

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859**

**FINANCIAL STATEMENTS AND REQUIRED  
SUPPLEMENTARY INFORMATION**

**YEAR ENDED JUNE 30, 2018**

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
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## **INTRODUCTORY SECTION**

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
BOARD OF EDUCATION AND ADMINISTRATION  
JUNE 30, 2018**

**BOARD OF EDUCATION**

<b><u>NAME</u></b>	<b><u>TERM ON BOARD EXPIRES</u></b>	<b><u>BOARD POSITION</u></b>
Jamie Alsleben	January 4, 2021	Chairperson
Jason Lindeman	December 31, 2018	Vice Chairperson
Kevin Kuester	January 4, 2021	Treasurer
Anne Twiss	December 31, 2018	Clerk
Donna VonBerge	January 4, 2021	Director
Clark Christianson	December 31, 2018	Director

**ADMINISTRATION**

Christopher Sonju	Superintendent of Schools
Michelle Sander	Business Manager

District Office:	Independent School District No. 2859 Glencoe-Silver Lake Public Schools 1621 E. 16 <sup>th</sup> Street Glencoe, MN 55336 (320) 864-2491
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## **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

Board of Education  
Independent School District No. 2859  
Glencoe, 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. 2859 (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### ***Auditors' 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 auditors' 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. 2859 as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows and the respective budgetary comparisons for the General Fund, Food Service Fund, and Community Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matters***

During fiscal year ended June 30, 2018, the District restated the beginning net position of governmental activities due to a prior period misstatement of capital assets. See the detail of the prior period adjustment and restatement in Note 12.

During fiscal year ended June 30, 2018, the District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As a result of the implementation of this standard, the District reported a restatement for the change in accounting principle (see Note 12). Our auditors' opinion was not modified with respect to these restatements.

### ***Report on Summarized Comparative Information***

We have previously audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 2859 as of and for the year ended June 30, 2017, and we expressed unmodified opinions on those audited financial statements in our report dated October 2, 2017. In our opinion the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in the District's net OPEB liability and related ratios, the schedule of the District's proportionate share of the net pension liability, and the schedule of the District's contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of 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 Matters (Continued)***

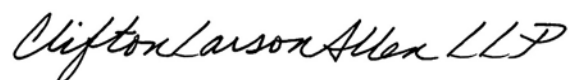
*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 2859's basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table, as required by Minnesota Department of Education, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated September 20, 2018 on our consideration of Independent School District No. 2859's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Independent School District No. 2859's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Independent School District No. 2859's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
September 20, 2018

## **REQUIRED SUPPLEMENTARY INFORMATION**

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

This section of Glencoe-Silver Lake Public Schools – Independent School District No. 2859's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the District's financial statements, which immediately follow this section.

### **FINANCIAL HIGHLIGHTS**

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

- The District has been able to maintain a positive fund balance in all funds with the exception of the capital projects fund.
- Enrollment increased by 0.67% from 2017. Total ADM's were 1,591.
- The Net Position of the District decreased by 169.8% due to the net effect of the changes in the District's net pension liability, pension related deferred inflows of resources, and pension related deferred outflows of resources as well as an increase in the District's other postemployment benefits liability.
- The fund balance in the General Fund decreased to \$4,695,629 compared to \$5,189,086 at June 30, 2017.
- The ending fund balance within the General Fund remains above the fund balance policy set by the board.
- General Fund restricted accounts having fund balances at June 30, 2018 included Staff Development, Safe Schools, Teacher Evaluation, Long Term Facilities Maintenance, and Operating Capital.

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

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

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

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

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

**District-Wide Statements**

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

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

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

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

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

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

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

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

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Internal Service funds* - The District uses internal service funds to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund to accumulate resources for the future payment of other postemployment benefits.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

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

**Fund Financial Statements (Continued)**

- *Fiduciary Funds* – The District is a trustee, or fiduciary, for assets that belong to others, such as the scholarship funds. The District is responsible for ensuring that the assets reported in these funds are used for only their intended purposes and by those to whom the assets belong. All the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

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

**Net Assets**

The District's *combined* Net Position was (\$7,993,600). This was a 169.8% decrease from the prior year, after the restatement. (See Table A-1.)

**Table A-1  
The District's Net Position**

	Governmental Activities as of June 30,		Percentage Change
	2018	2017	
Current and Other Assets	\$ 11,540,000	\$ 19,774,393	(41.64)%
Capital Assets	32,076,490	24,933,561	28.65
Total Assets	43,616,490	44,707,954	(2.44)
Deferred Outflows of Resources	16,511,981	21,561,795	(23.42)
Current Liabilities	4,642,128	5,310,906	(12.59)
Long-Term Liabilities	54,942,423	59,813,147	(8.14)
Total Liabilities	59,584,551	65,124,053	(8.51)
Deferred Inflows of Resources	8,537,520	4,109,030	107.77
Net Position:			
Net Investment in Capital Assets	5,803,133	5,901,300	(1.66)
Restricted	1,535,878	1,502,780	2.20
Unrestricted	(15,332,611)	(10,367,414)	47.89
Total Net Position	\$ (7,993,600)	\$ (2,963,334)	169.75

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

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

**Changes in Net Position**

The District's total revenues were \$21,516,036 for the year ended June 30, 2018. Property taxes and state formula aid accounted for 70% of total revenues for the year. The remaining 30% came from other general revenues combined with investment earnings and program revenues.

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

	Governmental Activities for the Fiscal Year Ended June 30,		Percentage Change
	2018	2017	
<b>Revenues</b>			
<u>Program Revenues</u>			
Charges for Services	\$ 1,228,064	\$ 1,357,527	(9.54)%
Operating Grants and Contributions	4,501,334	4,592,786	(1.99)
Capital Grants and Contributions	433,408	272,827	58.86
<u>General Revenues</u>			
Property Taxes	3,515,095	3,692,404	(4.80)
Unrestricted State Aid	11,539,518	11,701,697	(1.39)
Investment Earnings	86,411	197,415	(56.23)
Other	212,206	144,000	47.37
Total Revenues	21,516,036	21,958,656	(2.02)
<b>Expenses</b>			
Administration	1,133,249	1,133,081	0.01
District Support Services	456,156	450,585	1.24
Regular Instruction	11,511,176	11,940,689	(3.60)
Vocational Education Instruction	384,160	410,163	(6.34)
Special Education Instruction	4,223,589	3,817,725	10.63
Instructional Support Services	846,919	868,489	(2.48)
Pupil Support Services	1,686,925	2,096,186	(19.52)
Sites and Buildings	2,866,301	2,923,942	(1.97)
Fiscal and Other Fixed Cost Programs	50,841	78,720	(35.42)
Food Service	1,004,538	938,153	7.08
Community Service	1,010,251	911,365	10.85
Interest and Fiscal Charges on Long-Term Liabilities	926,155	939,804	(1.45)
Total Expenses	26,100,260	26,508,902	(1.54)
<b>Change in Net Position</b>	(4,584,224)	(4,550,246)	
Beginning Net Position	(2,963,334)	1,586,912	
Prior Period Adjustment	(446,042)	-	
Beginning Net Position, as Restated	(3,409,376)	1,586,912	
Ending Net Position	\$ (7,993,600)	\$ (2,963,334)	

Total expenses surpassed revenues by \$4,584,224 mainly due to the net effect of the changes in in the District's pension related balance sheet items as well as the increase to the other postemployment benefit liability.

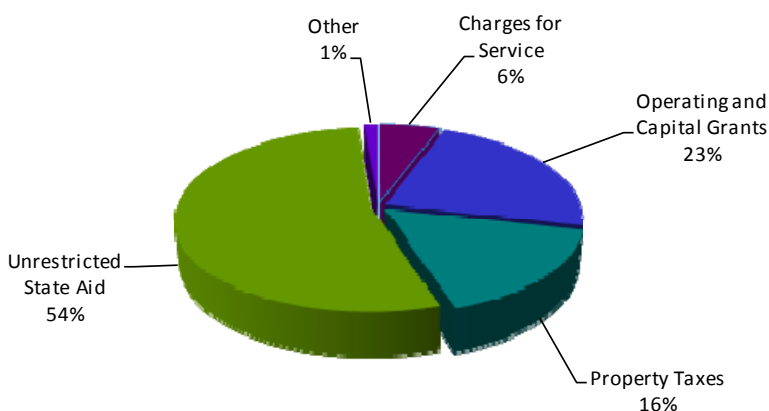
**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

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

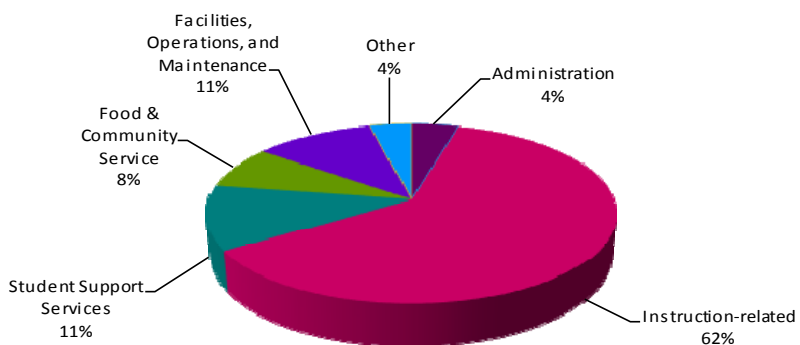
The cost of all *governmental* activities this year was \$26,100,260. The District's expenses are predominantly related to educating and caring for students.

- Some of the cost was paid by the users of the District's programs \$1,228,064.
- The federal and state governments subsidized certain programs with grants and contributions of \$4,934,742.
- Most of the District's costs, however, were paid for by District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$3,515,095 in property taxes and \$11,539,518 in state aid based on the statewide education aid formula. In addition, the District earned additional revenues of \$298,617 related to investment earnings and other general revenues.

**Figure A-1 Sources of District's Revenues for Fiscal 2018**



**Figure A-2 District Expenses for Fiscal 2018**



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

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

**Table A-3  
Program Expenses and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2018	2017		2018	2017	
Administration	\$ 1,133,249	\$ 1,133,081	0.01 %	\$ 1,125,883	\$ 1,125,763	0.01 %
District Support Services	456,156	450,585	1.24	456,156	450,585	1.24
Regular Instruction	11,511,176	11,940,689	(0.04)	9,561,120	9,920,142	(3.62)
Vocational Education Instruction	384,160	410,163	(6.34)	371,630	399,003	(6.86)
Special Education Instruction	4,223,589	3,817,725	10.63	2,278,188	1,867,106	22.02
Instructional Support Services	846,919	868,489	(2.48)	630,726	658,220	(4.18)
Pupil Support Services	1,686,925	2,096,186	(19.52)	1,603,411	1,956,633	(18.05)
Sites and Buildings	2,866,301	2,923,942	(1.97)	2,610,771	2,768,052	(5.68)
Fiscal and Other Fixed Cost Programs	50,841	78,720	(35.42)	50,841	78,720	(35.42)
Food Service	1,004,538	938,153	7.08	15,385	(78,423)	(119.62)
Community Service	1,010,251	911,365	10.85	307,188	200,157	53.47
Interest and Fiscal Charges on Long-Term Liabilities	926,155	939,804	(1.45)	926,155	939,804	(1.45)
Total	<u>\$ 26,100,260</u>	<u>\$ 26,508,902</u>	(1.54)	<u>\$ 19,937,454</u>	<u>\$ 20,285,762</u>	(1.72)

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a *combined* fund balance of \$3,578,987, which is less than last year's ending fund balance of \$11,268,144 due to the spend down of bond proceeds and completion of planned capital projects.

**GENERAL FUND**

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

Table A-4 and Figure A-3 show the average daily membership for the last five years.

**Table A-4  
Five-Year Enrollment Trend  
Average Daily Membership (ADM)**

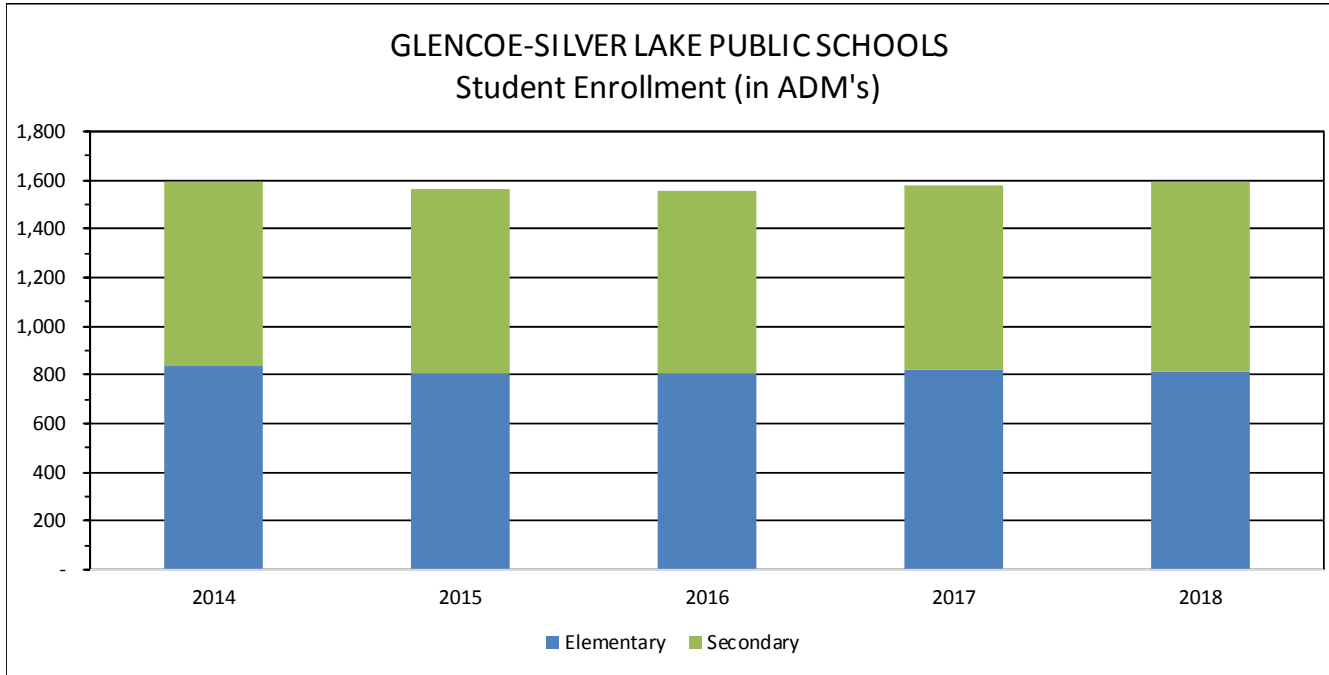
	2014	2015	2016	2017	2018
Elementary	840	806	808	818	811
Secondary	757	758	752	763	780
Total Students for Aid	1,597	1,564	1,560	1,581	1,591
Percent Change	-2.26%	-2.07%	-0.26%	1.35%	0.63%



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**GENERAL FUND (CONTINUED)**

**Figure A-3  
Five-Year Enrollment**



The following schedule presents a summary of General Fund revenues.

**Table A-5  
General Fund Revenues**

	Year Ended		Change	
	June 30, 2018	June 30, 2017	Increase (Decrease)	Percent Change
Local Sources:				
Property Taxes	\$ 1,981,765	\$ 2,213,000	\$ (231,235)	(10.4)%
Earnings on Investments	47,909	51,060	(3,151)	(6.2)
Other	587,790	542,051	45,739	8.4
State Sources	14,957,921	14,541,224	416,697	2.9
Federal Sources	556,260	674,322	(118,062)	(17.5)
Total General Fund Revenue	<u>\$ 18,131,645</u>	<u>\$ 18,021,657</u>	<u>\$ 109,988</u>	0.6

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**GENERAL FUND (CONTINUED)**

Revenues from state and federal sources totaled \$15,514,181 a net increase of \$298,635. Total General Fund revenues increased by \$109,988, or 0.6%, from the previous year. Property tax revenue decreased by \$231,235 or 10.4% from the prior year. Basic general education revenue is determined by a state per student funding formula and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue includes excess levy referendum and equity aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenues.

The \$416,697 increase in state sources for fiscal 2018 is mainly attributable to an increase in general education aid.

Federal funds decreased by \$118,062 which is related mainly to special education services.

The following Table A-6 represents a summary of General Fund expenditures.

**Table A-6  
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2018	June 30, 2017		
Salaries	\$ 9,753,467	\$ 9,489,359	\$ 264,108	2.8 %
Employee Benefits	2,740,599	2,746,945	(6,346)	(0.2)
Purchased Services	4,303,703	4,201,452	102,251	2.4
Supplies and Materials	995,194	880,871	114,323	13.0
Capital Expenditures	632,769	531,770	100,999	19.0
Debt Service Expenditures	224,508	201,187	23,321	11.6
Other Expenditures	165,165	153,245	11,920	7.8
Total General Fund Expenditures	<u>\$ 18,815,405</u>	<u>\$ 18,204,829</u>	<u>\$ 610,576</u>	3.4

Total General Fund expenditures increased by \$610,576 or 3.4% from the previous year.

Salaries and benefits fall in line with the contract settlements and the additional staff who were hired.

The increases in purchased services, supplies and materials, and capital expenditures falls in line with projects related to the building project and to the use of Long Term Facilities Maintenance funds. The total fund balance of the General Fund decreased to \$4,695,629 at June 30, 2018 compared to \$5,189,086 at June 30, 2017, a total decrease of \$493,457.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**GENERAL FUND (CONTINUED)**

The School Board and administration have worked extremely hard in monitoring the budget and controlling the spending of the school district. The fund balance policy is reviewed annually by the Business Manager, Superintendent and School Board. The fund balance policy clarifies to ensure the financial strength and stability of the District. The Board will endeavor to maintain a minimum of 20% of the District's General Fund operating budget, excluding those accounts associated within the restricted category, in the combined total of the General Fund committed, assigned and unassigned fund balances.

The June 30, 2018 ending unassigned and nonspendable General Fund balance which includes Fund 01 and Fund 10 is \$3,766,318 and is at 23% of expenditures per MDE's statutory operating debt (SOD) calculation.

**General Fund Budgetary Highlights**

When budget changes are adopted by the Board they fall into one of the following categories:

- Adjusting for changes in pupil enrollment including revenue and potential staff additions.
- Adjustments for utility consumptions and costs or building repairs or maintenance.
- Transportation costs.
- Implementing budgets for specially funded projects (Health and Safety), and projects which include both federal and state grants.
- Special education.
- Legislative changes.

During fiscal year 2018, the General Fund revenues budgeted were \$17,579,623. Actual revenues received were \$18,131,645. During fiscal year 2018, General Fund revenues were over budgeted amounts by \$552,022. One of the biggest factors in this variance has to do with the Fund 10 revenues, activity accounts, that are cross-walked and included in the total General Fund revenues, but no budget amounts are assigned to the activity accounts. There was also additional revenue received related to: General education aid due to the increase in enrollment numbers accounted for \$151,173, the TRA and PERA pension special fundings accounting for \$53,873, special education revenues accounted for \$20,789, investment earnings accounted for \$22,909, and miscellaneous and donations accounting for \$96,654.

The expenditure budget was \$18,628,750. Actual expenditures in the General Fund were \$18,484,630. There was also \$330,775 of activities and capital lease expenditures accounted for in Fund 10, so total cross-walked UFARS general fund expenditures were \$18,815,405. There is no designated budget for Fund 10, but revenues and expenditures are included in the overall totals for the General Fund. The General Fund expenditures were under budget by \$144,120 or 1%, prior to accounting for the \$330,775 of Fund 10. To account for the difference, \$42,285 was related to salaries and benefits and \$101,835 related to supplies, purchased services, equipment and dues and memberships.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**OTHER MAJOR FUNDS**

**Food Service Fund**

The Food Service Fund experienced an increase of \$24,116 leaving the fund balance at \$278,119. The 2017-2018 school year was the ninth year that the food service program was outsourced to Compass Group, Inc. through its Chartwell's Food Service Division. The 2017-2018 school year was the first year of a three year contract with Chartwell's. The District saw a slight increase in meals served from previous years along with the increase in student enrollment. The District was required to go through the bid process to negotiate a new food service contract in April of 2017. This process was completed and the new contract was again awarded to Chartwell's. Only two bids for the contract were received.

Chartwell's has worked extremely well with the District to increase our food service offerings as well as provide a healthy menu that meets the dietary requirements and stay within the budget. The District continues to offer a free breakfast program to all K-12 students. The District also offered an after school snack program at the high school which seemed to be extremely successful serving an average of 60 students per day. The District also qualified for a summer food service program based on the high percentage of free and reduced students. The program ran for six weeks to coincide with the summer school program.

**Community Service**

The Community Service Fund fund balance increased from \$252,363 at June 30, 2017 to \$284,603 at June 30, 2018. From the standpoint of maintaining current operating expenditures within the range of annual revenues, the Community Service Fund continues to operate on a sound financial basis. The Community Service Fund consists of Community Education, School Readiness, Early Childhood Family Education, and Pre-School Screening and NonPublic Education. All of these programs are providing a service to varying levels of the community.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2018, the District had invested \$42,037,684 in a broad range of capital assets, including school buildings, athletic facilities, vehicles; computer and audio-visual equipment (see Table A-7). Total depreciation expense for the year was \$743,192. The major addition to buildings and improvements was the completion of the new high school and gym. Overall accumulated depreciation decreased due to a write off of depreciated assets that were replaced by a portion of the new high school and gym. The overall write-off of accumulated depreciation was \$804,178 in 2018.

**Table A-7  
Capital Assets**

	2018	2017	Percentage Change
Land	\$ 130,000	\$ 130,000	-
Construction in Progress	-	17,766,841	(100.0)
Land Improvements	1,140,892	1,140,892	-
Buildings and Improvements	35,889,510	11,784,156	204.6
Equipment	4,877,282	4,133,852	18.0
Less: Accumulated Depreciation	(9,961,194)	(10,022,180)	(0.6)
Total District Capital Assets	<u>\$ 32,076,490</u>	<u>\$ 24,933,561</u>	28.6

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)**

**Long-Term Liabilities**

At year-end, the District had \$22,825,000 in general obligation bonds, \$806,190 in lease purchase and \$144,643 in capital leases, as shown in Table A-8. The District also had \$335,548 in severance benefits payable at June 30, 2018. (More detailed information about the District's long-term liabilities is presented in Note 4 to the financial statements.)

**Table A-8  
The District's Long-Term Liabilities**

	2018	2017	Percentage Change
General Obligation Bonds	\$ 22,825,000	\$ 23,265,000	(1.9)%
Net Bond Premium and Discount	576,824	598,187	(3.6)
Capital Leases Payable	144,643	42,478	240.5
Lease Purchase Payable	806,190	938,455	(14.1)
Notes Payable	-	22,850	(100.0)
Compensated Absences Payable	335,548	315,080	6.5
Total Long-Term Liabilities	<u>\$ 24,688,205</u>	<u>\$ 25,182,050</u>	(2.0)
Long-Term Liabilities:			
Due Within One Year	\$ 623,876	\$ 610,237	
Due in More Than One Year	24,064,329	24,571,813	
Total	<u>\$ 24,688,205</u>	<u>\$ 25,182,050</u>	

The majority of the change in the long-term liabilities is related to the principal payments being made on the general obligation bonds, the lease purchase payable, and the notes payable. They also signed a new capital lease in 2018 which increased the liability for capital leases payable. The new capital lease in 2018 is related to the District entering into a new copier lease, replacing the old capital lease related to copiers.

**FACTORS BEARING ON THE DISTRICT'S FUTURE**

- With the completion of the contentious 2018 Legislative Session, no changes were made to the funding formulas or school funding in general. The 2017-2018 formula allowance per pupil unit is at \$6,188. For the FY19 school year the formula increased by another 2% - \$124 – increasing to \$6,312. These increases are also linked to other revenues that are linked to the formula allowance. Compensatory, sparsity aid, nonpublic transportation and ECFE.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)**

**Other Legislative Changes from the 2017 Legislative session that are still in effect:**

- Compensatory funding – A percentage of total compensatory revenue must be used and reserved for extended time activities. For FY18 – 1.7% or \$10,015 was set aside to help in the funding of the after school program. For FY 19 – 3.5% or approximately \$17,667 will be set aside and for FY20 and later – 3.5% + the percentage change in the formula allowance from FY19.
- The Pathway II funding is continued for FY19 at the 2017 funding level. Established priority for children who have a parent under age 21 and who is pursuing a high school diploma, children that are in foster care or protective services and any child that is homeless.
- The ECFE funding increase that is linked to the general education formula allowance increases the allowance from \$139.54 to \$142.32 for FY18 and \$145.18 for FY19.
- Lead in drinking water. Effective July 1, 2018, districts will be required to test all drinking water for lead. Requires districts to make the results public and to notify parents that the information is available. Water must be tested every five years. The District has developed a Lead In Drinking Water Plan which was approved by the School Board in June of 2018. All drinking water sources have been identified and prioritized. Testing will begin in mid-September.
- Allows districts to enter into a one-year contract with a food service management company with the option of up to three years for renewal. (Currently, districts were only allowed to renew the contract for up to two years.) The district will not have to enter into the bid process until 2020.
- School Building Bond Agriculture Credit – Agriculture classified land will receive a 40% credit on the property that is attributable to a school district's bonded debt for taxes payable beginning in 2018. The District stated receiving the credits through the State IDEAS payment system after July 1, 2018 for the 2018-2019 school year.
- E- Learning Days – This allows districts up to five days of E-Learning due to inclement weather. The District must develop a plan after consulting with the teachers union. The plan must include accommodations for students without internet at home and devices for those without. And, there must be an accessible option for those with disabilities. Teachers must be available both online and by telephone.

Long-Term Facilities Maintenance Revenue (LTFMR) was enacted into law effective in FY2017, beginning with the 2015 Pay 2016 Levy cycle. The LTFMR rolls the current deferred maintenance, health and safety and alternative facilities revenues into the new long-term facilities maintenance revenue program which is equalized with state aid. The new LTFMR equals the sum of:

1. \$193/APU for FY17, \$292 for FY18, and \$380 for FY 19 and later and
2. The lesser of one or the ratio of the District's average building age to 35 years' plus
3. The approved cost/debt service for indoor air quality, fire alarm and suppression, and asbestos abatement projects with a cost per site of \$100,000 or more. (Includes existing debt service for large health and safety projects issued under old law.)

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)**

The 25 largest districts continue to be eligible for revenue based on approved project costs, without a state-imposed per pupil limit. Districts may choose to issue bonds for the program, levy on a pay as you go basis, or a combination of the two.

For purposes of calculating equalization aid, the ANTC is reduced by 50% of the value of Class 2a Agricultural land. The aid/levy mix for the equalized portion is calculated using an equalizing factor of 123% of the state average ANTC/PU, calculated using the 50% exclusion for Ag land. For GSL the 2016 Adjusted Net Tax Capacity is \$13,853,320 but the Ag Modified ANTC for Long Term Facility Maintenance Revenue is \$10,549,015. For the Pay 2018 levy, the total equalized LTFMR is \$678,756. To determine the aid/levy ratio, the 2015-2016 adjusted pupil units of 1,710.30 is divided by the 2016 Ag Modified ANTC of 10,549,015 which equals \$6,167.93 divided by the equalizing factor of \$9,493.66. The levy portion is 65% and state aid is 35%. \$237,775.44 will be the state aid on the \$678,756.00 and \$440,981 will be local levy. \$250,000 of the \$928,756 total LTFMR is unequalized, so it becomes 100% local levy.

The end result is that districts are receiving additional levy authority that is equalized for state aid so that additional funding is available for facility projects.

Allowed uses of the Revenue include:

1. Deferred capital expenditures and maintenance projects.
2. Accessibility of school facilities.
3. Health and safety projects.

*The long-term facilities maintenance revenue may be used for exactly the same purposes as the old revenue categories it replaces: health and safety, deferred maintenance and alternative facilities. The revenue may not be used for new construction or remodeling, lease purchase agreements, energy-efficiency projects, or violence prevention or emergency communication devices.*

To continue to qualify for the new LTFMR, the School Board has to approve a ten-year plan and submit the plan to MDE by July 31; the plan has to be updated yearly during the summer levy process. Health and Safety and Deferred Maintenance levy authority adjustments will be made over the next year.

- Ongoing changes from the 2013 Legislative Session that were effective for FY18 and will continue for FY19 are:
  - Effective with FY15, pupil weights for Pre-Kindergarten is .550, K through grade 6 will be at 1.0 and weights for grades 7-12 will be 1.2. Formula rates needed to be increased to offset the reduction in weighted student counts. Marginal cost pupil units were eliminated and replaced with the new declining enrollment revenue.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)**

- A major overhaul was established in the 2014 Session regarding Operating Referendum Revenue's:
  - Converted from \$/Resident Marginal Cost Pupil Unit to \$/Adjusted Pupil Unit – APU.
  - Alternative attendance adjustment was eliminated/rolled into allowance per APU.
  - Allowance/APU was adjusted so that total revenue prior to caps is the same as under old law.
  - School Boards are allowed to convert up to \$300/APU from voter approved to Board approved if Board action is taken before September 30th of prior year so that is part of the proposed property tax statements.
- Location Equity Revenue (LER) effective in FY 2015 (Pay 2014 levy). Districts with any land area in the seven county metro area qualifies for \$424/APU. Or, districts that are not in the seven county metro area but have greater than 2,000 adjusted ADM in the 3<sup>rd</sup> prior FY qualify for \$212 of location equity levy. The 2014 Legislation changed the Location Equity Revenue to Local Optional Revenue (LOR). All districts in the state now qualify for the full \$424 effective with the Pay 2015 levy, or revenue for the 2015-2016 fiscal year and beyond.
  - The LER or LOR is deducted from operating referendum revenue. There is no action required by the School Board if you accept the full amount of the location equity revenue. GSL qualified for the full \$424 with the Pay 2014 levy because of having property in Carver County which is part of the 7 county metro area. Districts may choose to levy for a lesser amount than the \$424.
    - The District completed the Pay 2018 levy process which is revenue for the 2018-2019 school year or FY 2019. The final levy authority was for a total of \$3,666,670.
    - The final adopted Pay 2018 levy authority is showing a 3.26% increase. Total market values are showing a decline of 4.1042%. Total referendum market values show an increase of 4.2954%.
    - The current funding of state aid IDEAS payments remains stable at 90/10%. The change back to the 90/10 was implemented in October of 2013 based on the financial status of the state budget. Law dictates that any state unrestricted fund balance as of June 30, 2013 must be directed first to school districts to pay back the borrowing that occurred from the State of Minnesota from school districts by reducing the payment percentage and to reduce the percentage of early levy recognition (tax shift).
    - The Literacy Incentive Aid was a new aid category in FY 2013. GSL received \$89,455 in FY 2013, \$97,673 in FY 2014, \$91,210 in FY2015, \$86,694 in FY2016, \$82,813 in FY2017, and \$76,933 in FY2018. The literacy incentive aid is calculated by using third grade enrollment to calculate proficiency aid and fourth grade enrollment to calculate growth aid. These dollars are not reserved or designated.
    - Effective in FY2014, the reserve account limits and aid and levy penalties for Community Education, Early Childhood Family Education, and School Readiness have been repealed.



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)**

- Minnesota school districts are paid based on pupil units served, a decline or increase in enrollment results in variable revenue that is received for operations. The District enrollment for 2017-2018 ended at 1,591 Adjusted Pupil Units compared to 1,580 in 2016-2017. Preliminary enrollment for the 2018-2019 school year shows a slight increase.
- The Administration and School Board continue to work on plans for improving the school facilities. In December of 2012, the School Board approved to move forward with building a 5,000 square foot Early Childhood Learning Center as an addition to the Lincoln Junior High Building. The Review and Comment Plan was submitted to the Minnesota Department of Education and final approval was received in June of 2013. The building houses the Early Childhood Special Education, (ECSE), the Early Childhood Family Education (ECFE) and the School Readiness (SR) programs. Along with office space, Director's office, Speech teacher office and a large motor room that could also be utilized as a classroom. Remodeling of the main level Lincoln restrooms and old kitchen area were included in the project plans. Total project costs are \$1,966,909. The Board moved forward with a 10-year lease levy option for \$1,375,000 that will be spread to the taxpayers over the 10-year period. The additional cost of the project was paid by district funds. The project was completed in January of 2014 and students and staff began using the facility at that time.
- After two failed building referendums in 2011, the School Board voted to hold a special election on May 12<sup>th</sup>, 2015 asking the voters to approve a building bond referendum for \$24,190,000. The ballot question was to authorize the District to issue bonds to provide funds to relocate grades K-2 to the existing Lincoln building, repurpose current program space, construction of new space between the current Lincoln and High school buildings and to complete window upgrades at the Lakeside building. The election was successful with 1,534 yes votes and 908 no votes. The election was successful in the Brownston, Glencoe, Plato and Silver Lake precincts and failed in the New Auburn precinct. The District is working with ARY Architects to design the project.
  - The District sold the bonds on July 13, 2015 with a closing date of August 13, 2015, in the amount of \$23,695,000 with a bond obligation of 29.5 years. \$24,111,934 was wired to Security Bank on behalf of the District and was invested in a guaranteed money market investment account at .77% earnings. Ehlers and Associates was the financial institute that handled the sale of the bonds. All transactions related to the building project will be accounted for in Fund 06, Building Construction Fund to be in compliance with state, federal and UFARS accounting procedures. All arbitrage reporting will be handled with The PFM Group, Minneapolis. An agreement has been established with PFM to complete the reporting requirements and meet the required deadlines for reporting.
  - At the September 14, 2015 School Board meeting, the Board moved forward with hiring Donlar Construction to act as the Construction Manager to work in collaboration with ARY Architects in overseeing the bidding and construction process.
  - At the September 14, 2015 School Board meeting, the Board also held a public hearing and approved a motion to move forward with the sale of the Helen Baker Building. The sale of the Helen Baker building was completed May 31, 2018. The building was sold for \$1.00 to a local contractor.
  - At the close of FY18, June 30, \$7,183,356 was expended towards this project for FY18. The project was completed and transferred out of construction in progress as of June 30, 2018.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)**

- The November 2011 election results showed that the renewal of the operating referendum for \$727 per pupil unit was passed by the voters. There were 2,163 yes votes and 1,212 no votes. The passage of this operating referendum is for a period of seven years. The renewal of the referendum was essential to maintain the current level of funding that the District currently has. The successful election shows a positive statement of support from the taxpayers. With the new legislative changes from the 2013 legislative session, the impact to the votes could change dramatically when putting the question to the ballot when the referendum expires in 2020. Which would indicate an election would be held in 2019. The current operating referendum was for \$727 per pupil unit. When all the conversions are completed due to the legislative changes, the new amount of the referendum is \$900.88. The location equity revenue allowance of \$424 is then subtracted from the \$900.88, so the new referendum amount is \$476.88. If the Board moves forward with converting the \$300 of voter approved to Board approved referendum, the amount of the referendum available is \$176.88 without seeking an election. At this time, the School Board approved the \$300 Board levy authority at the August, 2018 Board meeting. A Resolution was also approved to move forward with a referendum election at the November 6, 2018 general Election. The ballot question will ask the voters to approve replacing the \$176.88 levy authority with \$460.00, which is an increase of \$283.12 per pupil unit. The proposed referendum language would include the inflationary language and would be effective for taxes payable beginning in 2020.
- Because of the positive fund balance in both unassigned General Fund and operating capital, a number of building and grounds projects have been completed. The facility committee has been active in addressing the deferred maintenance, health and safety and operating capital plans and outlining the projects to be completed. Having a positive fund balance again has proven to be a very positive reinforcement for the District, the staff and the community. Facility upgrades will continue to take place as long as the projects stay within our budget means. A number of technology upgrades have also been taking place. Computer labs have been upgraded along with additional interactive boards in more classrooms. Technology upgrades will continue to happen as 21<sup>st</sup> Century Learning continues to focus more and more towards up to date technology capabilities. Along with the construction of the new facility, a number of high school and Lincoln building improvements were made in conjunction with the project.
- During the summer of 2012, the field house gym floors in gym 1 and gym 2 were completely replaced with a wood performance floor at a cost of \$120,000. The field house was also completely re-painted. The Board also approved the replacement of windows and doors on the Lincoln building and the north entrance doors and windows to the high school. The cost of this project was \$520,000.
- During the summer of 2013, additional projects were completed. In addition to the new Early Childhood Learning Center and remodeling that was started, an extension to the garage east of the high school was completed along with new cement and asphalt. A new track surface was installed at the Athletic Complex for \$124,900. Additional playing fields were added west of the Athletic Complex stadium at a cost of \$70,000. Integration of iPad's has taken place for grades 3-6 and all certified staff received iPad's in August of 2013. A tablet device was added for the 7<sup>th</sup> and 8<sup>th</sup> graders in the fall of 2014.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)**

- During the summer of 2014, a new tennis court complex was developed in the north athletic complex. The old 8 courts were demolished and 12 new courts were put in place at a cost of \$693,000. Along with the construction of the courts, lights were installed on the front three courts at a cost of \$61,000. This portion of the project was funded through the Panther Association over a five-year period. The District pursued a \$50,000 lease lighting agreement with the local Glencoe Light and Power similar to the agreement that had been worked out with the football field lights. The lease for the lights was paid off as of June 30, 2018. The football field light lease was paid in full in August of 2014. The football field lights were re-lamped during the summer of 2014 as part of the original warranty. A partial repair and replacement was made to the Field House roof along with new asphalt surfacing in the Lincoln parking lot.
- During the summer of 2015, the District started the replacement of the hallway hall tile at the high school. This project is part of the deferred maintenance schedule and will be phased in over a two or three-year plan. The first phase was \$25,346. During the summer of 2016, another section of hallway tile was completed for \$50,670. During the summer of 2017, another section of hallway tile was completed for \$49,502. Also completed in 2015 was a special education room remodel in the Lakeside Elementary building for \$48,115. This was funded using federal special education funds. Cement work at the Lakeside site was also completed at a cost of \$11,364. Tuck-pointing was completed at the high school for \$27,770 and \$24,800 was spent in tuck-pointing at the Lakeside building in 2016. The high school gym and hallways were painted in 2016 for a cost of \$9,840. The District spent \$48,470 in painting upgrades during the summer of 2017 in the Lincoln Elementary and at the High School. The District also spent \$44,000 to remodel a special education bathroom for the new Lincoln Elementary in the summer of 2017. The District continues to maintain a fund balance in the operating capital fund while addressing the needs of the District and the building sites.
- Part of the building project included window and door replacement on the Lakeside building. As part of that project, the District decided to move forward with the doors and the windows at the high school in conjunction with the Lakeside project to get better pricing and to get the high school project completed to match the new construction. The total cost of this project is \$511,600. \$260,000 will be paid out of the construction account with the remainder of the amount coming out of LTFMR and Operating Capital.
- The building construction project got underway in May of 2016. The project was divided into three separate bid packages. Bid package #1 was the civil package containing the ground and utility work, bid package #2 was the majority of the construction and bid package #3 was the boiler room equipment. The District utilized ARY Architects and Donlar Construction as the construction management company. All construction activity was tracked using Fund 06 and the debt for the project will be posted to Fund 07. The majority of the project was completed at the start of the 2018 school year. Additional punch list items continued until September of 2018. The project did come in over budget by \$1.4 million. The District will utilize a combination of LTFM, Operating Capital and Internal Service Funds to pay off the balance of the project after the construction checking account is depleted. As of June 30, 2018, \$1,815,234 was shown as a negative balance in the Fund 6 construction account. This amount accounts for all construction in progress and amounts payable.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)**

- As of September 10, 2018, all contracts are settled. Three year contracts for the Superintendent and the Business Manager were also negotiated effective for July 1, 2019 - June 30, 2022 at the September 10, 2018 Board meeting.
- The District continues to contract with the South West/West Central Service Cooperative – Region 4 for a number of services including finance, payroll, and student assistance (MARRS) and Special Education. The Coop also offers a Special Education Level IV Program in Cosmos that our district is able to use for a limited number of students that require additional services when we are unable to meet their needs. This poses an additional transportation cost for the District but allows us to be in compliance with state and federal regulations regarding the individual learning plans for students. With all the changes in Special Education, including the state wide tuition billing, this continues to be a difficult area to monitor in the budget. The Coop continues to be a great resource for the District to be able to be a part of to assist in all of these areas of budget and financing.
- Glencoe-Silver Lake Public Schools is a very stable district with strong community support. The District provides a full range of public education services for Pre-school through grade 12. Food service and transportation are provided as supporting programs. The District's community education program includes early childhood, school readiness along with adult learning opportunities. The public school also provides some shared time services for the nonpublic schools in the District. There is currently a K-8 Lutheran School in Glencoe.

**CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report contact the District Office, Independent School District No. 2859, 1621 East 16<sup>th</sup> Street, Glencoe, MN 55336.

## **BASIC FINANCIAL STATEMENTS**

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS**  
**INDEPENDENT SCHOOL DISTRICT NO. 2859**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**  
**(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	Governmental Activities	
	2018	2017
<b>ASSETS</b>		
Cash and Investments	\$ 7,730,664	\$ 15,995,314
Receivables:		
Property Taxes	1,856,138	1,709,540
Other Governments	1,886,282	1,996,517
Other	41,699	43,453
Prepaid Items	-	6,936
Inventories	25,217	22,633
Capital Assets:		
Land and Construction in Progress	130,000	17,896,841
Other Capital Assets, Net of Depreciation	31,946,490	7,036,720
Total Assets	43,616,490	44,707,954
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Outflows - Pensions	16,419,865	21,561,795
Deferred Outflows - Other Postemployment Benefits	92,116	-
Total Deferred Outflows	16,511,981	21,561,795
<b>LIABILITIES</b>		
Salaries Payable	1,376,206	1,189,199
Accounts and Contracts Payable	2,240,163	3,106,395
Accrued Interest	383,207	387,401
Due to Other Governmental Units	191	239
Unearned Revenue	18,485	17,435
Long-Term Liabilities:		
Portion Due Within One Year	623,876	610,237
Portion Due in More Than One Year	24,064,329	24,571,813
Net Pension Liability	29,346,571	34,692,375
Other Postemployment Benefits Liability	1,531,523	548,959
Total Liabilities	59,584,551	65,124,053
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes Levied for Subsequent Year	3,460,043	3,332,087
Deferred Inflows - Pensions	5,077,477	776,943
Total Deferred Inflows of Resources	8,537,520	4,109,030
<b>NET POSITION</b>		
Net Investment in Capital Assets	5,803,133	5,901,300
Restricted for:		
General Fund Operating Capital Purposes	725,383	845,404
General Fund State-Mandated Reserves	245,529	148,284
Food Service	278,119	254,003
Community Service	286,847	255,089
Unrestricted	(15,332,611)	(10,367,414)
Total Net Position	\$ (7,993,600)	\$ (2,963,334)

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS**  
**INDEPENDENT SCHOOL DISTRICT NO. 2859**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)

2018

Functions	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Governmental Activities</b>			
Administration	\$ 1,133,249	\$ 378	\$ 6,988
District Support Services	456,156	-	-
Regular Instruction	11,511,176	200,771	1,565,661
Vocational Education Instruction	384,160	-	12,530
Special Education Instruction	4,223,589	-	1,945,401
Instructional Support Services	846,919	-	216,193
Pupil Support Services	1,686,925	-	83,514
Sites and Buildings	2,866,301	5,746	-
Fiscal and Other Fixed Cost Programs	50,841	-	-
Food Service	1,004,538	500,752	488,401
Community Service	1,010,251	520,417	182,646
Interest and Fiscal Charges on Long-Term Liabilities	926,155	-	-
Total School District	<u>\$ 26,100,260</u>	<u>\$ 1,228,064</u>	<u>\$ 4,501,334</u>

**General Revenues**

Property Taxes Levied for:  
General Purposes  
Community Service  
Debt Service  
State Aid Not Restricted to Specific Purposes  
Earnings on Investments  
Miscellaneous  
Total General Revenues

**CHANGE IN NET POSITION**

Net Position - Beginning of Year  
Prior Period Adjustment - See Note 12  
Net Position - Beginning, as Restated

**NET POSITION - END OF YEAR**

See accompanying Notes to Basic Financial Statements.

		2017
	Net (Expense) Revenue and Change in Net Position	Net (Expense) Revenue and Change in Net Position
Capital Grants and Contributions	Total Governmental Activities	Total Governmental Activities
\$ -	\$ (1,125,883)	\$ (1,125,763)
-	(456,156)	(450,585)
183,624	(9,561,120)	(9,920,142)
-	(371,630)	(399,003)
-	(2,278,188)	(1,867,106)
-	(630,726)	(658,220)
-	(1,603,411)	(1,956,633)
249,784	(2,610,771)	(2,768,052)
-	(50,841)	(78,720)
-	(15,385)	78,423
-	(307,188)	(200,157)
-	(926,155)	(939,804)
<u>\$ 433,408</u>	<u>(19,937,454)</u>	<u>(20,285,762)</u>

1,976,113	2,212,839
158,510	161,972
1,380,472	1,317,593
11,539,518	11,701,697
86,411	197,415
212,206	144,000
<u>15,353,230</u>	<u>15,735,516</u>
(4,584,224)	(4,550,246)
(2,963,334)	1,586,912
(446,042)	-
<u>(3,409,376)</u>	<u>1,586,912</u>
<u>\$ (7,993,600)</u>	<u>\$ (2,963,334)</u>



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2018  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	Major Funds		
	General	Food Service	Community Service
<b>ASSETS</b>			
Cash and Investments	\$ 5,400,873	\$ 289,477	\$ 318,277
Receivables:			
Current Property Taxes	1,003,436	-	82,102
Delinquent Property Taxes	28,247	-	2,244
Accounts and Interest Receivable	41,699	-	-
Due from Other Minnesota School Districts	-	-	29,936
Due from Minnesota Department of Education	1,757,700	-	14,358
Due from Federal through Minnesota Department of Education	73,367	5,270	-
Inventory	9,571	15,646	-
Prepays	-	-	-
Total Assets	<u>\$ 8,314,893</u>	<u>\$ 310,393</u>	<u>\$ 446,917</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>			
Liabilities:			
Salaries and Compensated Absences Payable	\$ 675,452	\$ -	\$ -
Payroll Deductions and Employer Contributions Payable	700,754	-	-
Accounts and Contracts Payable	316,042	13,789	2,126
Due to Other Governmental Units	191	-	-
Unearned Revenue	-	18,485	-
Total Liabilities	<u>1,692,439</u>	<u>32,274</u>	<u>2,126</u>
Deferred Inflows of Resources:			
Property Taxes Levied for Subsequent Year	1,898,577	-	157,944
Unavailable Revenue - Delinquent Property Taxes	<u>28,248</u>	<u>-</u>	<u>2,244</u>
Total Deferred Inflows of Resources	<u>1,926,825</u>	<u>-</u>	<u>160,188</u>
Fund Balance:			
Nonspendable:			
Inventory	9,571	15,646	-
Prepays	-	-	-
Restricted for:			
Staff Development	119,159	-	-
Health and Safety	(41,601)	-	-
Operating Capital	725,383	-	-
Community Education	-	-	238,738
Early Childhood and Family Education	-	-	27,568
Teacher Development and Evaluation	20,024	-	-
School Readiness	-	-	18,297
Safe Schools Levy	39,048	-	-
Long-term Facilities Maintenance	67,298	-	-
Restricted for Other Purposes	-	262,473	-
Unassigned	<u>3,756,747</u>	<u>-</u>	<u>-</u>
Total Fund Balance	<u>4,695,629</u>	<u>278,119</u>	<u>284,603</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 8,314,893</u>	<u>\$ 310,393</u>	<u>\$ 446,917</u>

See accompanying Notes to Basic Financial Statements.

Capital Projects	Debt Service	Total Governmental Funds	
		2018	2017
\$ 92,972	\$ 804,171	\$ 6,905,770	\$ 15,178,679
-	729,569	1,815,107	1,665,281
-	10,540	41,031	44,259
-	-	41,699	43,453
-	-	29,936	9,038
-	5,651	1,777,709	1,672,324
-	-	78,637	315,155
-	-	25,217	22,633
-	-	-	6,936
<u>\$ 92,972</u>	<u>\$ 1,549,931</u>	<u>\$ 10,715,106</u>	<u>\$ 18,957,758</u>

\$ -	\$ -	\$ 675,452	\$ 620,824
-	-	700,754	568,375
1,908,206	-	2,240,163	3,106,395
-	-	191	239
-	-	18,485	17,435
<u>1,908,206</u>	<u>-</u>	<u>3,635,045</u>	<u>4,313,268</u>

-	1,403,522	3,460,043	3,332,087
-	10,539	41,031	44,259
-	1,414,061	3,501,074	3,376,346

-	-	25,217	22,633
-	-	-	6,936

-	-	119,159	87,746
-	-	(41,601)	(65,640)
-	-	725,383	845,404
-	-	238,738	168,364
-	-	27,568	22,328
-	-	20,024	23,403
-	-	18,297	60,011
-	-	39,048	43,188
-	-	67,298	-
-	135,870	398,343	5,811,784
(1,815,234)	-	1,941,513	4,241,987
<u>(1,815,234)</u>	<u>135,870</u>	<u>3,578,987</u>	<u>11,268,144</u>

<u>\$ 92,972</u>	<u>\$ 1,549,931</u>	<u>\$ 10,715,106</u>	<u>\$ 18,957,758</u>
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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT  
OF NET POSITION – GOVERNMENTAL FUNDS  
JUNE 30, 2018  
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	2018	2017
<b>Total Fund Balance for Governmental Funds</b>	<b>\$ 3,578,987</b>	<b>\$ 11,268,144</b>
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	130,000	130,000
Construction in Progress	-	17,766,841
Land Improvements, Net of Accumulated Depreciation	823,563	880,388
Buildings and Improvements, Net of Accumulated Depreciation	29,476,153	5,257,646
Equipment, Net of Accumulated Depreciation	1,646,774	898,686
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current- period's expenditures and, therefore, are reported as unavailable revenue in the funds.	41,031	44,259
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditures when due.	(383,207)	(387,401)
The District's net pension liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:		
Net Pension Liability	(29,346,571)	(34,692,375)
Deferred Inflows of Resources - Pensions	(5,077,477)	(776,943)
Deferred Outflows of Resources - Pensions	16,419,865	21,561,795
The District's OPEB liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:		
Other Postemployment Benefit Liability	(1,531,523)	(548,959)
Deferred Outflows of Resources - Other Postemployment Benefits	92,116	-
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:		
Bonds Payable	(22,825,000)	(23,265,000)
Unamortized Premiums	(576,824)	(598,187)
Notes Payable	-	(22,850)
Capital Leases Payable	(144,643)	(42,478)
Lease Purchase Payable	(806,190)	(938,455)
Severance Benefits Payable	(335,548)	(315,080)
Internal service funds are used by management to charge the costs of health and dental insurance services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. Internal service fund net position at year-end is:	824,894	816,635
<b>Total Net Position of Governmental Activities</b>	<b>\$ (7,993,600)</b>	<b>\$ (2,963,334)</b>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2018  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)**

	Major Funds		
	General	Food Service	Community Service
<b>REVENUES</b>			
Local Sources:			
Property Taxes	\$ 1,981,765	\$ -	\$ 158,992
Earnings and Investments	47,909	3,740	2,839
Other	587,790	500,752	578,553
State Sources	14,957,921	65,459	181,830
Federal Sources	556,260	422,942	-
Total Revenues	<u>18,131,645</u>	<u>992,893</u>	<u>922,214</u>
<b>EXPENDITURES</b>			
Current:			
Administration	842,239	-	-
District Support Services	448,617	-	-
Elementary and Secondary Regular Instruction	8,128,095	-	-
Vocational Education Instruction	279,756	-	-
Special Education Instruction	3,395,872	-	-
Instructional Support Services	755,242	-	-
Pupil Support Services	1,953,431	-	-
Sites and Buildings	2,082,672	-	-
Fiscal and Other Fixed Cost Programs	72,204	-	-
Food Service	-	954,958	-
Community Service	-	-	852,075
Capital Outlay	632,769	13,819	35,780
Debt Service:			
Principal	190,042	-	1,574
Interest and Fiscal Charges	34,466	-	545
Total Expenditures	<u>18,815,405</u>	<u>968,777</u>	<u>889,974</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(683,760)	24,116	32,240
<b>OTHER FINANCING SOURCES (USES)</b>			
Insurance Recovery	9,159	-	-
Issuance of Capital Lease	181,144	-	-
Total Other Financing Sources (Uses)	<u>190,303</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(493,457)	24,116	32,240
<b>FUND BALANCES</b>			
Beginning of Year	<u>5,189,086</u>	<u>254,003</u>	<u>252,363</u>
End of Year	<u>\$ 4,695,629</u>	<u>\$ 278,119</u>	<u>\$ 284,603</u>

See accompanying Notes to Basic Financial Statements.

Capital Projects	Debt Service	Total Governmental Funds	
		2018	2017
\$ -	\$ 1,377,566	\$ 3,518,323	\$ 3,684,999
18,581	5,083	78,152	190,212
-	-	1,667,095	1,627,752
-	56,516	15,261,726	14,831,451
-	-	979,202	1,139,207
18,581	1,439,165	21,504,498	21,473,621
-	-	842,239	887,017
-	-	448,617	412,617
-	-	8,128,095	8,021,672
-	-	279,756	316,236
-	-	3,395,872	3,065,368
-	-	755,242	778,082
-	-	1,953,431	1,898,891
-	-	2,082,672	1,991,905
-	-	72,204	100,084
-	-	954,958	938,153
-	-	852,075	801,209
7,374,464	-	8,056,832	17,179,838
-	440,000	631,616	591,641
-	895,338	930,349	947,784
7,374,464	1,335,338	29,383,958	37,930,497
(7,355,883)	103,827	(7,879,460)	(16,456,876)
-	-	9,159	12,778
-	-	181,144	-
-	-	190,303	12,778
(7,355,883)	103,827	(7,689,157)	(16,444,098)
5,540,649	32,043	11,268,144	27,712,242
\$ (1,815,234)	\$ 135,870	\$ 3,578,987	\$ 11,268,144

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN  
FUND BALANCES – GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018  
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2017)**

	2018	2017
<b>Net Change in Fund Balance - Total Governmental Funds</b>	<b>\$ (7,689,157)</b>	<b>\$ (16,444,098)</b>
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlays exceeded depreciation in the current period is:		
Capital Outlays	7,727,885	16,082,566
Gain (Loss) on Disposal of Capital Assets	(195,571)	-
Depreciation Expense	(743,192)	(501,330)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current-period's expenditures and, therefore, are unearned in the governmental funds.	(3,228)	7,405
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.		
Issuance of Capital Lease	(181,144)	-
Change in Accrued Interest - Capital Leases	(3,043)	1,294
Principal Payments - Capital Leases	36,501	25,030
Pension expenditures in the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in the net pension liability and the related deferred inflows and outflows of resources.	(4,096,660)	(4,186,065)
Payments to the District's OPEB liability are recognized as expenditures at the fund level while the change in the OPEB obligation and the related deferred inflows and outflows of resources are recognized in the statement of net position.	(48,121)	(107,037)
In the statement of activities, certain operating expenses - severance benefits and compensated absences - are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (amounts actually paid).	(20,468)	(31,749)
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
Repayment of Bond Principal	440,000	430,000
Repayment of Note Payable	22,850	9,918
Repayment of Lease Purchase Payable	132,265	128,195
Change in Accrued Interest - General Obligation Bonds	5,554	5,375
Change in Accrued Interest - Lease Purchase Payable	1,683	1,683
Amortization of Bond Premium	21,363	21,364
Internal service funds are used by the District to charge the costs of employee health and dental benefits to individual funds. The net revenue of the internal service funds is reported with governmental activities.	8,259	7,203
Total	<u>\$ (4,584,224)</u>	<u>\$ (4,550,246)</u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE –  
BUDGET AND ACTUAL – GENERAL FUND  
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Over (Under)
	Original	Final	Amounts	Final Budget
<b>REVENUES</b>				
Local Sources:				
Property Taxes	\$ 2,002,275	\$ 1,967,532	\$ 1,981,765	\$ 14,233
Earnings and Investments	15,000	25,000	47,909	22,909
Other	288,500	298,500	587,790	289,290
State Sources	14,600,109	14,712,895	14,957,921	245,026
Federal Sources	613,129	575,696	556,260	(19,436)
Total Revenues	17,519,013	17,579,623	18,131,645	552,022
<b>EXPENDITURES</b>				
Current:				
Administration	954,714	878,429	842,239	(36,190)
District Support Services	484,318	477,112	448,617	(28,495)
Elementary and Secondary Regular Instruction	8,063,393	8,049,664	8,128,095	78,431
Vocational Education Instruction	281,324	250,458	279,756	29,298
Special Education Instruction	3,445,340	3,448,659	3,395,872	(52,787)
Instructional Support Services	696,131	744,549	755,242	10,693
Pupil Support Services	1,850,560	1,930,996	1,953,431	22,435
Sites and Buildings	1,880,254	2,003,624	2,082,672	79,048
Fiscal and Other Fixed Cost Programs	98,300	98,300	72,204	(26,096)
Capital Outlay	341,300	574,422	632,769	58,347
Debt Service:				
Principal	143,315	143,315	190,042	46,727
Interest and Fiscal Charges	29,222	29,222	34,466	5,244
Total Expenditures	18,268,171	18,628,750	18,815,405	186,655
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(749,158)	(1,049,127)	(683,760)	365,367
<b>OTHER FINANCING SOURCES (USES)</b>				
Insurance Recovery	-	-	9,159	9,159
Issuance of Capital Lease	-	-	181,144	181,144
Total Other Financing Sources (Uses)	-	-	190,303	190,303
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (749,158)</u>	<u>\$ (1,049,127)</u>	<u>(493,457)</u>	<u>\$ 555,670</u>
<b>FUND BALANCE</b>				
Beginning of Year			<u>5,189,086</u>	
<b>END OF YEAR</b>			<u>\$ 4,695,629</u>	

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE –  
BUDGET AND ACTUAL – FOOD SERVICE FUND  
YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
<b>REVENUES</b>				
Local Sources:				
Earnings and Investments	\$ -	\$ -	\$ 3,740	\$ 3,740
Other - Primarily Meal Sales	479,251	479,251	500,752	21,501
State Sources	63,119	63,119	65,459	2,340
Federal Sources	472,696	472,696	422,942	(49,754)
Total Revenues	<u>1,015,066</u>	<u>1,015,066</u>	<u>992,893</u>	<u>(22,173)</u>
<b>EXPENDITURES</b>				
Current:				
Food Service	976,543	982,805	954,958	(27,847)
Capital Outlay	<u>6,500</u>	<u>9,500</u>	<u>13,819</u>	<u>4,319</u>
Total Expenditures	<u>983,043</u>	<u>992,305</u>	<u>968,777</u>	<u>(23,528)</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ 32,023</u>	<u>\$ 22,761</u>	24,116	<u>\$ 1,355</u>
<b>FUND BALANCE</b>				
Beginning of Year			<u>254,003</u>	
<b>END OF YEAR</b>			<u>\$ 278,119</u>	

See accompanying Notes to Basic Financial Statements.



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE –  
BUDGET AND ACTUAL – COMMUNITY SERVICE FUND  
YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Over (Under)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
<b>REVENUES</b>				
Local Sources:				
Property Taxes	\$ 159,312	\$ 151,894	\$ 158,992	\$ 7,098
Earnings and Investments	-	-	2,839	2,839
Other - Primarily Tuition and Fees	481,150	496,313	578,553	82,240
State Sources	164,154	183,818	181,830	(1,988)
Total Revenues	<u>804,616</u>	<u>832,025</u>	<u>922,214</u>	<u>90,189</u>
<b>EXPENDITURES</b>				
Current:				
Community Service	791,535	844,037	852,075	8,038
Capital Outlay	14,747	17,493	35,780	18,287
Debt Service				
Principal	-	-	1,574	1,574
Interest	-	-	545	545
Total Expenditures	<u>806,282</u>	<u>861,530</u>	<u>889,974</u>	<u>28,444</u>
<b>NET CHANGE IN FUND BALANCE</b>	<u>\$ (1,666)</u>	<u>\$ (29,505)</u>	32,240	<u>\$ 61,745</u>
<b>FUND BALANCE</b>				
Beginning of Year			<u>252,363</u>	
<b>END OF YEAR</b>			<u>\$ 284,603</u>	

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
STATEMENT OF NET POSITION – PROPRIETARY FUND  
JUNE 30, 2018**

	Governmental Activities - Internal Service Funds
	<u>                    </u>
<b>ASSETS</b>	
Cash and Investments	\$       824,894
	<u>                    </u>
<b>NET POSITION</b>	
Unrestricted	\$       824,894
	<u>                    </u>

*See accompanying Notes to Basic Financial Statements.*

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2018**

	<u>Governmental Activities - Internal Service Funds</u>
<b>NONOPERATING INCOME (LOSS)</b>	
Earnings on Investments	<u>\$          8,259</u>
<b>CHANGE IN NET POSITION</b>	8,259
Net Position - Beginning of Year	<u>816,635</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$         824,894</u></u>

*See accompanying Notes to Basic Financial Statements.*

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
STATEMENT OF CASH FLOWS –  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2018**

	Governmental Activities - Internal Service Funds
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest Received	\$ 8,259
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	8,259
Cash and Cash Equivalents - Beginning of Year	816,635
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 824,894</u>
Total Cash and Investments per Statement of Net Position	<u><u>\$ 824,894</u></u>

*See accompanying Notes to Basic Financial Statements.*

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
STATEMENT OF FIDUCIARY NET POSITION  
JUNE 30, 2018**

	Private-Purpose Trust
	<hr/>
<b>ASSETS</b>	
Cash and Investments	\$ 911,877
	<hr/> <hr/>
<b>NET POSITION</b>	
Restricted for Scholarships	\$ 911,877
	<hr/> <hr/>

*See accompanying Notes to Basic Financial Statements.*

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2018**

	Private-Purpose Trust
<b>ADDITIONS</b>	
Gifts and Donations	\$ -
Earnings on Investments	1,734
Total Additions	<u>1,734</u>
<b>DEDUCTIONS</b>	
Scholarships Awarded	<u>19,200</u>
<b>CHANGE IN NET POSITION</b>	(17,466)
Net Position - Beginning of Year	<u>929,343</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 911,877</u></u>

*See accompanying Notes to Basic Financial Statements.*

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The financial statements of Independent School District No. 2859 have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The GASB pronouncements are recognized as accounting principles generally accepted in the United States of America for state and local governments.

**B. Financial Reporting Entity**

Independent School District No. 2859 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected Board of Education (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

Accounting principles generally accepted in the United States of America require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. These financial statements include all funds and account groups of the District. There are no other entities for which the District is financially accountable.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The Board of Education does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's Board of Education has not elected to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

**C. Basic Financial Statement Presentation**

The District-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the Fiduciary Fund. The Fiduciary Fund is only reported in the statement of fiduciary net position at the fund financial statement level.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**C. Basic Financial Statement Presentation (Continued)**

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

The District applies restricted resources first when an expense is incurred for purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities. Generally, the effect of material interfund activity has been removed from the District-wide financial statements.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: Private-Purpose Trust. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal users of Internal Service Fund are the District's governmental activities, the financial statement of the Internal Service Fund is consolidated into the governmental column when presented in the District-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges for accumulating resources for future payments of other postemployment benefits. Operating expenses for the internal service fund include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

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

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The District-wide, proprietary fund, and fiduciary fund 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 generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory "tax shift" described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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

1. Revenue Recognition - Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenues.
2. Recording of Expenditures - Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

**Description of Funds**

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. A description of each fund included in this report is as follows:

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

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

**Description of Funds (Continued)**

*Major Governmental Funds*

General Fund

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

Food Service Special Revenue Fund

The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Fund come from user fees, and reimbursements from the Federal and State governments.

Community Service Special Revenue Fund

The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs or other similar services. Revenues for the Community Service Special Revenue Fund are composed of user fees, local levy dollars, and State credits.

Capital Projects – Building Construction Fund

The Building Construction Fund is used to account for financial resources restricted, committed, or assigned to be used for the acquisition or construction of major capital facilities. The Fund was established for building construction activity authorized by specific voter-approved bond issues.

Debt Service Fund

The Debt Service Fund is used to account for and report financial resources restricted committed, or assigned to pay general long-term obligation bond principal, interest, and related costs. The regular debt service account is used for all general obligation bond debt service.

*Proprietary Fund*

Internal Service Fund

The Internal Service Fund accounts for financing goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The District's Internal Service Fund accumulates resources for the future payment of other postemployment benefits.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

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

**Description of Funds (Continued)**

*Fiduciary Fund*

Private-Purpose Trust Fund

The Private-Purpose Trust Fund is used to account for money held by the District in the capacity of trustee or custodian, where both the principal and interest may be spent. The District uses these funds to give out scholarships to graduating seniors to be used to go towards college tuition.

**E. Budgeting**

Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. Each June, the Board of Education adopts an annual budget for the following fiscal year for the General, Food Service, and Community Service Funds. The approved budget is published in summary form in the District's legal newspaper. Reported budget amounts represent the original budget as adopted by the Board of Education. Legal budgetary control is at the fund level.

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

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

Budgeted amounts include mid-year budget amendments that amended revenue and expenditure budgets as follows:

	<u>Original Budget</u>	<u>Amendments</u>	<u>Amended Budget</u>
<u>Revenues</u>			
General Fund	\$ 17,519,013	\$ 60,610	\$ 17,579,623
Special Revenue Funds:			
Community Service Fund	804,616	27,409	832,025
<u>Expenditures</u>			
General Fund	18,268,171	360,579	18,628,750
Special Revenue Funds:			
Food Service Fund	983,043	9,262	992,305
Community Service Fund	806,282	55,248	861,530

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**E. Budgeting (Continued)**

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

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

**F. Cash and Investments**

Cash balances consist of interest bearing accounts, deposits in the Minnesota Trust Investment Shares Portfolio and negotiable certificates of deposit. 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 cash balance participation by each fund.

**G. Accounts Receivable**

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are current property taxes receivable.

**H. Inventories**

Inventories are recorded using the consumption method of accounting and consist of wood shop supplies and paper in the General Fund and purchased food, supplies, and surplus commodities received from the federal government within the Food Service Fund. 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.

**I. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Expenses are allocated over the periods benefited.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**J. Property Taxes**

Property tax levies are established by the Board of Education in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to Districts at periodic intervals as they are collected. A portion of property taxes levied is paid through state credits which are included in revenue from state sources in the financial statements.

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as a deferred inflow of resources (property taxes levied for subsequent year). The majority of District revenue in the General Fund (and to a lesser extent in the District's Community Service Special Revenue Fund) is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the Legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift."

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy, which is frozen at \$168,353 for the District. The tax shift also includes certain other levies that are recognized early based on statutory requirements.

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 reported as a deferred inflow of resources because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2018, are included in Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**K. Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their acquisition value at the date of donation. The District maintains a threshold level of \$2,500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Capital assets not being depreciated include land.

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

**L. Deferred Outflows of Resources**

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time.

**M. Long-Term Obligations**

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Material bond premiums and discounts are amortized over the life of the bonds using the effective interest 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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**N. Pensions**

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

**O. Accrued Employee Benefits**

**Vacation Pay**

Since vacation pay does not vest to employees, no long-term portion of vacation liabilities are recorded in the financial statements.

**Sick Pay**

Substantially all District employees are entitled to sick leave at various rates. For certain employees, unused sick leave enters into the calculation of severance pay upon termination.

**Severance and Health Benefits**

Severance consist of lump sum early retirement incentive payments. Accounting policies for severance benefits are described below.

**a. Early Retirement Incentive and Convertible Sick Leave**

Certain bargaining unit members are eligible to be compensated for unused accumulated sick leave upon termination subject to certain conditions.

Full-time employees, other than teachers, who have completed at least 15 years of continuous service with the District and who are at least 55 years of age are eligible for severance pay. Eligible employees, upon early retirement, receive as severance pay, an amount representing 66% of their unused accumulation of sick leave days.

During fiscal year 2018, the District's expenditures for early retirement incentive and convertible sick leave expenditures for convertible sick leave totaled \$15,215. At June 30, 2018, the long-term portion of the convertible sick leave liability is included as part of severance payable in the long-term debt.

**b. Other Postemployment Benefits Payable**

Under the terms of certain collectively bargained employment contracts, including the teachers' contract, the District is required to pay \$150 per month or \$250 per month toward the premium cost of the individual health insurance for 96 months. The employee pays the difference toward the full premium for any coverage elected. All premiums are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB 75. See Note 8 for further information.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**P. Deferred Inflows of Resources**

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow or resources (revenue) until that time.

**Q. Unearned Revenue**

Unearned revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported unearned revenues for the school lunch deposits.

**R. Fund Balance**

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned. Nonspendable portions of fund balance relate to prepaids and inventories. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The District currently doesn't report any committed fund balances. The Board of Education passed a resolution authorizing the Finance Committee and the Business Manager the ability to assign fund balances and its intended uses. Unassigned fund balances are considered the remaining amounts, usually in the General Fund only.

In accordance with the District's fund balance policy, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balance is available, it is the District's policy to use committed first, then assigned and finally unassigned fund balance.

The District has a minimum fund balance policy, which identifies a minimum total of committed, assigned and unassigned fund balance in the General Fund as 20% of the District's operating budgeted expenditures.

**S. Statement of Cash Flows**

For purposes of the statement of cash flows, the District considers demand deposit accounts and investments to be cash and cash equivalents. Cash and cash equivalents are included in cash and investments.



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**T. Net Position**

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

**U. Summarized Comparative Information**

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

**NOTE 2 STEWARDSHIP AND ACCOUNTABILITY**

**A. Excess of Expenditures Over Budget**

Expenditures exceeded budgeted amounts in the following funds:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 18,628,750	\$ 18,815,405	\$ 186,655
Special Revenue Funds:			
Community Service Fund	861,530	889,974	28,444

These overages were considered by District management to be the result of necessary expenditures critical to operations.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 3 DEPOSITS AND INVESTMENTS**

**A. Deposits**

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and Investments." In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the District's Board.

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

The District's deposits in banks at June 30, 2018 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

**B. Investments**

The District may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen 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 banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement and securities lending agreements 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.

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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

At June 30, 2018, the District had the following investments:

**External Investment Pools –**

	Amortized Cost
MN Trust Term Series	\$ 1,600,000
MN Trust Investments Shares Portfolio	2,696,078
Total Investments at Amortized Cost	<u>\$ 4,296,078</u>

**Other Investments –**

	Fair Value
Negotiable Certificates of Deposit	<u>\$ 1,233,275</u>

The negotiable certificates of deposit are held by PMA Financial Network as temporary investments of the District's available cash.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from the maturities to meet cash requirements for ongoing operations. Information about the sensitivity of the fair values of the District's investments to market interest rate risk fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Type	Total	Maturity Duration in Years	
		Less Than 1	1 to 2
Negotiable Certificates of Deposit	\$ 1,233,275	\$ 1,233,275	\$ -
MN Trust Term Series	1,600,000	1,600,000	-
MN Trust Investments Shares Portfolio	2,696,078	2,696,078	-
Total	<u>\$ 5,529,353</u>	<u>\$ 5,529,353</u>	<u>\$ -</u>

**Custodial Credit Risk**

For an investment, custodial risk is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's investment policy requires that insurance of all balances held with each investment account. As of June 30, 2018, the investment balances were fully covered by insurance for each brokerage firm.

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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The following chart summarizes year-end ratings for the District's investments as rated by *Moody's*.

Type	Rating
Negotiable Certificates of Deposit	Not Rated
MN Trust Term Series	AAAM
MN Trust Investments Shares Portfolio	AAAM

**C. Balance Sheet Presentation**

The deposits and investments are presented in the basic financial statements as follows:

Deposits	\$ 3,113,188
Negotiable Certificates of Deposit	1,233,275
MN Trust Term Series	1,600,000
MN Trust Investments Shares Portfolio	2,696,078
Total Pooled Cash and Investments	\$ 8,642,541
 Cash and Investments - Statement of Net Position	\$ 7,730,664
Cash and Investments - Statement of Fiduciary Net Position	911,877
Total Cash and Investments	\$ 8,642,541

**D. Fair Value Measurement**

The District uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The District follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the District has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

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**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**D. Fair Value Measurement (Continued)**

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

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

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

Assets measured at fair value on a recurring basis:

Investment	Level 1	Level 2	Level 3	Total
Negotiable Certificates of Deposit	\$ -	\$ 1,233,275	\$ -	\$ 1,233,275
Total	\$ -	\$ 1,233,275	\$ -	1,233,275
Investments Measured at Amortized Cost				4,296,078
Total District Investments				\$ 5,529,353

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
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**NOTE 4 CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Prior Period Adjustment	Ending Balance
<b>Governmental Activities</b>					
Capital Assets, Not Being Depreciated					
Land	\$ 130,000	\$ -	\$ -	\$ -	\$ 130,000
Construction in Progress	17,766,841	7,183,356	(25,346,482)	396,285	-
Total Capital Assets, Not Being Depreciated	17,896,841	7,183,356	(25,346,482)	396,285	130,000
Capital Assets, Being Depreciated					
Land Improvements	1,140,892	-	-	-	1,140,892
Buildings and Improvements	11,784,156	24,829,354	(724,000)	-	35,889,510
Equipment	4,133,852	1,061,657	(318,227)	-	4,877,282
Total Capital Assets, Being Depreciated	17,058,900	25,891,011	(1,042,227)	-	41,907,684
Accumulated Depreciation for:					
Land Improvements	(260,504)	(56,825)	-	-	(317,329)
Buildings and Improvements	(6,526,510)	(460,327)	573,480	-	(6,413,357)
Equipment	(3,235,166)	(226,040)	230,698	-	(3,230,508)
Total Accumulated Depreciation	(10,022,180)	(743,192)	804,178	-	(9,961,194)
Total Capital Assets, Being Depreciated, Net	7,036,720	25,147,819	(238,049)	-	31,946,490
Governmental Activities Capital Assets, Net	\$ 24,933,561	\$ 32,331,175	\$ (25,584,531)	\$ 396,285	\$ 32,076,490

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

Administration	\$ 13,427
District Support Services	150
Regular Instruction	572,125
Special Education Instruction	5,475
Community Ed & Services	10,483
Instructional Support Services	37,219
Pupil Support Services	22,373
Sites and Buildings	64,626
Food Service	17,314
Total Depreciation Expense, Governmental Activities	<u>\$ 743,192</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
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**NOTE 5 LONG-TERM LIABILITIES**

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

Long-term liabilities consisted of the following at June 30, 2018:

Issue Date	Net Interest Rate	Series Number	Original Issue	Maturity Date	Principal Outstanding	
					Due Within One Year	Total
8/13/2015	3.0% - 4.0%	2015A	\$ 23,695,000	2/1/2045	\$ 455,000	\$ 22,825,000
Total General Obligation Bonds					<u>\$ 455,000</u>	<u>\$ 22,825,000</u>
Bond Premiums					-	576,824
Notes Payable					-	-
Lease Purchase Payable					136,464	806,190
Capital Leases Payable					32,412	144,643
Severance Benefits Payable					-	335,548
Total					<u>\$ 623,876</u>	<u>\$ 24,688,205</u>

**B. Future Minimum Debt Payments**

Minimum annual principal and interest payments necessary to retire Bonds Payable, Lease Purchase Payable and Notes Payable are as follows:

Year Ending June 30,	G.O. Building Bonds Series 2015A		Lease Purchase Payable	
	Principal	Interest	Principal	Interest
2019	\$ 455,000	\$ 881,688	\$ 136,464	\$ 24,329
2020	525,000	868,038	140,796	19,996
2021	540,000	852,288	145,266	15,526
2022	555,000	836,088	149,878	10,914
2023	575,000	819,438	154,637	6,156
2024-2028	3,200,000	3,764,938	79,149	1,247
2029-2033	3,890,000	3,071,938	-	-
2034-2038	4,725,000	2,236,113	-	-
2039-2043	5,735,000	1,231,200	-	-
2044-2048	2,625,000	158,696	-	-
Total	<u>\$ 22,825,000</u>	<u>\$ 14,720,425</u>	<u>\$ 806,190</u>	<u>\$ 78,168</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
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**NOTE 5 LONG-TERM LIABILITIES (CONTINUED)**

**B. Future Minimum Debt Payments (Continued)**

Year Ending June 30.	Note Payable		Total	
	Principal	Interest	Principal	Interest
2019	\$ -	\$ -	\$ 591,464	\$ 906,017
2020	-	-	665,796	888,034
2021	-	-	685,266	867,814
2022	-	-	704,878	847,002
2023	-	-	729,637	825,594
2024-2028	-	-	3,279,149	3,766,185
2029-2033	-	-	3,890,000	3,071,938
2034-2038	-	-	4,725,000	2,236,113
2039-2043	-	-	5,735,000	1,231,200
2044-2048	-	-	2,625,000	158,696
Total	\$ -	\$ -	\$ 23,631,190	\$ 14,798,593

**Description of Long-Term Liabilities**

**Lease Purchase Payable**

On September 12, 2013, the District entered into a lease-purchase agreement for \$1,375,000. The debt was issued to help fund the construction of the new Early Childhood Center, along with necessary equipment and other site improvements. The District will use General Fund levy in future years to pay for the debt payments.

**Note Payable**

In August 2014, the District entered into a note payable agreement for \$50,000 at a 4.0% interest rate. The principal and interest was due in monthly installments and the lease was paid of in May of 2018. The debt was issued to help fund new lights at the tennis courts. Assets of the General Fund were be used to retire this note payable.

**Capital Leases Payable**

Capital leases are utilized by the District as a means to finance the Facility projects that are too small for issuing bonds and too large for the operating capital funds to cover the costs. These projects over the years have included modifications to the field house, equipment for the field house, technology throughout the District, stadium lights, and improvements to the Helen Baker Elementary. Total cost of assets held under capital leases is \$181,144. Related accumulated depreciation of assets under capital leases at June 30, 2018 is \$36,229.



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**NOTE 5 LONG-TERM LIABILITIES (CONTINUED)**

**B. Future Minimum Debt Payments (Continued)**

**Description of Long-Term Liabilities (Continued)**

**Capital Leases Payable (Continued)**

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2018:

<u>Year Ending June 30.</u>	<u>Amount</u>
2018	\$ 42,272
2019	42,272
2020	42,272
2021	42,272
Total Minimum Lease Payments	169,088
Less: Amounts Representing Interest	(24,445)
Present Value of Net Minimum Lease Payments	<u>\$ 144,643</u>

**General Obligation School Building Bonds, Series 2015A**

On August 13, 2015, the District issued \$23,695,000 of General Obligation School Building Bonds, Series 2015A. The proceeds of the issues will be used to finance the betterment of school facilities.

**Severance Benefits Payable**

Severance benefits payable consist of convertible sick leave payable to employees upon retirement. Severance benefits have been paid by the General and Special Revenue Funds. Annual payments to retire the severance benefits liability have not been determined and will depend on actual employee turnover.

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

	June 30, 2017	Additions	Retirements	June 30, 2018
Bonds Payable	\$ 23,265,000	\$ -	\$ 440,000	\$ 22,825,000
Bond Premiums	598,187	-	21,363	576,824
Notes Payable	22,850	-	22,850	-
Lease Purchase Payable	938,455	-	132,265	806,190
Capital Leases Payable	42,478	181,144	78,979	144,643
Severance Benefits Payable	315,080	20,468	-	335,548
Total	<u>\$ 25,182,050</u>	<u>\$ 201,612</u>	<u>\$ 695,457</u>	<u>\$ 24,688,205</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
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**NOTE 6 RESTRICTED FUND BALANCES**

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. The following is a summary of the restricted fund balances for the governmental funds:

**A. Restricted for Staff Development**

Restricted for staff development represents general education aid resources to be expended for staff development programs.

**B. Restricted for Health and Safety**

Restricted for health and safety represents available resources to be used only to provide for the removal of hazardous substances and other state approved life/health safety projects. Under Minnesota Statutes, a deficit in this restriction generates specific future levy authority.

**C. Restricted for Operating Capital**

Restricted for operating capital represents available resources to be used only for operating capital purposes, including but not limited to the purchase, lease, repair and improvement of school buildings, and the purchase or lease of computers, vehicles, textbooks, and telecommunications equipment.

**D. Restricted for Community Education Programs**

The fund balance restriction represents accumulated resources available to provide general community education programming.

**E. Restricted for Early Childhood and Family Education Programs**

This fund balance restriction represents accumulated resources available to provide services for early childhood family education programming.

**F. Restricted for Teacher Development and Evaluation**

The fund balance restriction represents accumulated resources available for teacher development and evaluation uses.

**G. Restricted for School Readiness**

The fund balance restriction represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

**H. Restricted for Safe Schools – Crime Levy**

The fund balance restriction represents accumulated resources available to provide for safe schools programs in accordance with funding made available for that purpose.

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**NOTE 6 RESTRICTED FUND BALANCES (CONTINUED)**

**I. Restricted for Long Term Facilities Maintenance (LTFM)**

Represents available resources to be used for LTFM capital projects in accordance with the 10 year plan.

**J. Restricted for Other Purposes**

Represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Other Restricted:

Restricted for Food Service	\$ 262,473
Restricted for Community Service	-
Restricted for Capital Projects	-
Restricted for Bond Payments	135,870
Total Other Restricted	<u>\$ 398,343</u>

**NOTE 7 DEFINED BENEFIT PENSION PLANS**

**A. Plan Description**

The District participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA) and Teachers Retirement Fund (TRA). PERA and TRA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes. PERA and TRA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

**1. General Employees Retirement Plan (General Employees Plan)**

PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the School other than teachers are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

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NOTES TO BASIC FINANCIAL STATEMENTS  
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**NOTE 7    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**A. Plan Description (Continued)**

**2. Teachers Retirement Fund (TRA)**

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 city of St. Paul and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

**B. Benefits Provided**

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

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

TRA: Postretirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0%. After the TRA funded ratio exceeds 90% for two consecutive years, the annual postretirement benefit will increase to 2.5%.

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

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**NOTE 7    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**B. Benefits Provided (Continued)**

**1. General Employees Plan Benefits**

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989 a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989 normal retirement age is the age for unreduced Social Security benefits capped at 66.

**2. TRA Benefits**

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

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

*Tier 1 Benefits*

Tier 1	Step Rate Formula	Percentage
Basic	First Ten Years of Service	2.2% per Year
	All Years After	2.7% per Year
Coordinated	First Ten Years if Service Years Are Up to July 1, 2006	1.2% per Year
	First Ten Years if Service Years Are July 1, 2006 or After	1.4% per Year
	All Other Years of Service if Service Years Are Up to July 1, 2006	1.7% per Year
	All Other Years of Service if Service Years Are July 1, 2006 or After	1.9% per Year

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**NOTE 7    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**B. Benefits Provided (Continued)**

**2. TRA Benefits (Continued)**

*Tier 1 Benefits (Continued)*

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

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

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.

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**NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**C. Contributions**

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

**1. General Employees Fund Contributions**

Coordinated Plan members were required to contribute 6.5% of their annual covered salary in fiscal year 2018. In fiscal year 2018. The School was required to contribute 7.5% for Coordinated Plan members. The School's contributions to the General Employees Fund for the plan's fiscal year ended June 30, 2018 were \$164,780. The School's contributions were equal to the required contributions for each year as set by state statute.

**2. TRA Contributions**

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

	2018		2017	
	Employee	Employer	Employee	Employer
Basic	11.0%	11.5%	11.0%	11.5%
Coordinate	7.5%	7.5%	7.5%	7.5%

The School's contributions to TRA for the plan's fiscal year ended June 30, 2018 were \$571,408. The School's contributions were equal to the required contributions for each year as set by state statute.

**D. Pension Costs**

**1. General Employees Fund Pension Costs**

At June 30, 2018, the School reported a liability of \$2,138,618 for its proportionate share of the General Employees Fund's net pension liability. The School's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$6 million to the fund during the General Employees Fund's fiscal year 2017. The state of Minnesota is considered a nonemployer 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 School totaled \$26,925. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. As of the June 30, 2017 measurement date, the School's proportion was .0335%, which was a decrease of .0013% from its proportion measured as of June 30, 2016.

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**NOTE 7    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**D. Pension Costs (Continued)**

**1. General Employees Plan Pension Costs (Continued)**

For the year ended June 30, 2018, the District recognized pension expense of \$229,842 for its proportionate share of General Employees Plan's pension expense. The District also recognized \$778 as pension expense for the support provided by direct aid

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$       70,482	\$       137,583
Changes in Actuarial Assumptions	355,057	214,397
Net Difference Between Projected and Actual		
Earnings on Plan Investments	-	92,488
Changes in Proportion	-	100,647
District Contributions Subsequent to the Measurement Date	164,780	-
Total	<u>\$       590,319</u>	<u>\$       545,115</u>

A total of \$164,780 reported as deferred outflows of resources related to pensions resulting from School contributions to General Employees Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019.

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

<u>Year Ending June 30,</u>	Pension Expense Amount
2019	\$       (58,742)
2020	90,262
2021	(60,316)
2022	(90,780)



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 7    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**D. Pension Costs (Continued)**

**2. TRA Pension Costs**

At June 30, 2018, the District reported a liability of \$27,207,953 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.1363% at the end of the measurement period and 0.1336% for the beginning of the period.

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

Description	Amount
District's Proportionate Share of the TRA Net Pension Liability	\$ 27,207,953
State's Proportionate Share of the Net Pension Liability Associated with the District	2,630,533
Total	<u>\$ 29,838,486</u>

For the year ended June 30, 2018, the District recognized pension expense of \$4,617,174. It also recognized \$50,443 as pension expense for the support provided by direct aid.

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 204,884	\$ 191,059
Changes in Actuarial Assumptions	14,796,313	3,811,405
Net Difference Between Projected and Actual		
Earnings on Plan Investments	-	213,202
Changes in Proportion	256,941	316,696
District Contributions Subsequent to the Measurement Date	571,408	-
Total	<u>\$ 15,829,546</u>	<u>\$ 4,532,362</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 7    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**D. Pension Costs (Continued)**

**2. TRA Pension Costs (Continued)**

A total of \$571,408 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Pension Expense Amount</u>
2019	\$ 2,739,887
2020	3,215,858
2021	3,036,438
2022	2,493,502
2023	(759,909)

The District recognized total pension expenses of \$4,898,237 for all of the pension plans in which it participates. This includes \$50,443 and \$778 in TRA and GERF, respectfully, related to direct aid recognized as pension expense.

**E. Actuarial Assumptions**

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

<u>Assumptions</u>	<u>General Employees Plan</u>	<u>TRA</u>
Inflation	2.50% per Year	2.50% per Year
Active Member Payroll Growth	3.25% per Year	2.85% for 10 years and 3.25%, thereafter
Investment Rate of Return	7.50%	5.12%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables, with slight adjustments to fit PERA's and TRA's experience. Cost of living benefit increases for retirees are assumed to be 1.0% per year for all future years for the General Employees Plan. Cost of living benefit increases for retirees are assumed to be 2.0% per year for all future years for the TRA.

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 7    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**E. Actuarial Assumptions (Continued)**

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

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60.0% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for nonvested deferred member liability.
- The assumed postretirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

The following changes in actuarial assumptions for TRA occurred in 2017:

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5%, but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the nonvested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.00% to 7.50%.
- The price inflation assumption was lowered from 2.75% to 2.50%.
- The payroll growth assumption was lowered from 3.50% to 3.00%.
- The general wage growth assumption was lowered from 3.50% to 2.85% for 10 years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Stocks	39 %	5.10 %
International Stocks	19	5.30
Bonds	20	0.75
Alternative Assets	20	5.90
Unallocated Cash	2	-
Totals	<u>100 %</u>	

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 7    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**F. Discount Rate**

The discount rate used to measure the total pension liability was 7.50% for the General Employee's Fund and 5.12% for TRA. For TRA, this was an increase from the discount rate at the prior measurement date of 4.66%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in Minnesota Statutes.

Based on PERA's 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.

Based on TRA's assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50%) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56% was applied to periods on and after 2053, resulting in a SEIR of 5.12%. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01%).

**G. Pension Liability Sensitivity**

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

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
<u>General Employees Plan Discount Rate</u>	6.50%	7.50%	8.50%
District's Proportionate Share of the General Employees Plan Net Pension Liability	\$    3,317,155	\$    2,138,618	\$    1,173,771
 <u>TRA Discount Rate</u>	 4.12%	 5.12%	 6.12%
District's Proportionate Share of the TRA Net Pension Liability	\$    35,909,255	\$    27,207,953	\$    19,871,696

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 7    DEFINED BENEFIT PENSION PLANS (CONTINUED)**

**H. Pension Plan Fiduciary Net Position**

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

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

**I. 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 contributions for the years ended June 30, 2018, 2017 and 2016 are \$114,700, \$114,702, and \$109,795, respectively. The related employee contributions were \$202,662, \$192,114, and \$193,002, for the years ended June 30, 2018, 2017 and 2016, respectively.

**NOTE 8    OTHER POSTEMPLOYMENT BENEFIT PLAN**

**A. Plan Description**

The District operates a single-employer postemployment defined benefit plan (the Plan) that provides health and dental insurance to eligible employees and their spouses through the District's health insurance plan. There are 213 active participants and 12 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

**B. Funding Policy**

The District does not have assets accumulated in a trust to pay for OPEB related costs. Contribution requirements are negotiated between the District and union representatives. The District contributes \$150 per month or \$250 per month, with 25 years of service and 34 years of teaching, of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2018, the District contributed \$92,116 to the plan.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)**

**C. Actuarial Methods and Assumptions**

The District's OPEB liability was measured as of July 1, 2017, and the total OPEB liability used to calculate the OPEB liability was determined by an actuarial valuation as of July 1, 2016. Procedures were used to roll forward the total OPEB liability to the measurement date.

The total OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	3.00%
20-Year Municipal Bond Yield	3.40%
Health Care Trend Rates	6.50% Decreasing to 5.00% Over 6 Years

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

The actuarial assumptions used in the July 1, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2015 to June 30, 2016.

The discount rate used to measure the total OPEB liability was 3.40%. The discount rate is based on the estimated yield of 20-year AA-rated bonds.

Since the most recent GASB Statement No. 45 Other Postemployment Benefits valuation, the following changes have been made:

- The discount rate was changed from 3.00% to 3.40%.
- The actuarial cost method was changed from projected unit credit to entry age as prescribed by GASB 75.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)**

**D. Changes in the OPEB Liability**

The following table shows the components of the changes in the District's OPEB Liability:

	Total OPEB Liability
Balances at July 1, 2016	\$ 1,459,899
Changes for the Year:	
Service Cost	88,740
Interest Cost	51,497
Benefit Payments	(68,613)
Net Changes	<u>71,624</u>
Balances at July 1, 2017	<u>\$ 1,531,523</u>

**E. OPEB Liability Sensitivity**

The following presents the OPEB liability if the District, as well as what the District's OPEB 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:

	1% Decrease (2.4%)	Discount Rate (3.4%)	1% Increase (4.4%)
Net OPEB Liability (Asset)	\$ 1,633,996	\$ 1,531,523	\$ 1,433,192

The following presents the OPEB liability of the Districts, as well as what the District's OPEB liability would be if it were calculated using healthcare cost trend rates that are 1% point lower (5.50% decreasing to 4.00% over 6 years) or 1% point higher (7.50% decreasing to 6.00% over 6 years) than the current healthcare cost trend rates:

	Healthcare Cost		
	1% Decrease (5.50% Decreasing to 4.00% over 6 Years)	Current Trend Rates (6.50% Decreasing to 5.00% over 6 Years)	1% Increase (7.50% Decreasing to 6.00% over 6 Years)
Net OPEB Liability (Asset)	\$ 1,371,513	\$ 1,531,523	\$ 1,721,315

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)**

**F. OPEB Liability Costs**

For the year ended June 30, 2018, the District recognized OPEB expense of \$140,237. At June 30, 2018, the District reported no deferred inflows of resources and \$92,116 of deferred outflows of resources resulting from District contributions subsequent to the measurement date and will be recognized as a reduction of the OPEB liability in the year ended June 30, 2019.

**NOTE 9 RISK MANAGEMENT**

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

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. In addition, there have been no settlements in excess of the District's insurance coverage in any of the prior three years.

**NOTE 10 COMMITMENTS AND CONTINGENCIES**

**Federal and State Receivables**

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

**Outstanding Contracts**

The District had commitments to pay contracts and retainage payable related to construction contracts in the amount of \$1,908,206 as of the end of the year.



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**NOTE 11 JOINTLY GOVERNED ORGANIZATION**

Independent School District No. 2859 is a member of the Little Crow Special Education Cooperative. The Little Crow Special Education Cooperative was established for the primary objective to provide specialized services for special education students, as defined by state law, and to provide other programs and services as approved by the Joint Powers Governing Board. The Cooperative was established by 13 separate member districts. Each member district shares in the cost of the programming, which is paid to the education district in the form of membership fees, reimbursements and other charges for services. The education district is able to recover the cost of its programs through the previously mentioned revenue sources.

**NOTE 12 RESTATEMENT OF BEGINNING NET POSITION**

During fiscal year ended June 30, 2018, the District adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This pronouncement requires the restatement of the June 30, 2017 net position of the governmental activities.

The District also restated its beginning capital asset balances related to construction in progress additions that should have been added in the prior year.

As a result, the District's net position as of June 30, 2017 has been restated to reflect the recognition of the restated OPEB liability and to restate the beginning balance for construction in progress as noted below:

Description	Governmental Activities
Net Position, June 30, 2017, as Previously Reported	\$ (2,963,334)
Cumulative Affect of Application of GASB 75, Revaluation of OPEB Liability	(842,327)
Cumulative Affect of Restatement of Beginning Balance of Construction in Progress	396,285
Net Position, June 30, 2018 as Restated	<u>\$ (3,409,376)</u>

## **REQUIRED SUPPLEMENTARY INFORMATION**

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS  
JUNE 30, 2018**

Measurement Date	July 1, 2017
<b>Total OPEB Liability</b>	
Service Cost	\$ 88,740
Interest	51,497
Benefit Payments	(68,613)
<b>Net Change in Total OPEB Liability</b>	71,624
Total OPEB Liability - Beginning	1,459,899
<b>Total OPEB Liability - Ending (a)</b>	<b>\$ 1,531,523</b>
Covered-Employee Payroll	\$ 9,373,030
District's Total OPEB Liability as a Percentage of Covered-Employee Payroll	16.34%

NOTE: The District implemented GASB Statement No. 75 in fiscal year 2018, and the above table will be expanded to 10 years of information as the information becomes available.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
LAST FOUR YEARS**

	Measurement Date June 30,			
	2017	2016	2015	2014
<b>PERA - General Employees Fund</b>				
District's Proportion of the Net Pension Liability	0.0335%	0.0348%	0.0358%	0.0368%
District's Proportionate Share of the Net Pension Liability	\$ 2,138,618	\$ 2,825,587	\$ 1,855,342	\$ 1,728,680
State's Proportionate Share of the Net Pension Liability				
Associated with District	26,925	36,951	-	-
Total	<u>\$ 2,165,543</u>	<u>\$ 2,862,538</u>	<u>\$ 1,855,342</u>	<u>\$ 1,728,680</u>
District's Covered Payroll	\$ 2,143,213	\$ 2,102,253	\$ 2,106,400	\$ 1,933,600
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	99.79%	134.41%	88.08%	89.40%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.90%	68.90%	78.20%	78.70%
<b>TRA</b>				
District's Proportion of the Net Pension Liability	0.1363%	0.1336%	0.1322%	0.1480%
District's Proportionate Share of the Net Pension Liability	\$ 27,207,953	\$ 31,866,788	\$ 8,177,877	\$ 6,819,733
State's Proportionate Share of the Net Pension Liability				
Associated with District	2,630,533	3,198,377	1,002,989	479,724
Total	<u>\$ 29,838,486</u>	<u>\$ 35,065,165</u>	<u>\$ 9,180,866</u>	<u>\$ 7,299,457</u>
District's Covered Payroll	\$ 7,159,960	\$ 6,905,853	\$ 6,730,720	\$ 6,788,143
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	380.00%	461.45%	121.50%	100.47%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	51.57%	44.90%	76.80%	81.50%

NOTE: Information is presented prospectively and an accumulation of ten years will be provided.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS  
LAST FIVE YEARS**

	Fiscal Year Ending June 30,				
	2018	2017	2016	2015	2014
<b>PERA - General Employees Fund</b>					
Statutorily Required Contribution	\$ 164,780	\$ 160,741	\$ 157,669	\$ 155,347	\$ 140,186
Contributions in Relation to the Statutorily Required Contribution	(164,780)	(160,741)	(157,669)	(155,347)	(140,186)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 2,197,067	\$ 2,143,213	\$ 2,102,253	\$ 2,106,400	\$ 1,933,600
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.38%	7.25%
<b>TRA</b>					
Statutorily Required Contribution	\$ 571,408	\$ 536,997	\$ 517,939	\$ 504,804	\$ 475,170
Contributions in Relation to the Statutorily Required Contribution	(571,408)	(536,997)	(517,939)	(504,804)	(475,170)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 7,618,773	\$ 7,159,960	\$ 6,905,853	\$ 6,730,720	\$ 6,788,143
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.00%	7.00%

NOTE: Information is presented prospectively and an accumulation of ten years will be provided.

## **SINGLE AUDIT AND 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**

Board of Education  
Independent School District No. 2859  
Glencoe, 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. 2859 (the District), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Independent School District No. 2859's basic financial statements, and have issued our report thereon dated September 20, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Independent School District No. 2859'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 Independent School District No. 2859's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 2859's internal control.

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

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 have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified deficiencies in internal control 2018-001 and 2018-002 that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Independent School District No. 2859'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*.

### **Independent School District No. 2859's Response to Findings**

Independent School District No. 2859's responses to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Independent School District No. 2859's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Independent School District No. 2859'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 Independent School District No. 2859's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
September 20, 2018



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

Board of Education  
Independent School District No. 2859  
Glencoe, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited Independent School District No. 2859's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Independent School District No. 2859's major federal programs for the year ended June 30, 2018. Independent School District No. 2859's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditors' Responsibility***

Our responsibility is to express an opinion on compliance for each of Independent School District No. 2859's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independent School District No. 2859's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Independent School District No. 2859's compliance.

***Opinion on Each Major Federal Program***

In our opinion, Independent School District No. 2859 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

### **Report on Internal Control Over Compliance**

Management of Independent School District No. 2859 is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independent School District No. 2859's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 2859's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2018-003 that we consider to be a significant deficiency.

Independent School District No. 2859's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Independent School District No. 2859's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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



**CliftonLarsonAllen LLP**

Austin, Minnesota  
September 20, 2018

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018**

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through Minnesota Department of Agriculture			
Noncash Assistance (Commodities):			
National School Lunch Program	# 10.555	1-2859-000	\$ 59,944
Total Noncash Assistance			\$ 59,944
Cash Assistance:			
School Breakfast Program	# 10.553	1-2859-000	66,630
National School Lunch Program	# 10.555	1-2859-000	274,696
National School Lunch Program - Commodity Cash Rebate	# 10.555	1-2859-000	200
After School Snack Program	# 10.555	1-2859-000	3,878
Special Milk Program for Children	# 10.556	1-2859-000	1,274
Summer Food Service Program for Children	# 10.559	1-2859-000	16,313
Total Cash Assistance			362,991
Total Child Nutrition Cluster			422,935
Total U.S. Department of Agriculture			422,935
U.S. Department of Education			
Pass-Through Minnesota Department of Education			
Title I, Part A	84.010	S010A160023A	211,846
Title I, Part C - Migrant Education - Summer	84.011	@	122,205
Perkins Basic State Grants	84.048	@	6,988
Title II, Part A - Improving Teacher Quality	84.367	S367A160022	43,471
Title III - English Language Acq Grants	84.365	S365A160023A	11,732
Pass-Through SW/WC Service Cooperative #991			
Special Education - Grants to States	& 84.027	@	163,029
Special Education - Preschool Incentive	& 84.173	@	1,963
Total Special Education Cluster			164,992
Total U.S. Department of Education			561,234
Total Federal Financial Assistance Expended			\$ 984,169
# - Child Nutrition Cluster			
& - Special Education Cluster			
@ - Unknown Agency or Pass-Through Number			
The total of CFDA 10.555 is \$338,718.			

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2018**

**NOTE 1    GENERAL**

The accompanying schedule of expenditures of federal awards presents the expenditures of all federal financial assistance programs of Independent School District No. 2859. The reporting entity is defined in Note 1 to the financial statements. The District did not pass amounts to subrecipients.

**NOTE 2    BASIS OF ACCOUNTING**

The accompanying schedule of expenditures of federal awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the Independent School District No. 2859's financial statements. The District has not elected to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

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

Board of Education  
Independent School District No. 2859  
Glencoe, 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2859, as of June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 20, 2018.

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as described in the Schedule of Findings and Questioned Costs as items 2018-004 and 2018-005. 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, insofar as they relate to accounting matters.

The Independent School District No. 2859's written responses to the legal compliance findings identified in our audit are described in the Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
September 20, 2018

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2018**

**PART I: SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
  - Material weakness(es) identified?     x     yes            no
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)?            yes     x     none reported
3. Noncompliance material to financial statements noted?            yes     x     no

**Federal Awards**

1. Internal control over major federal programs:
  - Material weakness(es) identified?            yes     x     no
  - Significant deficiency(ies) identified that are not considered to be material weakness(es)?     x     yes            none reported
2. Type of auditors' report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?            yes     x     no

***Identification of Major Federal Programs***

**CFDA Number(s)**

10.553, 10.555, 10.556, and 10.559

**Name of Federal Program or Cluster**

Child Nutrition Cluster

Dollar threshold used to distinguish between

Type A and Type B programs:

\$     750,000    

Auditee qualified as low-risk auditee pursuant to Uniform Guidance?

           yes     x     no

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**PART II: FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:**

**FINDING: 2018-001 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)**

- Condition:** The District has a control in place for the review of the drafted financial statements. However, the District does not have the expertise to ensure all disclosures required by generally accepted accounting principles are included in the annual financial statements.
- Criteria:** The District must be able to prevent or detect the omission of a material disclosure in the annual financial statements.
- Effect:** The potential exists that a material disclosure could be omitted from the financial statements and not be prevented or detected by the District's controls.
- Cause:** The District relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, management has reviewed and approved the annual financial statements and the related footnote disclosures.
- Recommendation:** The District should continue to evaluate its internal staff and expertise to determine if an internal control policy over the annual financial reporting is beneficial.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

**Contact Person**

Michelle Sander, Business Manager

**Corrective Action Planned**

A corrective action plan is in place.

**Anticipated Completion Date**

June 30, 2019

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**PART II: FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS  
(CONTINUED):**

**FINDING: 2018-002 CONTROLS OVER CAPITAL ASSET ADDITIONS**

- Condition:** The District did not capitalize a material amount of capital assets in the prior year. Therefore, the District's net position as of June 30, 2017 was restated to reflect those additions in the current year financial statements.
- Criteria:** The District should have sufficient internal controls in place, including formal review procedures, to ensure that all material capital asset additions are properly capitalized each year.
- Effect:** The design of internal controls and procedures related to capital assets may limit the District's ability to detect or prevent a misstatement of the financial statements, misappropriation of assets, or fraudulent activity.
- Cause:** The District does not have effective controls in place to ensure that all capital outlay is reviewed for items that should be capitalized per the District's capitalization policy.
- Recommendation:** The District should put in place procedures and internal controls, such as performing a detailed review of all capital outlay accounts each year for items over the capitalization threshold, to ensure all capital asset additions are identified and properly capitalized each year.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

**Contact Person**

Michelle Sander, Business Manager

**Corrective Action Planned**

A corrective action plan is in place.

**Anticipated Completion Date**

June 30, 2019



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**PART III: FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS**

**Finding Number:** 2018-003

**Federal Agency:** U.S. Department of Agriculture

**Federal Program:** Child Nutrition Cluster

**CFDA Numbers:** 10.553, 10.555, 10.556, and 10.559

**Pass Through Agency:** Minnesota Department of Agriculture

**Pass Through Number:** 1-2859-000

**Award Periods:** Year ended June 30, 2018

**Type of Finding:** Significant Deficiency in Internal Control over Compliance

**Criteria:** By November 15<sup>th</sup> of each year, the local education agency (LEA) must verify the current free and reduced price eligibility of households selected from a sample of applications that it has been approved for free and reduced meal prices, unless the LEA is otherwise exempt from the verification requirement. Note that Independent School District No. 2859 is not exempt from this verification requirement.

**Condition:** Noted that during verification testing there was one student selected that should have been switched to paid after the verification testing was performed. The District documented that the student was paid, but the student was not changed in the District's software. So, although the student should have been paying for meals, the student still received reduced meals and was included in reduced meal counts the rest of the year.

**Questioned Costs:** None noted.

**Cause:** The District noted that management did not update its software system.

**Effect:** The lack of controls to ensure the District's software was properly updated after verification testing resulted in the District being out of compliance with the grant requirements.

**Recommendation:** The District should implement controls to ensure that someone reviews the District software to verify changes are being made, and the changes agree with what is documented during the District verification testing.

**VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:**

**Contact Person**

Michelle Sander, Business Manager

**Corrective Action Planned**

The corrective action plan was completed as of June 30, 2018.

**Anticipated Completion Date**

June 30, 2018

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**PART IV: FINDINGS – MN LEGAL COMPLIANCE FINDINGS**

**Finding 2018-004 – General Disbursements**

<b>Criteria:</b>	Minnesota Statute 471.425 Subdivision 2 notes that a district must pay each vendor obligation according to the terms of the contract or, if no contract terms apply, within the standard payment period unless the district in good faith disputes the obligation. Standard payment period is defined for the District as being within 35 days of the date of receipt of the invoice. Subdivision 4 of the same statute notes that if late payment is made interest should be paid upon the amount that is being paid late.
<b>Condition:</b>	It was noted that 1 of the 25 disbursements tested were not paid within the required payment period, and no interest was included in the late payment to the vendor.
<b>Cause:</b>	The invoice was received and then sent to janitorial department for approval and the janitorial department did not return the approved invoice in a timely manner for the finance department to comply with this statute.
<b>Effect:</b>	The District was not in compliance with this statute during the fiscal year ending June 30, 2018.
<b>Recommendation:</b>	We recommend that the District put in place internal controls that will prevent any late payments from occurring going forward.
<b>Management Response:</b>	There is no disagreement with this finding. Management has also already reached out to the applicable vendor to get them to adjust the terms of the invoices.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**PART IV: FINDINGS – MN LEGAL COMPLIANCE FINDINGS (CONTINUED)**

**Finding 2018-005 – Bid Testing**

<b>Criteria:</b>	Minnesota Statute 471.345 subdivision 4, requires that if the amount of a contract is estimated to exceed \$25,000 but not to exceed \$100,000, the contract may be made either upon sealed bids or by direct negotiation, by obtaining two or more quotations for the purchase or sale when possible.
<b>Condition:</b>	We noted during our bid testing procedures that there was a contract in the amount of \$75,436 that was not properly quoted or let on sealed bids, only one quote was received. There was also no documentation that management had attempted to get any additional quotes.
<b>Cause:</b>	The District isn't located within a heavily populated area and therefore vendors are not as abundant. The District had only received one quote in previous years for this same contract. Therefore, the District chose not to attempt to obtain additional quotes and simply renegotiated the contract.
<b>Effect:</b>	The District was not in compliance with this statute during the fiscal year ending June 30, 2018.
<b>Recommendation:</b>	We recommend the District ensure that, if a contract should be let on sealed bids or based on multiple quotes received from vendors, the District completes the proper process and attempts to get multiple bids or quotes to ensure it is getting the best possible price for quality service. This documentation should be retained in District records.
<b>Management Response:</b>	There is no disagreement with this finding. The District will reach out for additional quotes or bids as necessary in the future. If management is not able to obtain more than one management will ensure to properly document the process.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**PART V: FINDINGS – STUDENT ACTIVITY FUNDS COMPLIANCE WITH THE MANUAL FOR  
ACTIVITY FUND ACCOUNTING**

**Finding 2018-006 – Inactive Student Activity Fund Accounts**

<b>Criteria:</b>	The <i>Manual for Activity Fund Accounting</i> state that any student activity account, which has been inactive for a maximum of one fiscal year, must be disposed of, unless the advisor submits a plan to the building principal (or designee) indicating why the activity has been inactive and why it should not be terminated. The building principal must approve the plan.
<b>Condition:</b>	We noted one account that was inactive for over a year that was not closed by the end of the fiscal year ending June 30, 2018.
<b>Cause:</b>	The District did not properly close the account or document why they believe it should remain open.
<b>Effect:</b>	The District was not in compliance with the <i>Manual for Activity Fund Accounting</i> in regards to this matter during the fiscal year ending June 30, 2018.
<b>Recommendation:</b>	We recommend that the District ensure that management timely close any inactive account or document the reason for them to remain open.
<b>Management Response:</b>	There is no disagreement with this finding. The District noted the club had remained active, but did not have any financial activity in their account. The District will be more aware of inactive accounts. The District will create forms to be approved that allow management to document its assessment of keeping them open, or close them in a timely manner.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS  
COMPLIANCE TABLE  
YEAR ENDED JUNE 30, 2018**

	AUDIT	UFARS	DIFFERENCE		AUDIT	UFARS	DIFFERENCE
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$ 18,140,804	\$ 18,140,804	\$ -	Total Revenue	\$ 18,581	\$ 18,581	\$ -
Total Expenditures	18,815,405	18,815,406	(1)	Total Expenditures	7,374,464	7,374,464	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	9,571	9,571	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>				<i>Restricted:</i>			
403 Staff Development	119,159	119,159	-	407 Capital Projects Levy	-	-	-
406 Health and Safety	(41,601)	(41,601)	-	409 Alternative Facility Program	-	-	-
407 Capital Project Levy	-	-	-	413 Projects Funded by COP	-	-	-
408 Cooperative Programs	-	-	-	464 Restricted Fund Balance	-	-	-
413 Projects Funded by COP	-	-	-	<i>Unassigned:</i>			
414 Operating Debt	-	-	-	463 Unassigned Fund Balance	(1,815,234)	(1,815,234)	-
416 Levy Reduction	-	-	-				
417 Taconite Building Maintenance	-	-	-	<b>07 DEBT SERVICE</b>			
424 Operating Capital	725,383	725,383	-	Total Revenue	1,439,165	1,439,164	1
426 \$25 Taconite	-	-	-	Total Expenditures	1,335,338	1,335,338	-
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable Fund Balance	-	-	-
434 Area Learning Center	-	-	-	<i>Restricted:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond Refunding	-	-	-
436 State-Approved Alternative Programs	-	-	-	451 QZAB and QSCB Payments	-	-	-
438 Gifted and Talented	-	-	-	464 Restricted Fund Balance	135,870	135,870	-
440 Teacher Development and Evaluations	20,024	20,024	-	<i>Unassigned:</i>			
441 Basic Skills Programs	-	-	-	463 Unassigned Fund Balance	-	-	-
445 Career and Technical Programs	-	-	-				
448 Achievement and Integration	-	-	-	<b>08 TRUST</b>			
449 Safe Schools Crime Levy	39,048	39,048	-	Total Revenue	1,734	1,734	-
451 QZAB Payments	-	-	-	Total Expenditures	19,200	19,200	-
452 OPEB Liability Not Held in Trust	-	-	-	<i>Net Position:</i>			
453 Unfunded Severance & Retirement Levy	-	-	-	422 Net Position	911,877	911,877	-
467 LTFM	67,298	67,298	-				
464 Restricted Fund Balance	-	-	-	<b>20 INTERNAL SERVICE</b>			
<i>Committed:</i>				Total Revenue	8,259	8,258	1
418 Committed for Separation	-	-	-	Total Expenditures	-	-	-
461 Committed Fund Balance	-	-	-	<i>Net Position:</i>			
<i>Assigned:</i>				422 Net Position	824,894	824,894	-
462 Assigned Fund Balance	-	-	-				
<i>Unassigned:</i>				<b>25 OPEB REVOCABLE TRUST</b>			
422 Unassigned Fund Balance	3,756,747	3,756,746	1	Total Revenue	-	-	-
				Total Expenditures	-	-	-
<b>02 FOOD SERVICE</b>				<i>Net Position:</i>			
Total Revenue	992,893	992,893	-	422 Net Position	-	-	-
Total Expenditures	968,777	968,777	-				
<i>Nonspendable:</i>				<b>45 OPEB IRREVOCABLE TRUST</b>			
460 Nonspendable Fund Balance	15,646	15,646	-	Total Revenue	-	-	-
<i>Restricted:</i>				Total Expenditures	-	-	-
452 OPEB Liability Not Held in Trust	-	-	-	<i>Net Position:</i>			
464 Restricted Fund Balance	262,473	262,473	-	422 Net Position	-	-	-
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-	<b>47 OPEB DEBT SERVICE</b>			
				Total Revenue	-	-	-
<b>04 COMMUNITY SERVICE</b>				Total Expenditures	-	-	-
Total Revenue	922,214	922,214	-	<i>Nonspendable:</i>			
Total Expenditures	889,974	889,973	1	460 Nonspendable Fund Balance	-	-	-
<i>Nonspendable:</i>				<i>Restricted:</i>			
460 Nonspendable Fund Balance	-	-	-	425 Bond Refunding	-	-	-
<i>Restricted:</i>				464 Restricted Fund Balance	-	-	-
426 \$25 Taconite	-	-	-	<i>Unassigned:</i>			
431 Community Education	238,738	238,738	-	463 Unassigned Fund Balance	-	-	-
432 E.C.F.E.	27,568	27,568	-				
440 Teacher Development and Evaluations	-	-	-				
444 School Readiness	18,297	18,297	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liability Not Held in Trust	-	-	-				
464 Restricted Fund Balance	-	-	-				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				

## **EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS**

## INDEPENDENT AUDITORS' REPORT

Board of Education, Advisors, and Students  
Independent School District No. 2859  
Glencoe, Minnesota

### ***Report on the Financial Statement***

We have audited the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District No. 2859 as of June 30, 2018, and the related note to the financial statement.

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

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the regulatory basis of accounting described in the Note to the financial statement. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 auditors' 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 Independent School District No. 2859'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 modified audit opinion.

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

As described in the note to the financial statement, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statement is prepared by the Independent School District No. 2859 in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***


In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District No. 2859 as of June 30, 2018, or changes in financial position for the year then ended.

***Basis for Modified Opinion on Regulatory Basis of Accounting***

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

***Modified Opinion on Regulatory Basis of Accounting***

In our opinion, except for the possible effect of the matter discussed in the Basis for Modified Opinion on Regulatory Basis of Accounting paragraph, the financial statement referred to in the first paragraph presents fairly, in all material respects, the cash balances of the Student Activity Funds Independent School District No. 2859 as of June 30, 2018, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the note to the financial statements.



**CliftonLarsonAllen LLP**

Austin, Minnesota  
September 20, 2018



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
YEAR ENDED JUNE 30, 2018**

Funds	Balance 06/30/17	Transfers and Receipts	Transfers and Disbursements	Balance 06/30/18
High School Yearbook	\$ 2,984	\$ 898	\$ -	\$ 3,882
Art	3,722	147	1,299	2,570
Band	29,026	122,141	126,649	24,518
Business Professional Association (BPA)	986	14,049	12,196	2,839
Close-Up	2,049	13,101	14,017	1,133
Kindergarten Entertainment	-	585	585	-
Grade 1 Entertainment	-	795	795	-
Grade 2 Entertainment	-	597	597	-
Grade 3 Entertainment	-	832	832	-
Grade 4 Entertainment	-	730	730	-
Grade 5 Entertainment	-	785	785	-
Grade 6 Entertainment	-	421	421	-
FFA	2,325	31,204	29,601	3,928
History	144	-	-	144
Lincoln Student Council	3,399	1,737	1,265	3,871
LS Elementary Yearbooks	2,106	3,468	3,007	2,567
Interest - Admin	32	32	-	64
LS Student Council	1,684	1,068	989	1,763
Nat'l Honor Society	1,276	809	1,204	881
Class of 2018	4,843	-	4,843	-
Class of 2019	2,724	15,390	7,160	10,954
Class of 2020	-	5,743	2,814	2,929
Total	<u>\$ 57,300</u>	<u>\$ 214,532</u>	<u>\$ 209,789</u>	<u>\$ 62,043</u>

See accompanying Note to Financial Statement.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS  
INDEPENDENT SCHOOL DISTRICT NO. 2859  
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS  
NOTE TO FINANCIAL STATEMENT  
JUNE 30, 2018**

**NOTE 1   BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

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

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

The accounts of the Student Activity Fund are maintained, and the accompanying financial statements have been prepared, on the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Student Activity bank deposits are covered by deposit insurance or were properly collateralized.

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

Board of Education, Advisors, and Students  
Independent School District No. 2859  
Glencoe, Minnesota

### Report on Compliance

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District No. 2859 as of and for the year ended June 30, 2018, and the related note to the financial statement, and have issued our report thereon dated September 20, 2018. We expressed an adverse opinion on U.S. generally accepted accounting principles because the financial statement is prepared on a basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education, which differs from accounting principles generally accepted in the United States of America. In addition, our report on the regulatory basis of accounting is qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records.

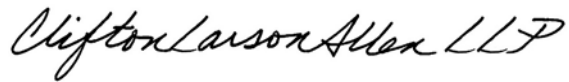
The Manual for Activity Fund Accounting, issued by the Minnesota Department of Education, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Manual for Activity Fund Accounting*, with the exception of finding 2018-006 in the Schedule of Findings and Questioned Costs. 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 Independent School District No. 2859's written response to the legal compliance finding identified in our audit is described in the Schedule of Findings and Questioned Costs. The Independent School District No. 2859'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.

Board of Education, Advisors, and Students  
Independent School District No. 2859

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Manual for Activity Fund Accounting* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

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

**CliftonLarsonAllen LLP**

Austin, Minnesota  
September 20, 2018