	<u>\$ 79,507</u>	<u>\$ 115,577</u>	<u>\$ 3,752,929</u>

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

Net change in fund balances - governmental funds \$ 563,534

Amounts reported for governmental activities in the Statement of Activities  
are different due to the following:

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 Outlay	\$ 65,204	
Depreciation Expense	<u>(962,447)</u>	(897,243)

The issuance of long-term debt provides current financial resources to governmental  
funds while the repayment of principal of long-term debt consumes the current  
financial resources of governmental funds. Neither transaction, however, has any  
effect on net position. Also, governmental funds report the effect of premiums and  
discounts when debt is first issued, whereas these amounts are deferred and  
amortized in the Statement of Activities. The amounts below are the effects of these  
differences in the treatment of long-term debt and related items:

Capital Lease Principal Payments	92,420	
Bond Principal Repayments	510,000	
Amortization of Bond Premium	<u>14,004</u>	616,424

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

39,751

Some expenses reported in the Statement of Activities do not require the use of  
current financial resources and, therefore, are not reported as expenditures  
in governmental funds:

Severance and OPEB Payable		(60,732)
----------------------------	--	----------

Net pension liability does not represent the impending use of current resources.

Therefore, the changes in this liability and the related deferrals are not reported  
in the governmental funds:

(2,005,474)

**CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ (1,748,893)**

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**1.A. FINANCIAL REPORTING ENTITY**

Independent School District No. 2180 (the District) is an educational entity established by the State of Minnesota. The government of the District is directed by an elected six-member Board of Education (the Board). The Board exercises legislative authority and determines all matters of policy. The Board appoints personnel responsible for the proper administration of all affairs relating to the District. The accompanying financial statements present the government entities for which the District is considered to be financially accountable.

The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. Based on these criteria, there are currently no entities considered to be component units of the District.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. In accordance with Minnesota State Statutes, the District's Board has elected to control and exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are included in the basic financial statements as part of the General Fund.

**1.B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the primary government. For the most part, interfund activities have been removed from these statements.

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 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operations or capital requirements of a particular function or segment. Taxes and other items not included among program revenues are reported instead as *general revenues*.

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

**1.C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

The financial statements of Independent School District No. 2180 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Expenses are classified by function for governmental activities.

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measureable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to severance and claims and judgments, are recorded only when payment is due. In the fund financial statements, expenditures are classified as follows:

Governmental Funds – By Character	Current (further classified by function)
	Capital Outlay
	Debt Service

Property taxes, intergovernmental revenue, and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measureable and available only when cash is received by the District.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measureable and become available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

The District reports the following major governmental funds:

The *General Fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the government reports the following non-major fund types:

The *Special Revenue Funds* account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The *Capital Project Fund* is used to account for the operations of the District's building construction program.

**1.D. 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, deferred outflows, liabilities, and deferral inflows, and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY**

**Deposits and Investments**

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable participation by each of the funds. Temporary cash investments are stated at cost which approximates fair value. Investments in external investment pools are valued at the pool's share price.

**Property Taxes Receivable**

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

Generally, property taxes are recognized as revenue by the District in the fiscal year that begins midway through the calendar year in which the tax levy is collectible. To help balance the state budget, the Minnesota Legislature utilizes a tool referred to as the "tax shift," which periodically changes the District's recognition of property tax revenue. The tax shift advance recognizes cash collected for the subsequent year's levy as current year revenue, allowing the state to reduce the amount of aid paid to the District.

Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following calendar year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become an enforceable lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

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

**Accounts Receivable**

Accounts receivable include amounts billed for services provided before year end. No substantial losses are anticipated from present receivable balances; therefore, no allowance for uncollectible accounts is deemed necessary.

**Due from Government Agencies**

Amounts due from the Minnesota Department of Education, from the federal government through the Department of Education and from other governmental units for general education aids and reimbursements under various specific programs are reported at the estimated amounts to be received based on available information at the date of this report. In some instances, there are adjustments and changes in proration implemented by these agencies, which are dependent upon the amount of funds available for distribution, and may result in differing amounts actually being received. Any such differences will be absorbed into operations of the subsequent period.

**Inventory**

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

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)**

**Prepays**

Prepaid expenses consist of amounts paid during the year ended June 30, 2017 which will benefit future periods. Included in this amount are insurance premiums applicable to future accounting periods. In the governmental fund financial statements, this amount includes interest paid before it was due and payable.

**Capital Assets**

Capital assets are capitalized at historical cost or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$2,500 or more for capitalizing capital assets. The system for accumulation of capital assets cost data does not provide the means for determining the percentage of assets valued at actual and those valued at estimated cost.

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

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.

**Accrued Payroll Liabilities**

Salaries pertaining to the school year ended June 30, 2017, which are payable in July and August 2017, are accrued as of June 30, 2017, and are shown as a liability on the accompanying financial statements. Liabilities for payroll taxes, amounts withheld from payroll checks and benefits accrued are also included.

**Postemployment Benefits Other Than Pensions**

Under the provisions of the various employee and union contracts, the District provides health insurance coverage for varying lengths of time if certain age and minimum years of service requirements are met.

**Compensated Absences Payable**

Vacation Pay – The District permits some employees to accumulate varying amounts of vacation pay as determined by their contract. All vacation pay eligible for payout upon employee termination is accrued in the government-wide financial statements.

Sick Pay – District employees are entitled to sick leave at various rates and is not paid at termination.

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)**

**Long-Term Obligations**

In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities Statement of Net Position. Bond premiums and discounts are deferred and are 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.

**Net Pension Liability**

The net pension liability represents the District's allocation of their pro-rata share of the Statewide General Employees Retirement Fund and Teachers Retirement Association net pension liabilities.

**Pensions**

**PERA**

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 additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**TRA**

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. This 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 in 2015.

**Interfund Transactions and Balances**

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. If short-term in nature or incurred through goods and service type transactions, such interfund balances are reported as "due to/from other funds." Long-term interfund loans are reported as "advances to/from other funds." Interfund transactions and balances between governmental funds are eliminated in the Statement of Net Position.



**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)**

**Deferred Outflows/Inflows of Resources**

In addition to assets, the Statement of Net Position reports a separate section for deferred outflows of resources. This element represents a consumption of net position that applies to future periods, and therefore, will not be recognized as an outflow of resources (expense) until that time. The District reports deferred outflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds in which District employees participate.

In addition to liabilities, the Statement of Net Position and Balance Sheet report a separate section for deferred inflows of resources. This element represents an acquisition of net position or fund balance that applies to future periods, and therefore, will not be recognized as an inflow of resources (revenue) until that time. The District reports property taxes levied for subsequent years as deferred inflows of resources in both the government-wide and governmental fund financial statements. The District reports delinquent property tax receivables as deferred inflows of resources in the governmental funds, in accordance with the modified accrual basis of accounting. In addition, the District reports deferred inflows of resources in the government-wide Statement of Net Position in relation to the activity of the pension funds in which District employees participate. Accordingly, such amounts are deferred and recognized as inflows of resources in the period that they become available.

See Note 5 for additional information pertaining to the deferred outflows and deferred inflows recorded to account for pension activities.

**Fund Balance**

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

**Nonspendable** – Includes amounts that cannot be spent because they are either not in spendable form, or they are legally or contractually required to be maintained intact. The nonspendable fund balance at June 30, 2017 consists of prepaid expenditures and inventory.

**Restricted** – Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

**Committed** – Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the Board of Education (the Board), which is the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board modifies or rescinds the commitment by resolution.

**Assigned** – Amounts that are neither restricted or committed but are constrained by the District's intent to be used for specific purposes. The Board has delegated the authority to assign fund balances to the District's Superintendent and Business Manager.

**Unassigned** – The residual classification for the General Fund and also negative residual amounts in other funds, if any. The District has formally adopted a policy under which it strives to maintain a minimum unassigned General Fund balance equal to approximately 20% of the annual budget.

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**1.E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND EQUITY (Continued)**

**Fund Balance (Continued)**

When both restricted and unrestricted resources are available for use, it is the District's practice to first use restricted resources, and then use unrestricted resources as they are needed. If resources from more than one fund balance classification could be spent, the District will spend the resources from fund balance classifications in the following order: committed, assigned and unassigned, in accordance with the District's policy.

See Note 3.D. for additional disclosures.

**Net Position**

Net position represents the difference between the sum of assets and deferred outflows of resources and the sum of liabilities and deferred inflows of resources. Net position is displayed in three components:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquiring the capital assets.

Restricted net position – Consists of net position restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.

Unrestricted net position – All other net position that does not meet the definition of "restricted" or "net investment in capital assets."

It is the District's policy to consider restricted net position to its depletion before unrestricted net position is applied.

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

By its nature, the District is subject to various federal, state, and local laws and contractual regulations. The District complies with all state and local laws and regulations requiring the use of separate funds.

**2.A. BUDGETARY INFORMATION**

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General and major special revenue funds. Formal budgetary integration is employed as a management control device. All annual appropriations lapse at fiscal year-end. The School Board must approve revisions to budgeted amounts.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve the portion of the applicable appropriations, is employed by the District to assure effective budgetary control and to facilitate effective cash planning and control. All appropriations lapse at year-end. Encumbrance information, however, has not been incorporated into the financial statements.

The District's General Fund budget was amended during the year. The revenues budget was increased by \$896,241, and the expenditures budget was increased in several functions for an overall of \$875,437 from original to final. The final budget called for expenditures of \$8,590,858 and an increase in fund balance of \$183,743. Actual expenditures exceeded final budgeted amounts by \$71,339.

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)**

**2.B. EXPENDITURES IN EXCESS OF BUDGET**

Actual expenditures exceeded total budgeted expenditures for the current year end as follows:

Fund	Budgeted Expenditures	Actual Expenditures	Transfers Included in Actual
General Fund	\$ 8,590,858	\$ 8,662,197	\$ -

This is primarily due to sites and building expenditures of \$39,316 that was not budgeted for by the District.

**2.C. DEFICIT FUND EQUITY**

At June 30, 2017, the Community Service fund has a deficit fund balance of \$36,629. The deficit will be eliminated with future revenues.

**NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS**

**3.A. DEPOSITS AND INVESTMENTS**

**Deposits**

In accordance with applicable Minnesota Statutes, the District maintains deposits in financial institutions designated by the School Board. Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance or bonds (100% if collateral pledged is irrevocable standby letters of credit issued by the Federal Home Loan Bank). The District complies with such laws.

Authorized collateral in lieu of a corporate surety bond includes:

- United States Government Treasury bills, Treasury notes, Treasury bonds;
- Issues of United States government agencies and instrumentalities as quoted by a recognized industry quotation service available to the government entity;
- A general obligation of a state or local government, with taxing powers, rated “A” or better;
- A revenue obligation of a state or local government, with taxing powers, rated “AA” or better;
- Unrated general obligation securities of a local government, with taxing powers, pledged as collateral against funds deposited by that same local government entity;
- Irrevocable standby letter of credit issued by a Federal Home Loan Bank accompanied by written evidence that the Federal Home Loan Bank’s public debt is rated “AA” or better by Moody’s or Standard and Poor’s; or
- Time deposits insured by any federal agency.

Minnesota Statutes require that all collateral shall be placed in safekeeping in a restricted account at a Federal Reserve Bank, or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral. The selection should be approved by the District.

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.A. DEPOSITS AND INVESTMENTS (Continued)**

**Deposits (Continued)**

At June 30, 2017, the District's deposits were not exposed to custodial credit risk. The District's deposits were sufficiently covered by federal depository insurance or by collateral held by the District's agent in the District's name.

**Investments**

The District may also invest idle funds as authorized by Minnesota Statutes as follows: direct obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that received the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers. The District does not have any investment policies that would further limit investment choices.

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool shares. The investment in the Minnesota School District Liquid Asset Fund is not subject to the credit risk classifications as noted in paragraph 9 of the GASB Statement No. 40.

Investment balances at June 30, 2017 are as follows:

Type of Investments	Credit Rating	Segmented Time Distribution	Fair Value
Minnesota District Liquid Asset Fund	N/A	Less than 1 year	\$ <u>3,622</u>

The investments of the District are subject to the following risks:

- Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Ratings are provided by various credit rating agencies and where applicable, indicate associated credit risk. Minnesota Statutes limit the District's investments.
- Custodial credit risk is the risk that in the event of a failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The District does not have a formal investment policy to address custodial credit risk but typically limits its exposure by purchasing insured or registered investments.
- Concentration of Credit Risk is the risk associated with the magnitude of the District's investments (considered five percent or more) in the investments of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District has no formal policy limiting the amounts that may be invested in any one issuer. At June 30, 2017, the District does not have a significant concentration of credit risk.

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.A. DEPOSITS AND INVESTMENTS (Continued)**

**Investments (Continued)**

- Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District has no formal policy to address interest rate risk.

All of the District's investments are valued using quoted market prices (level 1).

**Deposits and Temporary Investments Summary**

The following is a summary of total deposits and temporary investments:

Carrying Amount of Deposits	\$ 4,116,920
Investments (see Investments section)	<u>3,622</u>
Total Cash and Temporary Investments	<u>\$ 4,120,542</u>

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

District-Wide:	
Cash and Temporary Investments	<u>\$ 4,120,542</u>

**3.B. CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Being Depreciated				
Buildings and Improvements	\$ 28,243,421	\$ -	\$ -	\$ 28,243,421
Equipment	<u>764,550</u>	<u>65,204</u>	<u>-</u>	<u>829,754</u>
Total Capital Assets				
Being Depreciated	29,007,971	65,204	-	29,073,175
Less Accumulated Depreciation for				
Buildings and Improvements	11,804,179	909,610	-	12,713,789
Equipment	<u>514,197</u>	<u>52,837</u>	<u>-</u>	<u>567,034</u>
Total Accumulated Depreciation	<u>12,318,376</u>	<u>962,447</u>	<u>-</u>	<u>13,280,823</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 16,689,595</u>	<u>\$ (897,243)</u>	<u>\$ -</u>	<u>\$ 15,792,352</u>

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.B. CAPITAL ASSETS (Continued)**

Depreciation expense was charged to functions of the District as follows:

Governmental Activities	
Administration	\$ 9,201
District Support Services	11,980
Regular Instruction	7,338
Instructional Support Services	2,524
Pupil Support Services	6,192
Sites and Buildings	<u>925,212</u>
 Total Depreciation Expense - Governmental Activities	 <u><u>\$ 962,447</u></u>

**3.C. NONCURRENT LIABILITIES**

**General Obligation (G.O.) Bonds**

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies, are dedicated for the retirement of these obligations. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

There are a number of limitations and restrictions contained in the general obligation bond indentures.

The interest rates are fixed rates that increase a predetermined amount each year. District-wide interest and other fiscal charges for 2017 total \$123,437 on the Statement of Activities. Fund financial statement interest and other fiscal charges for 2017 total \$177,192. Interest expenses included in direct program expenses total \$0; all bond interest and fees are included in interest and other fiscal charges.

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued and premiums or discounts on debt issuances are reported as other financing sources. On the district-wide statements, unamortized bond premium in 2017 totals \$126,030 and amortization of premium totals \$14,004. At June 30, 2017, the District does not have any unamortized bond discounts.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds currently outstanding are as follows:

Description	Original Issue Amount	Interest Rate	Final Maturity Date	Balance Outstanding
Governmental Activities				
G.O. Alternative and Capital Facilities				
Bonds, Series 2013A	<u>\$ 5,960,000</u>	1.00-3.00%	2/1/2026	<u>\$ 4,905,000</u>

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.C. NONCURRENT LIABILITIES (Continued)**

**Capital Lease**

In February 2013, the District signed a lease/purchase agreement to finance energy conservation upgrades. Additional information, including the outstanding balance on the lease/purchase agreement at June 30, 2017, is as follows:

Description	Original Issue Amount	Interest Rates	Final Maturity Date	Balance Outstanding
Governmental Activities				
Equipment Lease	\$ 1,605,507	3.43%	8/15/2028	\$ 1,322,864

The carrying value of the assets acquired by the Equipment Lease is estimated to approximate the outstanding balance on the lease at June 30, 2017.

**Debt Service Requirements**

At June 30, 2017, estimated annual debt service requirements to maturity for the general obligation bonds are as follows:

Years Ending June 30,	Governmental Activities		
	G.O. Bonds		
	Principal	Interest	Total
2018	\$ 515,000	\$ 43,725	\$ 558,725
2019	520,000	82,300	602,300
2020	525,000	77,100	602,100
2021	530,000	71,850	601,850
2022	540,000	63,900	603,900
2023-2026	<u>2,275,000</u>	<u>156,000</u>	<u>2,431,000</u>
Total	<u>\$ 4,905,000</u>	<u>\$ 494,875</u>	<u>\$ 5,399,875</u>

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.C. NONCURRENT LIABILITIES (Continued)**

**Debt Service Requirements (Continued)**

At June 30, 2017, estimated annual debt service requirements to maturity for the capital lease are as follows:

Years Ending June 30,	Governmental Activities		
	Capital Lease		
	Principal	Interest	Total
2018	\$ 95,617	\$ 44,559	\$ 140,176
2019	98,925	41,251	140,176
2020	102,347	37,829	140,176
2021	105,887	34,289	140,176
2022	109,550	30,626	140,176
2023-2027	607,285	93,595	700,880
2028-2029	<u>203,253</u>	<u>7,011</u>	<u>210,264</u>
Total	<u>\$ 1,322,864</u>	<u>\$ 289,160</u>	<u>\$ 1,612,024</u>

**Changes in Noncurrent Liabilities**

Noncurrent liability activity for the year ended June 30, 2017, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 5,415,000	\$ -	\$ (510,000)	\$ 4,905,000	\$ 515,000
Unamortized Premium	140,034	-	(14,004)	126,030	-
Capital Leases	1,415,284	-	(92,420)	1,322,864	95,617
Severance Payable	11,857	17,089	(19,385)	9,561	-
OPEB Liability (Asset)	(41,448)	22,643	(85,671)	21,580	-
Net Pension Liability	<u>4,966,614</u>	<u>11,602,452</u>	<u>-</u>	<u>16,569,066</u>	<u>-</u>
Long-Term Liabilities	<u>\$ 11,907,341</u>	<u>\$ 11,642,184</u>	<u>\$ (721,480)</u>	<u>\$ 22,954,101</u>	<u>\$ 610,617</u>

Bonds payable are typically funded through the Debt Service Fund. Capital leases, severance payable, and OPEB are typically funded through the General Fund.



**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.D. FUND BALANCE CLASSIFICATIONS**

At June 30, 2017, governmental fund equity includes the following:

	General Fund	Debt Service Fund	Other Governmental Funds	Total Governmental Funds
Nonspendable				
Inventory	\$ -	\$ -	\$ 10,729	\$ 10,729
Prepays	-	7,288	-	7,288
Total Nonspendable	<u>\$ -</u>	<u>\$ 7,288</u>	<u>\$ 10,729</u>	<u>\$ 18,017</u>
Restricted for				
Staff Development	\$ 82,728	\$ -	\$ -	\$ 82,728
Health and Safety	(7,967)	-	-	(7,967)
Disabled Accessibility	12,999	-	-	12,999
Safe Schools Levy	(87,211)	-	-	(87,211)
Long-Term Facility Maintenance	(10,889)	-	-	(10,889)
Medical Assistance	16,057	-	-	16,057
Debt Service	-	72,219	-	72,219
Food Service	-	-	141,477	141,477
Community Education	-	-	(12,547)	(12,547)
Early Childhood and Family Education	-	-	73,102	73,102
School Readiness	-	-	11,727	11,727
Total Restricted	<u>\$ 5,717</u>	<u>\$ 72,219</u>	<u>\$ 213,759</u>	<u>\$ 291,695</u>
Assigned for				
Severance	<u>\$ 9,561</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,561</u>

Restricted for Staff Development - This amount represents available resources restricted for the training and development of District staff.

Restricted for Health and Safety - This amount represents available resources dedicated for capital expenditure health and safety projects. Revenues are derived from state aids and tax levies and expenditures are for necessary improvements for fire safety hazards, life safety hazards, asbestos removal and selected repairs and cleanup, removal, disposal, and repairs related to storing heating fuel or transportation fuel.

Restricted for Disabled Accessibility - This amount represents restricted resources for improving the accessibility of the school for disabled individuals.

Restricted for Safe Schools Levy - This amount represents restricted resources for funding programs designed to increase school safety and awareness. Amount also represents resources restricted to pay for the salaries of student counselors, security, and other personnel employed for the purpose of providing early responses to problems.

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 3 DETAILED NOTES ON TRANSACTION CLASSES/ACCOUNTS (Continued)**

**3.D. FUND BALANCE CLASSIFICATIONS (Continued)**

Restricted for Long-Term Facility Maintenance - This amount represents restricted resources for long-term facility maintenance stipulated by the District's long-term facility maintenance plan.

Restricted for Medical Assistance - This amount represents available resources restricted for medical assistance expenditures.

Restricted for Debt Service - This amount represents restricted resources for debt service stipulated by constitution, external resource providers, or through enabling legislation.

Restricted for Food Service - This amount represents restricted resources for food service stipulated by constitution, external resource providers, or through enabling legislation.

Restricted for Community Education - This amount represents available resources for community education classes. Revenues are derived from tax levies and state aids and expenditures are for salaries, benefits, and supplies. Any deficits can be eliminated by future tax levies and state aids.

Restricted for Early Childhood Family Education (ECFE) - This amount represents available resources for ECFE classes. Revenues are derived from local tax levies and state aids and expenditures are for salaries, benefits and supplies.

Restricted for School Readiness - This amount represents the resources available to provide for services for school readiness programs, which includes aids, fees, grants and all other revenues received by the District for the program.

Assigned for Severance - This amount represents fund balance assigned for future severance payments.

**NOTE 4 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**Plan Description**

The District operates a single-employer retiree benefit plan (the Plan) that provides health insurance to eligible employees and their families through the District's health insurance plan. As of the most recent actuarial valuation, there were 109 active employees and 6 retirees participating in the plan. Benefit and eligibility provisions are established through negotiations between the District and the union representing the District's teachers and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

**Funding Policy**

The District has historically funded these liabilities on a pay-as-you-go basis. Contribution requirements are negotiated between the District and union representatives. For the year ended June 30, 2017, the District contributed \$22,643.

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 4 POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

**Annual OPEB Cost and Net OPEB Obligation**

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 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 over a period not to exceed thirty years. The following table details the components of the District's annual OPEB cost for the year, the amount actually paid from the plan, and changes in the District's net OPEB obligation.

Annual Required Contribution	\$	85,639
Interest on Net OPEB Obligation		(61)
Adjustment to Annual Required Contribution		93
Annual OPEB Cost (Expense)		85,671
Contributions Made		(22,643)
Change in Net OPEB Obligation		63,028
Net OPEB Obligation (Asset) at Beginning of Year		(41,448)
Net OPEB Obligation at End of Year	\$	21,580

The District's annual OPEB cost, the percentage of the annual OPEB cost contributed to the plan, and the net OPEB obligation for the past three fiscal years follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
06/30/2017	\$ 85,671	26.43 %	\$ 21,394
06/30/2016	64,623	103.99	(41,448)
06/30/2015	78,229	96.44	835

**Funded Status and Funding Progress**

As of July 1, 2015, the most recent actuarial valuation date, the District's actuarial accrued liability (AAL) was \$615,658. The unfunded actuarial accrued liability (UAAL) was \$615,658. The annual payroll for active employees covered by the plan in the actuarial valuation was \$3,913,290 for a ratio of UAAL to covered payroll of 15.7 percent.

Actuarial valuations of an ongoing plan 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 healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions 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, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 4    POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)**

**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 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 and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.50 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date.

The initial healthcare trend rate was 7.25 percent, reduced by decrements to an ultimate rate of 5.00 percent after 9 years. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at July 1, 2015 averaged 27 years.

**NOTE 5    DEFINED BENEFIT PENSION PLANS – STATEWIDE**

**5.A.    PUBLIC EMPLOYEES RETIREMENT ASSOCIATION**

**Plan Description**

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

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

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

**Benefits Provided**

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

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 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given one percent 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.

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 5    DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**5.A.    PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)**

**Benefits Provided (Continued)**

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 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 1.7 percent for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

**Contributions**

*Minnesota Statutes* Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.50 percent of their annual covered salary in fiscal year 2017. The District was required to contribute 7.50 percent for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2017 were \$95,766. The District's contributions were equal to the required contributions for each year as set by State Statute.

**Pension Costs**

General Employees Fund Pension Costs

At June 30, 2017 the District reported a liability of \$1,602,072 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 2017. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$20,840. 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 share was 0.0197% which was a decrease of 0.0001% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$220,901 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$6,214 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. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**5.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)**

**Pension Costs (Continued)**

General Employees Fund Pension Costs (Continued)

At June 30, 2017 the District reported its proportionate share of the General Employees Plan’s deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 4,758	\$ 130,264
Changes in actuarial assumptions	345,639	-
Differences between projected and actual investment earnings	178,677	-
Changes in proportion	-	30,508
Contributions paid to PERA subsequent to the measurement date	<u>95,766</u>	<u>-</u>
Total Deferred Outflows/Inflows	<u>\$ 624,840</u>	<u>\$ 160,772</u>

A total of \$95,766 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 deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30:</u>	<u>Pension Expense</u>
2018	\$ 96,751
2019	\$ 60,041
2020	\$ 153,641
2021	\$ 57,869

**Actuarial Assumptions**

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

<u>Assumptions</u>	<u>Rates</u>
Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

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

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**5.A. PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)**

**Actuarial Assumptions (Continued)**

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:

General Employees Fund

- The assumed post-retirement benefit increase rate was changed from 1.00 percent per year through 2035 and 2.50 percent per year thereafter to 1.00 percent per year for all future years.
- The assumed investment return was changed from 7.90 percent to 7.50 percent. The single discount rate was changed from 7.90 percent to 7.50 percent.
- Other assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

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

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

**Discount Rate**

The discount rate used to measure the total pension liability in 2016 was 7.50 percent, a reduction from the 7.90 percent 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 of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 5    DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**5.A.    PUBLIC EMPLOYEES RETIREMENT ASSOCIATION (Continued)**

**Pension Liability Sensitivity**

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

Sensitivity of Net Pension Liability at Current Single Discount Rate		
	Rates	Amounts
1% Increase in Discount Rate	8.50%	\$1,047,419
Current Discount Rate	7.50%	\$1,602,072
1% Decrease in Discount Rate	6.50%	\$2,275,417

**Pension Plan Fiduciary Net Position**

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

**5.B.    TEACHERS RETIREMENT ASSOCIATION**

**Plan Description**

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

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

**Benefits Provided**

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

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



**INDEPENDENT SCHOOL DISTRICT NO. 2180  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**5.B. TEACHERS RETIREMENT ASSOCIATION (Continued)**

**Benefits Provided (Continued)**

*Tier I Benefits*

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

With these provisions:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- (b) 3.0 percent per year early retirement reduction factor for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

*Tier II Benefits*

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

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**5.B. TEACHERS RETIREMENT ASSOCIATION (Continued)**

**Contribution Rate**

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

	<u>Employee</u>	<u>Employer</u>
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

The District's contributions to TRA for the plan's fiscal year ended June 30, 2017, were \$254,895. The District's contributions were equal to the required contributions for each year as set by State Statute.

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
Add 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 <i>Schedule of Employer and Non-Employer Allocations</i>	<u>\$390,131,928</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**5.B. TEACHERS RETIREMENT ASSOCIATION (Continued)**

**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	
<u>Actuarial Information:</u>	
Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
<u>Actuarial Assumptions:</u>	
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	3.5 – 9.5%
Cost of living adjustment	2.0%
<u>Mortality Assumptions:</u>	
Pre-retirement:	RP- 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability:	RP-2014 disabled retiree mortality table, without adjustment.

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

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**5.B. TEACHERS RETIREMENT ASSOCIATION (Continued)**

**Actuarial Assumptions (Continued)**

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

**Discount Rate**

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

**Net Pension Liability**

At June 30, 2017, the District reported a liability of \$14,966,994 for its proportionate share of TRA's 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. The District's proportionate share was 0.0627% at the end of the measurement period and 0.0637% 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	\$14,966,994
State’s proportionate share of the net pension liability associated with the District	\$1,502,418

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 2.00 percent annually. While in the previous measurement the COLA increased to 2.50 percent in 2034.

For the year ended June 30, 2017, the District recognized pension expense of \$2,207,837. It also recognized \$209,788 as pension expense for the support provided by direct aid.

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 5 DEFINED BENEFIT PENSION PLANS – STATEWIDE (Continued)**

**5.B. TEACHERS RETIREMENT ASSOCIATION (Continued)**

**Net Pension Liability (Continued)**

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 economic experience	\$ 148,831	\$ 416
Changes in actuarial assumptions	8,538,318	-
Differences between projected and actual investment earnings	644,967	-
Changes in proportion	14,722	130,513
Contributions paid to PERA subsequent to the measurement date	254,895	-
Total Deferred Outflows/Inflows	\$ 9,601,733	\$ 130,929

Deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

Year Ended June 30:	Pension Expense
2018	\$ 1,813,285
2019	\$ 1,813,285
2020	\$ 2,039,068
2021	\$ 1,900,465
2022	\$ 1,649,805

**Pension Liability Sensitivity**

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

Sensitivity of Net Pension Liability at Current Single Discount Rate		
	Rates	Amounts
1% Increase in Discount Rate	5.66%	\$11,453,190
Current Discount Rate	4.66%	\$14,966,994
1% Decrease in Discount Rate	3.66%	\$19,281,229

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

**Pension Plan Fiduciary Net Position**

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

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 6 OTHER INFORMATION**

**6.A. COMMITMENTS AND CONTINGENCIES**

**Federal and State Programs**

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

**6.B. RISK MANAGEMENT – CLAIMS AND JUDGMENTS**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To manage these risks, the District purchases commercial insurance. The District retains risk for the deductible portions of the insurance. The amounts of these deductibles are considered immaterial to the financial statements. There were no significant reductions in insurance from the previous year settlements in excess of insurance for any of the past two years. The District is also self-insured for state reemployment compensation insurance.

**6.C. OTHER EMPLOYEE BENEFITS**

**Health Insurance**

The District has joined together with other school districts in Minnesota in the South Central - West Central Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as common risk management and insurance program for member districts. The District pays an annual premium to this plan for its health insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating districts for future losses sustained is extremely remote.

**Defined Contribution Plan**

The District provides eligible employees future retirement benefits through the District's 403(b) Plan ("the Plan"). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District's contributions to the plan total \$44,836 for the year ended June 30, 2017.

**6.D. NEW STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB has issued GASB Statement 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 statement is effective for financial statements for fiscal years beginning after June 15, 2017.

### **REQUIRED SUPPLEMENTARY INFORMATION**

Required supplementary information includes financial information and disclosures that are required by the Governmental Accounting Standards Board but are not considered a part of the basic financial statements.

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**BUDGETARY COMPARISON SCHEDULE – GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual Amounts Budgetary	Variance with Final Budget
	Original	Final	Basis	Over (Under)
<b>REVENUES</b>				
Local Property Tax Levies	\$ 1,457,562	\$ 1,638,137	\$ 1,642,598	\$ 4,461
Other Local and County Revenues	149,700	252,226	573,450	321,224
State Sources	6,175,948	6,488,809	6,664,997	176,188
Federal Sources	95,000	394,929	363,157	(31,772)
Sales and Other Conversions of Assets	150	500	2,866	2,366
<b>TOTAL REVENUES</b>	<u>7,878,360</u>	<u>8,774,601</u>	<u>9,247,068</u>	<u>472,467</u>
<b>EXPENDITURES</b>				
Administration	765,617	654,285	680,091	25,806
District Support Services	234,355	244,962	242,866	(2,096)
Regular Instruction	3,518,923	3,643,158	3,793,910	150,752
Vocational Instruction	73,359	126,204	123,275	(2,929)
Exceptional Instruction	1,083,909	1,363,303	1,280,741	(82,562)
Instructional Support Service	385,370	612,091	555,778	(56,313)
Pupil Support Services	772,928	740,503	751,684	11,181
Site and Buildings	777,940	960,756	1,042,234	81,478
Fiscal and Other Fixed Costs Programs	103,020	105,420	51,442	(53,978)
Debt Service:				
Principal	-	90,875	92,420	1,545
Interest and Other Charges	-	49,301	47,756	(1,545)
<b>TOTAL EXPENDITURES</b>	<u>7,715,421</u>	<u>8,590,858</u>	<u>8,662,197</u>	<u>71,339</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>\$ 162,939</u>	<u>\$ 183,743</u>	584,871	<u>\$ 401,128</u>
<b>FUND BALANCES - BEGINNING</b>			<u>2,972,974</u>	
<b>FUND BALANCES - ENDING</b>			<u>\$ 3,557,845</u>	



**INDEPENDENT SCHOOL DISTRICT NO. 2180  
SCHEDULE OF FUNDING PROGRESS FOR  
POSTEMPLOYMENT BENEFIT PLAN  
FOR THE YEAR ENDED JUNE 30, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/2009	\$ -	\$ 543,263	\$ 543,263	0.0%	\$ 3,370,437	16.1%
07/01/2012	-	756,781	756,781	0.0%	3,242,640	23.3%
07/01/2015	-	615,658	615,658	0.0%	3,913,290	15.7%

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**SCHEDULE OF DISTRICT'S PROPORTIONATE**  
**SHARE OF NET PENSION LIABILITY**  
**LAST TEN YEARS** (Presented Prospectively)

For the Measurement Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the District (a+b)	District's Covered- Employee Payroll (c)	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b>General Employees Retirement Fund Pension Plan</b>							
2016	0.0197%	\$ 1,602,072	\$ 20,840	\$ 1,622,912	\$ 1,182,803	135.4%	68.9%
2015	0.0198%	\$ 1,026,139	\$ -	\$ 1,026,139	\$ 1,169,792	87.7%	78.2%
2014	0.0208%	\$ 977,080	\$ -	\$ 977,080	\$ 1,097,613	89.0%	78.7%

**SCHEDULE OF DISTRICT CONTRIBUTIONS**  
**LAST TEN YEARS** (Presented Prospectively)

For the Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
<b>General Employees Retirement Fund Pension Plan</b>					
2017	\$ 95,766	\$ 95,766	\$ -	\$ 1,276,880	7.5%
2016	\$ 88,624	\$ 88,624	\$ -	\$ 1,182,803	7.5%
2015	\$ 86,523	\$ 86,523	\$ -	\$ 1,169,792	7.4%

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**SCHEDULE OF DISTRICT'S PROPORTIONATE**  
**SHARE OF NET PENSION LIABILITY**  
**LAST TEN YEARS (Presented Prospectively)**

For the Measurement Year Ended June 30	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset) (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	District's Proportionate Share of the Net Pension Liability and the State's Proportionate Share of the Net Pension Liability Associated with the District (a+b)	District's Covered- Employee Payroll (c)	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll ((a+b)/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
<b>Teachers Retirement Association</b>							
2016	0.0627%	\$ 14,966,994	\$ 1,502,418	\$ 16,469,412	\$ 3,281,731	456.1%	44.9%
2015	0.0637%	\$ 3,940,475	\$ 483,746	\$ 4,424,221	\$ 3,245,051	121.4%	76.8%
2014	0.0652%	\$ 3,004,369	\$ 211,135	\$ 3,215,504	\$ 3,053,730	98.4%	81.5%

**SCHEDULE OF DISTRICT CONTRIBUTIONS**  
**LAST TEN YEARS (Presented Prospectively)**

For the Fiscal Year Ended June 30	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered- Employee Payroll	Contributions as a Percentage of Covered- Employee Payroll
<b>Teachers Retirement Association</b>					
2017	\$ 254,895	\$ 254,895	\$ -	\$ 3,398,600	7.5%
2016	\$ 245,806	\$ 245,806	\$ -	\$ 3,281,731	7.5%
2015	\$ 243,379	\$ 243,379	\$ -	\$ 3,245,051	7.5%

#### **OTHER SUPPLEMENTARY INFORMATION**

Other supplementary information includes financial statements and schedules not required by GASB, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**COMBINING BALANCE SHEET**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2017**

	<u>Food Service Fund</u>	<u>Community Service Fund</u>	<u>Building Construction Fund</u>	<u>Total Other Governmental Funds</u>
<b>ASSETS</b>				
Cash and Temporary Investments	\$ 140,210	\$ 8,735	\$ -	\$ 148,945
Property Taxes Receivable:				
Current	-	27,012	-	27,012
Delinquent	-	1,092	-	1,092
Accounts Receivable	-	17,664	-	17,664
Due from Government Agencies	3,337	3,574	-	6,911
Inventory	10,729	-	-	10,729
	<u>10,729</u>	<u>-</u>	<u>-</u>	<u>10,729</u>
<b>TOTAL ASSETS</b>	<u>\$ 154,276</u>	<u>\$ 58,077</u>	<u>\$ -</u>	<u>\$ 212,353</u>
<b>LIABILITIES</b>				
Accounts Payable	\$ 1,184	\$ 12,515	\$ -	\$ 13,699
Salaries Payable	886	20,572	-	21,458
Total Liabilities	2,070	33,087	-	35,157
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unearned Revenue:				
Delinquent Property Taxes	-	1,092	-	1,092
Property Taxes Levied for Subsequent Years	-	60,527	-	60,527
Total Deferred Inflows of Resources	-	61,619	-	61,619
<b>FUND BALANCES</b>				
Nonspendable Inventory	10,729	-	-	10,729
Restricted:				
Food Service	141,477	-	-	141,477
Community Education	-	(12,547)	-	(12,547)
Early Childhood and Family Education	-	73,102	-	73,102
School Readiness	-	11,727	-	11,727
Unassigned	-	(108,911)	-	(108,911)
Total Fund Balances	<u>152,206</u>	<u>(36,629)</u>	<u>-</u>	<u>115,577</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<u>\$ 154,276</u>	<u>\$ 58,077</u>	<u>\$ -</u>	<u>\$ 212,353</u>

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	Food Service Fund	Community Service Fund	Building Construction Fund	Total Other Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>REVENUES</b>				
Local Property Tax Levies	\$ -	\$ 58,842	\$ -	\$ 58,842
Other Local and County Revenues	2,406	169,529	-	171,935
State Sources	49,091	37,577	-	86,668
Federal Sources	277,192	-	-	277,192
Sales and Other Conversions of Assets	151,366	-	-	151,366
<b>TOTAL REVENUES</b>	<u>480,055</u>	<u>265,948</u>	<u>-</u>	<u>746,003</u>
<b>EXPENDITURES</b>				
Current:				
Community Education and Services	-	287,904	-	287,904
Pupil Support Services	451,768	-	-	451,768
Sites and Buildings	-	-	532	532
Capital Outlay	3,875	-	-	3,875
<b>TOTAL EXPENDITURES</b>	<u>455,643</u>	<u>287,904</u>	<u>532</u>	<u>744,079</u>
<b>NET CHANGE IN FUND BALANCES</b>	24,412	(21,956)	(532)	1,924
<b>FUND BALANCES - BEGINNING</b>	<u>127,794</u>	<u>(14,673)</u>	<u>532</u>	<u>113,653</u>
<b>FUND BALANCES - ENDING</b>	<u>\$ 152,206</u>	<u>\$ (36,629)</u>	<u>\$ -</u>	<u>\$ 115,577</u>

**INDEPENDENT SCHOOL DISTRICT NO. 2180**  
**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS**  
**COMPLIANCE TABLE**  
**FOR THE YEAR ENDED JUNE 30, 2017**

<u>01 GENERAL FUND</u>	<u>Audited</u>	<u>UFARS</u>	<u>Difference</u>	<u>06 BUILDING CONSTRUCTION</u>	<u>Audited</u>	<u>UFARS</u>	<u>Difference</u>
Total Revenue	9,247,068	9,247,068	-	Total Revenue	-	-	-
Total Expenditures	8,662,197	8,662,201	(4)	Total Expenditures	532	532	-
Non Spendable:				Non Spendable:			
460 Non Spendable Fund Balance	-	-	-	460 Non Spendable Fund Balance	-	-	-
Restricted/Reserve:				Restricted/Reserve:			
403 Staff Development	82,728	82,728	-	407 Capital Projects Levy	-	-	-
406 Health & Safety	(7,967)	(7,967)	-	413 Projects Funded by COP	-	-	-
407 Capital Projects Levy	-	-	-	467 LTFM	-	-	-
408 Cooperative Revenue	-	-	-	Restricted:			
413 Project Funded by COP	-	-	-	464 Restricted Fund Balance	-	-	-
414 Operating Debt	-	-	-	Unassigned:			
416 Levy Reduction	-	-	-	463 Unassigned Fund Balance	-	-	-
417 Taconite Building Maint	-	-	-				
423 Certain Teacher Programs	-	-	-	<u>07 DEBT SERVICE</u>			
424 Operating Capital	-	-	-	Total Revenue	616,175	616,175	-
426 \$25 Taconite	-	-	-	Total Expenditures	639,436	639,437	(1)
427 Disabled Accessibility	12,999	12,999	-	Non Spendable:			
428 Learning & Development	-	-	-	460 Non Spendable Fund Balance	7,288	7,288	-
434 Area Learning Center	-	-	-	Restricted/Reserve:			
435 Contracted Alt. Programs	-	-	-	425 Bond Refundings	-	-	-
436 St. Approved Alt. Program	-	-	-	451 QZAB Payments	-	-	-
438 Gifted & Talented	-	-	-	Restricted:			
440 Teacher Development & Eval	-	-	-	464 Restricted Fund Balance	72,219	72,218	1
441 Basic Skills Programs	-	-	-	Unassigned:			
445 Career & Tech Programs	-	-	-	463 Unassigned Fund Balance	-	-	-
448 Achievement & Integration	-	-	-				
449 Safe Schools Levy	(87,211)	(87,211)	-	<u>08 TRUST</u>			
450 Prekindergarten	-	-	-	Total Revenue	-	-	-
451 QZAB Payments	-	-	-	Total Expenditures	-	-	-
452 OPEB Liab Not in Trust	-	-	-	422 Net Assets	-	-	-
453 Unfunded Sev. & Retirement	-	-	-				
467 LTFM	(10,889)	(10,889)	-	<u>20 INTERNAL SERVICE</u>			
472 Medical Assistance	16,057	16,057	-	Total Revenue	-	-	-
Restricted:				Total Expenditures	-	-	-
464 Restricted Fund Balance	-	-	-	422 Net Assets	-	-	-
Committed:							
418 Committed for Separation	-	-	-	<u>25 OPEB REVOCABLE TRUST FUND</u>			
461 Committed Fund Balance	-	-	-	Total Revenue	-	-	-
Assigned:				Total Expenditures	-	-	-
462 Assigned Fund Balance	9,561	9,561	-	422 Net Assets	-	-	-
Unassigned:							
422 Unassigned Fund Balance	3,542,567	3,542,563	4	<u>45 OPEB IRREVOCABLE TRUST FUND</u>			
				Total Revenue	-	-	-
<u>02 FOOD SERVICE</u>				Total Expenditures	-	-	-
Total Revenue	480,055	480,055	-	422 Net Assets	-	-	-
Total Expenditures	455,643	455,642	1				
Non Spendable:				<u>47 OPEB DEBT SERVICE FUND</u>			
460 Non Spendable Fund Balance	10,729	10,729	-	Total Revenue	-	-	-
Restricted/Reserve:				Total Expenditures	-	-	-
452 OPEB Liab. Not in Trust	-	-	-	Non Spendable:			
Restricted:				460 Non Spendable Fund Balance	-	-	-
464 Restricted Fund Balance	141,477	141,476	1	Restricted:			
Unassigned:				425 Bond Refundings	-	-	-
463 Unassigned Fund Balance	-	-	-	464 Restricted Fund Balance	-	-	-
				Unassigned:			
				463 Unassigned Fund Balance	-	-	-
<u>04 COMMUNITY SERVICE</u>							
Total Revenue	265,948	265,949	(1)				
Total Expenditures	287,904	287,904	-				
Non Spendable:							
460 Non Spendable Fund Balance	-	-	-				
Restricted/Reserve:							
426 \$25 Taconite	-	-	-				
431 Community Education	(12,547)	(12,547)	-				
432 E.C.F.E.	73,102	73,102	-				
444 School Readiness	11,717	11,717	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liab. Not in Trust	-	-	-				
Restricted:							
464 Restricted Fund Balance	-	-	-				
Unassigned:							
463 Unassigned Fund Balance	(108,911)	(108,911)	-				

**OTHER REQUIRED  
REPORTS**



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

November 7, 2017

Members of the Board of Education  
Independent School District No. 2180  
Clara City, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2180 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Independent School District No. 2180's basic financial statements, and have issued our report thereon dated November 7, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Independent School District No. 2180's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying *Schedule of Findings and Responses*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying *Schedule of Findings and Responses* to be material weaknesses: 2016-001 and 2016-003.

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. We consider the following deficiency described in the accompanying *Schedule of Findings and Responses* to be a significant deficiency: 2016-002.

## **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 Findings**

Independent School District No. 2180's response to the findings identified in our audit is described in the accompanying *Schedule of Findings and Responses*. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

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

*Schlenner Wenner & Co.*

**SCHLENNER WENNER & CO.**

St. Cloud, Minnesota

**INDEPENDENT AUDITORS' REPORT ON  
MINNESOTA LEGAL COMPLIANCE**

November 7, 2017

Members of the Board of Education  
Independent School District No. 2180  
Clara 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. 2180, Clara City, Minnesota (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 7, 2017.

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

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

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

*Schlenner Wenner & Co.*

**SCHLENNER WENNER & CO.**  
St. Cloud, Minnesota

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2017**

**FINANCIAL STATEMENT FINDINGS**

**Finding 2016-001            Limited Segregation of Duties**

*Condition:*                            During our audit we reviewed procedures over cash receipts, cash disbursements, payroll and financial reporting and found the District to have limited segregation of duties over those transaction cycles.

*Criteria:*                                Internal control that supports the District’s ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties. In other words, no one person may have control over two or more of these responsibilities.

*Cause:*                                    Limited number of staff members.

*Effect:*                                    The existence of limited segregation of 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.

*Recommendation:*                    Although the number of staff members may not be large enough to eliminate this deficiency, we recommend that the District evaluate current procedures and segregate where possible and implement compensating controls. It is important that the Board is aware of this condition and monitor all financial information.

*Management’s Response:* Management agrees with the recommendation.

**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 currently has the following procedures in place:
  - o The Board of Education reviews the monthly invoices and approves the expenditures.
  - o A Region accountant assists the Business Manager with journal entries and the coding of receipts and disbursements.
  - o The District utilizes purchase orders which are approved by the Superintendent.The District will review current procedures and implement additional controls where possible.
  
3. Official Responsible  
The Superintendent is the official responsible for ensuring corrective action.
  
4. Planned Completion Date  
Ongoing.
  
5. Plan to Monitor Completion  
Ongoing.

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2017**

**FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2016-002                      Financial Statement Preparation**

*Condition:*                      Schlenner Wenner & Co. drafted the audited financial statements and related footnote disclosures for the District. It is management's responsibility to provide for the preparation of financial statements and the auditors' responsibility to determine the fairness of the presentation.

*Criteria:*                         Internal controls over financial reporting should be in place to provide for the preparation of financial statements on an annual basis.

*Cause:*                             The District's staff does not possess the expertise to prepare financial statements internally. This is not unusual for an organization of your size.

*Effect:*                             The inability to internally prepare the District's financial statements can result in undetected errors in financial reporting.

*Recommendation:*             We recommend that management review a draft of the financial statements in detail for accuracy. During review we recommend a disclosure checklist be utilized to ensure all required disclosures are presented and the District should agree the financial statement numbers to their accounting software. The District may not have controls in place to eliminate this finding; they should adopt an internal control policy to document its annual review of the financial statements.

*Management's Response:*     The District will continue to have the auditor assist in preparation of the financial statements. The District will establish an internal control policy to document an annual review of the audited financial statements by having the auditor meet with the District personnel to review the financial statements and related footnote disclosures.

**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 have the auditor prepare the financial statements and assist with certain adjustments; however, the District will implement an internal control policy to document the annual review of the financial statements and related footnote disclosures.
3. Official Responsible  
The Superintendent is the official responsible for ensuring corrective action.
4. Planned Completion Date  
Ongoing.
5. Plan to Monitor Completion  
Ongoing.

**INDEPENDENT SCHOOL DISTRICT NO. 2180  
SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2017**

**FINANCIAL STATEMENT FINDINGS (Continued)**

**Finding 2016-003                      Material Audit Adjustments**

*Condition:*                      Audit adjustments were required to correct material misstatements identified in the trial balance presented for the audit.

*Criteria:*                        The District is required to report accurate financial information.

*Cause:*                         The District failed to record adjustments for various year-end entries.

*Effect:*                         The misstatement in the trial balance presented for the audit resulted in the need to record audit adjustments to achieve fair financial statement presentation under accounting principles generally accepted in the United States of America.

*Recommendation:*            We recommend management perform a thorough review of the trial balance prior to the audit and ensure all transactions have been properly recorded.

*Management's Response:* Management agrees with the recommendation.

**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 thoroughly review the trial balance prior to audit fieldwork and make any adjusting entries before submitting the trial balance to the auditors.
3. Official Responsible  
The Superintendent is the official responsible for ensuring corrective action.
4. Planned Completion Date  
Ongoing.
5. Plan to Monitor Completion  
Ongoing.