



Financial Statements
June 30, 2017



Independent School
District No. 2168
New Richland, Minnesota

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BOARD OF EDUCATION

Rick Schultz	Chair
JoAnn Maloney	Vice Chair
Karen Flatness	Clerk
Travis Routh	Treasurer
Dan Schmidt	Director
Neil Schlaak	Director
Mark Tollefson	Director



Independent Auditor's Report

Members of the School Board
Independent School District No. 2168
New Richland, 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. 2168, New Richland, Minnesota (District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of funding progress, schedule of Employer's share of net pension liability, and schedule of Employer's contributions as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Eide Sully LLP".

Mankato, Minnesota
November 28, 2017

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

This section of Independent School District No. 2168 – NRHEG Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of a reporting model that is required by the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June, 1999. Statement No. 34 contains significant requirements that enhance financial reporting. These requirements are also designed to make annual reports easier for the public to understand and more useful to stakeholders. Specifically, Statement No. 34 establishes reporting requirements that include additional financial statements, expanded disclosure, and supplemental information, including this MD&A, which contains certain comparative information between the current fiscal year and the prior fiscal year.

FINANCIAL HIGHLIGHTS

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

- Overall revenues were \$11,277,587 while overall expenses totaled \$14,057,395.
- The district's overall fund balance increased by \$1,791,286.
- The District's net outstanding long-term debt increased by \$719,005 or 17.00 percent.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

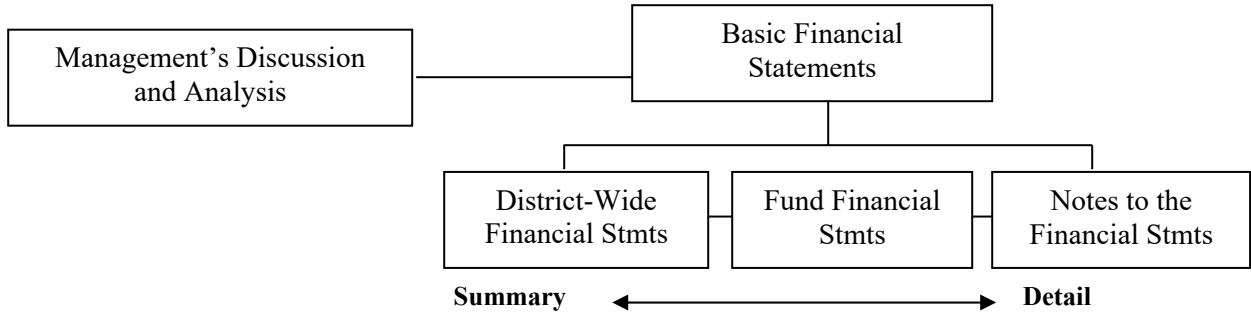
- The first two statements are *district-wide financial statements* that provide both *short-term* and *long-term* information about the District's overall financial status.
- The remaining statements are *fund-financial statements* that focus on individual parts of the District, reporting the District's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

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

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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



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

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

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/inflows of resources, and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

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

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

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

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

- Governmental activities – 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 the activities.

Fund Financial Statements

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

The District has two kinds of funds:

Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you 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 following the governmental funds statements that explains the relationship (or difference) between them.

Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activities (consisting only of agency funds held for others) are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE
(DISTRICT-WIDE FINANCIAL STATEMENTS)**

Net Position

The District's net position was \$4,093,241 on June 30, 2017 (see details in Table A-1). This represents a decrease when compared to the \$6,873,049 balance on June 30, 2016.

	<u>2017</u>	<u>2016</u>	<u>Percentage Change</u>
ASSETS			
Current and other assets	\$ 6,227,092	\$ 4,433,400	40.46%
Capital assets	<u>12,876,369</u>	<u>13,418,200</u>	-4.04%
Total assets	<u>19,103,461</u>	<u>17,851,600</u>	7.01%
DEFERRED OUTFLOWS OF RESOURCES			
Pension plan	<u>12,504,440</u>	<u>1,473,414</u>	748.67%
LIABILITIES			
Other liabilities	20,612,830	6,543,958	214.99%
Long-term liabilities	<u>5,105,888</u>	<u>4,349,187</u>	17.40%
Total liabilities	<u>25,718,718</u>	<u>10,893,145</u>	136.10%
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	1,230,653	1,183,033	4.03%
Pension plan	<u>565,289</u>	<u>375,787</u>	50.43%
Total deferred outflows of resources	<u>1,795,942</u>	<u>1,558,820</u>	15.21%
NET POSITION			
Net investment in capital assets	8,200,849	9,494,234	-13.62%
Restricted for specific purposes	1,657,368	235,656	603.30%
Unrestricted	<u>(5,764,976)</u>	<u>(2,856,841)</u>	101.80%
Total Net Position	<u>\$ 4,093,241</u>	<u>\$ 6,873,049</u>	-40.45%

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Change in Statement of Activities

Table A-2

	<u>2017</u>	<u>2016</u>	<u>Percentage Change</u>
REVENUES			
Program revenues			
Charges for services	\$ 656,346	\$ 682,931	-3.89%
Operating grants and contributions	2,545,060	2,165,346	17.54%
Capital grants and contributions	2,283	2,999	-23.87%
General			
Property taxes	1,273,733	1,269,522	0.33%
Aids and payments from state and other	6,599,250	6,409,264	2.96%
Miscellaneous revenues	246,673	207,050	19.14%
Total revenues	<u>11,323,345</u>	<u>10,737,112</u>	5.46%
EXPENSES			
District and school administration	589,748	552,549	6.73%
District support services	519,899	260,161	99.84%
Regular instruction	7,705,964	3,683,946	109.18%
Vocational instruction	210,537	210,937	-0.19%
Special education instruction	1,597,461	1,555,356	2.71%
Community education and services	208,443	197,100	5.75%
Instructional support services	451,841	427,129	5.79%
Pupil support services	1,320,605	1,311,512	0.69%
Site, buildings and equipment	1,239,514	1,243,546	-0.32%
Fiscal and other fixed-cost programs	44,354	45,750	-3.05%
Interest and fiscal charges on long-term liabilities	<u>214,787</u>	<u>150,440</u>	42.77%
Total expenses	<u>14,103,153</u>	<u>9,638,426</u>	46.32%
Change in Net Position	<u>(2,779,808)</u>	<u>1,098,686</u>	-353.01%
Net Position - Beginning	<u>6,873,049</u>	<u>5,774,363</u>	19.03%
Net Position - Ending	<u>\$ 4,093,241</u>	<u>\$ 6,873,049</u>	-40.45%

Changes in Net Position. The District's total revenues were \$11,277,587 for the year ended June 30, 2017. (See Table A-2)

Unallocated federal and state aid along with property taxes accounted for 69.81 percent of the total revenue for the year. Operating and capital grants and contributions for specific programs contributed 22.59 percent and the remaining 7.60 percent from fees charged for services and miscellaneous sources. (See Table A-3 below).

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
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MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

The total cost of all programs and services was \$14,057,395. The District's expenses are predominantly related to student education and student educational support, 81.76 percent. The District's administrative activities accounted for 4.20 percent of the total costs. (See Table A-4 below). Total expenses was more than total revenues, decreasing net position by \$2,779,808 over last year.

**Table A-3
Sources of ISD #2168 Revenues for Fiscal Year**

	<u>2017</u>	<u>2016</u>
Charges for services	5.80%	6.36%
Operating grants and contributions	22.48%	20.17%
Capital grants and contributions	0.02%	0.03%
Property taxes	11.25%	11.82%
Aids and payments from state and other	58.28%	59.69%
Miscellaneous revenues	2.18%	1.93%

**Table A-4
ISD #2168 Expenses for Fiscal Year**

	<u>2017</u>	<u>2016</u>
District and school administration	4.18%	5.73%
District support services	3.69%	2.70%
Regular instruction	54.64%	38.22%
Vocational instruction	1.49%	2.19%
Special education instruction	11.33%	16.15%
Community education and services	1.48%	2.04%
Instructional support services	3.20%	4.43%
Pupil support services	9.36%	13.61%
Site, buildings and equipment	8.79%	12.90%
Fiscal and other fixed-cost programs	0.31%	0.47%
Interest and fiscal charges on long-term liabilities	1.52%	1.56%

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Governmental Activities:

Table A-5 shows the net cost of each major activity of the District. The net cost is the total cost less the program revenues applicable to each activity.

Table A-5

	Total Cost of Services			Percentage <u>Change</u>	Net Cost of Services			Percentage <u>Change</u>
	<u>2017</u>	<u>2016</u>			<u>2017</u>	<u>2016</u>		
District and school administration	\$ 589,748	\$ 552,549		6.73%	\$ 589,748	\$ 552,549		6.73%
District support services	519,899	260,161		99.84%	519,899	260,161		99.84%
Regular instruction	7,705,964	3,683,946		109.18%	6,309,758	2,572,398		145.29%
Vocational instruction	210,537	210,937		-0.19%	205,377	204,191		0.58%
Special education instruction	1,597,461	1,555,356		2.71%	527,413	611,250		-13.72%
Community education and services	208,443	197,100		5.75%	47,358	48,521		-2.40%
Instructional support services	451,841	427,129		5.79%	451,841	427,129		5.79%
Pupil support services	1,320,605	1,311,512		0.69%	749,415	742,628		0.91%
Sites and buildings	1,239,514	1,243,546		-0.32%	1,239,514	1,172,133		5.75%
Fiscal and other fixed-cost programs	44,354	45,750		-3.05%	44,354	45,750		-3.05%
Interest and fiscal charges	214,787	150,440		42.77%	214,787	150,440		42.77%
Total	\$ 14,103,153	\$ 9,638,426		46.32%	\$ 10,899,464	\$ 6,787,150		60.59%

- The cost of all governmental activities this year was \$14,057,395.
- The users of the District's programs finance \$656,346 of the cost of services.
- Operating and capital grants and contributions financed \$2,547,343 of the cost of services.
- District and state taxpayers finance \$7,872,983 of the District's costs. This portion of governmental activities was financed with \$1,273,733 in property taxes, and \$6,599,250 of unrestricted state aid based on the statewide education aid formula.
- The remaining balance is financed from other sources.

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

The financial performance of the District as a whole is reflected in its governmental funds. At the end of the 2016-2017 fiscal year, the District's governmental funds reported combined fund balances of \$4,641,396 compared to \$2,850,110 for the previous year. Total revenues and expenditures for the District's governmental funds were \$11,275,914 and \$10,787,628, respectively.

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

General Fund:

The General Fund is used to account for all revenues and expenditures of the School District not accounted for elsewhere. This fund is used to account for: K-12 educational activities, District instructional and student support programs, expenditures for both District and School administration, normal operations and maintenance, pupil transportation, capital expenditures, and all other legal expenditures not specifically designated to be accounted for in any other fund. (See Table A-6 for a summary of the revenues, expenditures, and fund balances for all of the District's Governmental funds, including the General Fund).

Revenues:

Fiscal Year 2017 revenues totaled \$10,025,743. This increase was mainly a result of increased local property taxes received due to the new Long Term Facility Maintenance legislation that was signed into law by Governor Dayton in 2015. We also saw an increase in third party billing dollars along with increased state aid due to a two percent funding formula increase and steady enrollment.

Expenditures:

Fiscal Year 2017 expenditures totaled \$9,590,493; this increase in expenditure can mostly be attributed to increases in labor costs, plus an increase in special education staffing, additional food service equipment and another college class offering.

Fund Balance:

The unassigned fund balance is \$2,936,566, the committed fund balance is \$39,607, and the various restricted fund balances (i.e.; Staff Development, Severance, Safe Schools Crime Levy, Operating Capital, and Health & Safety) total \$80,499.

The single best measurement of the District's overall financial health in the General Fund is the Unreserved/Undesignated Fund Balance. The District closely monitors this fund balance through a major budget revision in the spring of each fiscal year.

Food Service Fund:

The Food Service Fund is used to record financial activities of the School District's food service program. Food service includes activities for the purpose of preparation and service of milk, meals, and snacks in connection with school and community service activities. (See Table A-6 for a summary of the revenues, expenditures and fund balances for all of the District's Governmental funds, including the Food Service Fund). After allocating appropriate allowed costs to food service we saw an increase in fund balance of \$14,962.

**INDEPENDENT SCHOOL DISTRICT #2168
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NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Community Service Fund:

The Community Service Fund is used to record all financial activities of the Community Service program. The Community Service Fund is comprised of five components, each with its own fund balance. The five components are Community Service, Community Education, Early Childhood Family Education (ECFE), Adult Basic Education, and School Readiness. (See Table A-6 for a summary of the revenues, expenditures and fund balances for all of the District's Governmental funds, including the Community Service Fund). The Community Service Fund remained strong at \$93,760 due to the popularity of programs such as clay target team, elementary cheer competition, and our preschool program.

Debt Service Fund:

The Debt Service Fund is used to record revenues and expenditures for a school district's outstanding bonded indebtedness, whether for building construction or operating capital, and whether for initial or refunding bonds. (See Table A-6 for a summary of the revenues, expenditures and fund balances for all of the District's Governmental funds, including the Debt Service Fund).

**Table A-6
Revenue and Expenditures – Governmental Funds**

	<u>Revenue</u>	<u>Expenditures</u>	Net Increase <u>(Decrease)</u>	Other Financing <u>Sources/Uses</u>	Fund Balance as of <u>6/30/17</u>	Fund Balance as of <u>6/30/16</u>
General Fund	\$ 10,025,743	\$ 9,590,493	\$ 435,250	\$ 3,000	\$ 3,056,672	\$ 2,618,422
Food Service Fund	513,843	498,881	14,962	-	34,672	19,710
Community Service	226,336	206,950	19,386	-	93,760	74,374
Building Construction	-	7,609	(7,609)	(66,984)	-	74,593
Debt Service Fund	509,993	529,453	(19,460)	1,412,741	1,456,292	63,011
Total	<u>\$ 11,275,915</u>	<u>\$ 10,833,386</u>	<u>\$ 442,529</u>	<u>\$ 1,348,757</u>	<u>\$ 4,641,396</u>	<u>\$ 2,850,110</u>

General Fund Budgetary Highlights:

During the year ending June 30, 2017, the District operated under the approved budget that was set in June 2016. The budget was revised in the spring of 2017.

- The actual revenues were \$415,283 more than expected primarily because of increased state special education funding, additional third party revenue and enrollment staying steady when a decrease had been forecasted.
- The actual expenditures were \$64,118 less than budgeted because of reduced transportation costs, building heating costs, employee benefit costs and a summer elective that was not offered.

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

By the end of fiscal year 2017, the District had invested \$26,981,499 in a broad range of capital assets, including school buildings, land, computer and audio-visual equipment, and other equipment for various instructional programs (see Table A-7). Total depreciation expense for the year was \$712,240. More detailed information about capital assets can be found in Note 3(C) to financial statements.

**Table A-7
Capital Assets Governmental Activities
June 30, 2017 and 2016**

	2017	2016	Percentage Change
Land	\$ 211,320	\$ 211,320	0.00%
Buildings	19,264,031	19,239,005	0.13%
Land improvements	1,101,914	1,079,082	2.12%
Eligible Pupil Vehicles	814,573	837,525	-2.74%
Equipment	5,589,661	5,467,110	2.24%
Accumulated depreciation	<u>(14,105,130)</u>	<u>(13,415,842)</u>	5.14%
Total capital assets	<u>\$ 12,876,369</u>	<u>\$ 13,418,200</u>	-4.04%

Long-Term Liabilities:

For the fiscal year ended June 30, 2017, the District had \$3,790,000 general obligation building bonds outstanding. This is an increase of 32.98% from last year (see Table A-8).

**Table A-8
Outstanding Long-Term Liabilities
June 30, 2017 and 2016**

	2017	2016	Percentage Change
General Obligation Bonds Payable	\$ 3,790,000	\$ 2,850,000	32.98%
Capital Lease Payable	885,520	1,073,966	-17.55%
Severance Payable	271,976	304,525	-10.69%
	<u>\$ 4,947,496</u>	<u>\$ 4,228,491</u>	17.00%

The District had a Net pension liability of \$20,224,185 at year end.

**INDEPENDENT SCHOOL DISTRICT #2168
NRHEG SCHOOLS
NEW RICHLAND, MINNESOTA
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Factors Bearing on the District's Future:

- Enrollment continues to be an area of concern weighing on the District's financial future. Since Minnesota school districts are paid on pupil units served, any decline in enrollment results in less revenue. The District's student enrollment, which determines the pupil units for the purpose of funding, has been on a slight, but manageable decline.
- For years, many Minnesota school district referendums for facilities maintenance projects did not pass. The Legislature, recognizing an important need to maintain district facilities, requested input on how to create a more equitable and sustainable financing process for public school facilities. As a result, the School Facilities Financing Working Group was created and provided recommendations. New legislation was passed during a special session in July 2015 that provides revenue increases for school districts not currently eligible to participate in the Alternative Facilities Bonding and Levy program. The new program, referred to as Long Term Facilities Maintenance (LTFM) Revenue, includes a three year phased approach beginning in FY 2017. Districts will receive up to \$193 per pupil of revenue the first year, then in FY 2018, districts can obtain up to \$292 per pupil and up to \$380 per pupil in FY 2019. These figures are prorated for districts with an average building age of 35 years or less. This replaces the former Health and Safety and Deferred Maintenance revenue programs and associated funding. This additional funding will provide dollars for our district to pay for ongoing deferred maintenance expenditures.
- Labor costs account for over 80% of the District expenses. As cost of benefits continue to skyrocket, it becomes more important during the negotiations of labor contracts that the District be cognizant to this potential unknown long-term liability. The District must continue to follow enrollment trends and maintain a responsible balance between staffing and student enrollment.

Contacting the District's Financial Management:

This financial report is designed to provide the District's citizens, taxpayers, customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or would like additional information, contact the District Office, ISD No. 2168, 306 Ash Ave S, New Richland, MN 56072.

Independent School District No. 2168
New Richland, Minnesota
Statement of Position
June 30, 2017

Assets	
Cash and investments	\$ 3,121,070
Restricted cash	1,302,566
Receivables	
Current property taxes	681,361
Delinquent property taxes	10,558
Accounts	32,936
Due from other Minnesota school districts	7,723
Due from Minnesota Department of Education	838,996
Due from Federal through Minnesota Department of Education	224,027
Inventories	7,855
Capital assets not being depreciated	
Land	211,320
Capital assets, net of accumulated depreciation	
Land improvements	458,423
Buildings	10,970,719
Equipment	1,072,856
Eligible pupil vehicles	163,051
Total Assets	<u>19,103,461</u>
Deferred Outflows of Resources	
Pension plans	<u>12,504,440</u>
Liabilities	
Salaries payable	33,979
Accounts payable	50,163
Interest payable	44,160
Due to other Minnesota school districts	13,414
Payroll deductions	202,833
Unearned revenue	44,096
Noncurrent liabilities	
Net pension liability	20,224,185
Due within one year	1,817,658
Due in more than one year	3,288,230
Total Liabilities	<u>25,718,718</u>
Deferred Inflows of Resources	
Unavailable revenue-property taxes	1,230,653
Pension plans	565,289
Total Deferred Inflows of Resources	<u>1,795,942</u>
Net Position	
Net investment in capital assets	8,200,849
Restricted	1,657,368
Unrestricted	<u>(5,764,976)</u>
Total Net Position	<u>\$ 4,093,241</u>

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2168
New Richland, Minnesota
Statement of Activities
Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities					
Administration	\$ 589,748	\$ -	\$ -	\$ -	\$ (589,748)
District support services	519,899	-	-	-	(519,899)
Regular instruction	7,705,964	193,171	1,203,035	-	(6,309,758)
Vocational instruction	210,537	-	5,160	-	(205,377)
Special education instruction	1,597,461	145,190	924,858	-	(527,413)
Community education and services	208,443	97,613	61,189	2,283	(47,358)
Instructional support services	451,841	-	-	-	(451,841)
Pupil support services	1,320,605	220,372	350,818	-	(749,415)
Sites and buildings	1,239,514	-	-	-	(1,239,514)
Fiscal and other fixed cost programs	44,354	-	-	-	(44,354)
Interest and fiscal charges	214,787	-	-	-	(214,787)
Total governmental activities	<u>\$ 14,103,153</u>	<u>\$ 656,346</u>	<u>\$ 2,545,060</u>	<u>\$ 2,283</u>	<u>(10,899,464)</u>
General Revenues					
Property taxes					1,273,733
State aid not restricted to specific purposes					6,599,250
Interest					25,240
Gain on sale of equipment					3,000
Miscellaneous					218,433
Total general revenues					<u>8,119,656</u>
Changes in Net Position					(2,779,808)
Net Position - Beginning					<u>6,873,049</u>
Net Position - Ending					<u>\$ 4,093,241</u>

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2168
New Richland, Minnesota
Balance Sheet – Governmental Funds
June 30, 2017

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and investments	\$ 2,576,170	\$ 343,394	\$ 201,506	\$ 3,121,070
Restricted cash	-	1,302,566	-	1,302,566
Receivables				
Current property taxes	445,142	204,836	31,383	681,361
Delinquent property taxes	6,475	3,571	512	10,558
Accounts	29,936	-	3,000	32,936
Due from other Minnesota school districts	7,723	-	-	7,723
Due from Minnesota Department of Education	830,777	4,095	4,124	838,996
Due from Federal through Minnesota Department of Education	224,027	-	-	224,027
Inventory	-	-	7,855	7,855
Total Assets	\$ 4,120,250	\$ 1,858,462	\$ 248,380	\$ 6,227,092
Liabilities				
Salaries payable	\$ 22,419	\$ -	\$ 11,560	\$ 33,979
Accounts payable	22,418	-	27,745	50,163
Due to other Minnesota school districts	13,414	-	-	13,414
Payroll deductions	202,833	-	-	202,833
Unearned revenue	25,034	-	19,062	44,096
Total Liabilities	286,118	-	58,367	344,485
Deferred Inflows of Resources				
Unavailable revenue-property taxes	770,985	398,599	61,069	1,230,653
Unavailable revenue-delinquent taxes	6,475	3,571	512	10,558
Total deferred inflows of resources	777,460	402,170	61,581	1,241,211
Fund Balances				
Nonspendable	-	-	7,855	7,855
Restricted	80,499	1,456,292	120,577	1,657,368
Committed	39,607	-	-	39,607
Unassigned	2,936,566	-	-	2,936,566
Total Fund Balances	3,056,672	1,456,292	128,432	4,641,396
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 4,120,250	\$ 1,858,462	\$ 248,380	\$ 6,227,092

Independent School District No. 2168

New Richland, Minnesota

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position
June 30, 2017

Total Fund Balances for Governmental Funds		\$ 4,641,396
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Amounts reported for governmental activities
in the statement of net positions are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		12,876,369
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		10,558
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Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(44,160)
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Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds.		11,939,151
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Noncurrent 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 noncurrent - are reported in the statement of net position. Balances at year-end are:

Bonds payable	\$ 3,790,000		
Capital leases	885,520		
Net pension liability	20,224,185		
OPEB obligation	158,392		
Severance	271,976		
			(25,330,073)

Total Net Position for Governmental Activities		\$ 4,093,241
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Independent School District No. 2168
New Richland, Minnesota

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
Year Ended June 30, 2017

	General	Debt Service	Other Governmental Funds	Total Governmental Funds
Revenues				
Local property tax levies	\$ 812,912	\$ 436,759	\$ 62,525	\$ 1,312,196
Other local and county sources	771,670	32,285	108,107	912,062
State sources	8,034,928	40,949	90,240	8,166,117
Federal sources	388,974	-	258,935	647,909
Local sales and insurance recovery	17,259	-	220,372	237,631
Total Revenues	10,025,743	509,993	740,179	11,275,915
Expenditures				
Administration	589,630	-	-	589,630
District support services	519,792	-	-	519,792
Regular instruction	4,314,537	-	-	4,314,537
Vocational instruction	215,052	-	-	215,052
Special education instruction	1,594,160	-	-	1,594,160
Community education and services	-	-	206,950	206,950
Instructional support services	454,353	-	-	454,353
Pupil support services	755,002	-	498,881	1,253,883
Sites and buildings	871,093	-	7,609	878,702
Fiscal and other fixed cost programs	44,354	-	-	44,354
Debt service				
Principal	188,446	360,000	-	548,446
Interest and fiscal charges	44,074	169,453	-	213,527
Total Expenditures	9,590,493	529,453	713,440	10,833,386
Excess (Deficiency) of Revenues Over (Under) Expenditures	435,250	(19,460)	26,739	442,529
Other Financing Sources (Uses)				
Refunding bonds issued	-	1,300,000	-	1,300,000
Bond premium/(discount)	-	45,757	-	45,757
Sales of equipment	3,000	-	-	3,000
Transfers in (out)	-	66,984	(66,984)	-
Total other financing sources (uses)	3,000	1,412,741	(66,984)	1,348,757
Net Change in Fund Balances	438,250	1,393,281	(40,245)	1,791,286
Fund Balances - Beginning	2,618,422	63,011	168,677	2,850,110
Fund Balances - Ending	\$ 3,056,672	\$ 1,456,292	\$ 128,432	\$ 4,641,396

The notes to the financial statements are an integral part of this statement.

Independent School District No. 2168

New Richland, Minnesota

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year Ended June 30, 2017

Total Net Change in Fund Balances for Governmental Funds \$ 1,791,286

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. (541,831)

In governmental funds, issuance of new bonds is reported as a source of financing (in the amount of net proceeds received). However, in the statement of activities, a new bond issuance is not revenue, rather it constitutes a long-term liability in the statement of net position. (1,300,000)

The governmental funds report severance costs as expenditures when paid, on the other hand, the statement of activities reports severance costs as expenditures as the employees earn the compensated absences. In the statement of net position, the payment of severance results in a reduction of the liability. 32,549

The governmental funds report repayment of bond principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability. 360,000

In governmental funds, OPEB liabilities are measured by the amount of resources used. However, in the statement of activities, an increase in an OPEB liability is based on the amount earned by the employees during the period. This amount is the net effect of these differences. (37,696)

In the statement of activities the cost of pension benefits earned net of employee contributions is reported as pension expense. In the governmental funds, however, the contributions are reported as expense. (3,269,975)

The governmental funds report repayment of capital lease principal as expenditures. In the statement of net position, however, repayment of principal reduces the liability. 188,446

Long-term debt interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. (1,260)

Property taxes levied and due in previous fiscal years that have not been received as of the end of the current fiscal year are recorded as deferred inflows - delinquent taxes (not considered available revenues) in the governmental funds. In the statement of activities, these taxes are considered revenue in the period for which they are levied. (1,327)

Change in Net Position of Governmental Activities \$ (2,779,808)

Independent School District No. 2168
New Richland, Minnesota
Statement of Fiduciary Net Position – Fiduciary Fund
June 30, 2017

	<u>Private Purpose Trust Fund</u>
Assets	
Cash and investments	\$ 119,605
Interest receivable	345
	<hr/>
Total Assets	\$ 119,950
	<hr/> <hr/>
Net Position	
Restricted for scholarships	\$ 119,950
	<hr/> <hr/>

Independent School District No. 2168
New Richland, Minnesota
Statement of Changes in Fiduciary Net Position – Fiduciary Fund
Year Ended June 30, 2017

	<u>Private Purpose Trust Fund</u>
Additions	
Other local and county revenues	<u>\$ 695</u>
Deductions	
Pupil support services	<u> 4,000</u>
Change in net position	(3,305)
Net Position - Beginning of Year	<u> 123,255</u>
Net Position - End of Year	<u><u> \$ 119,950</u></u>

Note 1 - Summary of Significant Accounting Policies

The Independent School District No. 2168 (District) is a school district governed by a board elected by eligible voters of the District. The financial statements of the District have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant School District accounting policies are described below.

A. Financial Reporting Entity

The financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The District does not have any blended or discretely presented component units.

The District is the basic level of government which has oversight responsibility and control over all activities related to the public school education in the District's area. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB pronouncements, since board members are elected by the public and have decision making authority, the authority to levy taxes, the power to designate management, the ability to significantly influence operations, and primary accountability for fiscal matters.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of inter-fund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes, intergovernmental revenues, and other items not properly included among program revenues are reported instead as general revenues.

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as 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. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers most revenues to be available if they are collected within 60 days of the end of the current fiscal period, except as stated below. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for the following: (1) commodity inventory items are recorded when received, (2) interest and principal on long-term debt are recorded when paid, and (3) claims and judgments, group health claims, and compensated absences are recorded as expenditures when paid with expendable available financial resources. Prepaid items are recorded for approved disbursements made in advance of the year in which the item is budgeted.

Property tax revenues for all funds, which are payable by property owners in a calendar year, are recognized in the fiscal year beginning July 1 of that calendar year. State revenues are recognized in the year to which they apply according to Minnesota statutes. Federal revenues are recorded in the year in which the related expenditure is made. If the amounts of Minnesota or Federal revenues cannot be reasonably estimated or realization is not assured, they are not recorded as revenue in the current year. Revenue from other school districts is generally recognized when related expenditures occur. All other revenue items are considered to be measurable and available as stated above.

The District reports unavailable revenue on its' governmental fund financial statements. Unavailable revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, unavailable revenue is removed from the financial statements and revenue is recognized. Unearned revenues arise when resources are received by the District before it has legal claim to them, as when property tax levies, food service revenue, or grant monies are received prior to the incurrence of qualifying expenditures. This type of unearned revenue is recorded on the District's government-wide and governmental fund financial statements.

The District reports the following major governmental funds:

The *General fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is used to account for educational activities, District instructional and student support programs, and expenditures for the superintendent, district administration, normal operations and maintenance, pupil transportation, capital expenditures, and legal school district expenditures not specifically designated to be accounted for in any other fund. The District's Student Activity Funds of \$39,607 are under board control and are reported and audited in the general fund as committed funds.

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

Additionally, the District reports the following fund types:

The *Fiduciary fund* is used to report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

The *Private-Purpose Trust fund* is used to account for resources legally held in trust by agreements where the School Board has accepted the responsibility to serve as trustee.

D. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Net Position or Fund Balance

1. Cash and Investments

Cash balances of the District's funds are combined (pooled) and invested to the extent available in various deposits and investments authorized by Minnesota State Statutes. Each fund shares in the investment earnings according to its average cash and investments balance. Cash includes amounts in demand deposits as well as short-term investments with an original maturity date within three months of the date acquired by the District. Investments include amounts in the Minnesota School District Liquid Asset Fund Plus (MSDLAF), an external investment pool, which in accordance with GASB 79 are valued at amortized cost, which approximates fair value.

The District has restricted cash related to General Obligation Crossover Refunding Bonds, Series 2016A. This cash will be used to pay the General Obligation Alternative Facilities Bonds, Series 2008A on the refunding date of February 1, 2018. See footnote 3 for additional detail of this refunding.

2. Receivables

Under the modified accrual basis of accounting, some revenues are susceptible to accrual while others are not. Major revenues treated as susceptible to accrual are: property taxes, state and federal aids, and revenue from other Minnesota school districts. All receivables are reported at their gross value and, if appropriate, reduced by the estimated portion that is expected to be uncollectible.

Interest and certain receivables are recorded as revenue in the year that the interest is earned and is available to pay liabilities of the current period.

On or before September 15th of each year, the School Board certifies to the county auditor the dates that it has selected for its public hearing and for the continuation of its hearing, if necessary. If not certified by this date, the county auditor will assign the hearing date. All school districts must hold public hearings on their proposed property tax levies. Also, at this time the School Board certifies its proposed property tax levy to the county auditor for collection in the following year.

Beginning on November 29th and through December 20th of each year, the District is required by state law to hold its public hearing on its proposed budgets and proposed property tax levies for the taxes payable in the following year. On or before five business days after December 20th, the School Board certifies its final adopted property taxes payable the following year to the county auditor. If the District has not certified its final property tax by this time, its property tax will be the amount levied by it in the preceding year.

In Minnesota, counties act as collection agents for all property taxes. The County spreads all levies over taxable property. Such taxes become a lien on January 1 and are recorded as receivables by the District at that date. Real property taxes may be paid by taxpayers in two equal installments on May 15 and October 15. Agricultural land taxes may be paid on May 15 and November 15. Personal property taxes may be paid on February 28 and June 30. The County provides tax settlements to Districts three times a year, in January, June, and November.

Property tax revenue is recorded under the intact levy concept whereby taxes collectible during a calendar year are recorded as revenue in the fiscal year beginning with the year of collection. Current taxes receivable represent taxes levied in 2016 which are not payable until 2017 less amounts received before June 30, 2017. Delinquent taxes receivable represent levies collectible during 2016 and prior years. Delinquent taxes are recorded as unavailable revenue. Taxes levied for subsequent years represent current taxes receivable, which are levied in 2016, but not payable until 2017 and are not expendable by the District until the 2017-2018 school year, adjusted for the property tax shift amount.

3. Inventories and Commodities

All inventories are expended when consumed rather than when purchased and are valued at the lower of cost or market, using the first-in/first-out (FIFO) method. United States Department of Agriculture commodities received are recorded as revenue at the fair market value of such commodities and included in the food service fund revenue and expenditures when received. Unused commodities at year end are included in inventories of food.

4. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Plumbing and electrical	30
Building improvements interior, portable classrooms, and fire system	25
Heating and ventilation system, long-term admin software, furniture and fixtures, outdoor equipment, roofing, and site improvements	20
Custodial equipment, grounds equipment, kitchen equipment, and machinery and tools	15
All other equipment, short-term admin software, and long-term instructional software	10
Vehicles and buses	8
Carpet replacement	7
Computer hardware, copiers, short-term instructional software, and library books	5

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

Bond premiums and discounts are deferred and amortized over the life of the bonds and issuance costs are expensed in the period incurred. In the fund financial statements, governmental fund types recognize premiums received on debt issuances as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences - It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Qualifying employees may be compensated for unused sick leave upon termination of employment under terms of severance pay. Vacation leave is accrued as a liability and recorded as an expense of those funds as the benefits are earned by the employees. A liability for these amounts is reported only if they have matured, for example, as a result of employee resignations and retirements. All unused vacation leave at June 30, 2017 has expired.

403(b) Salary Deferral/Matching Retirement Plan - Independent School District No. 2168 provides for early retirement severance pay which qualifies as a termination benefit. Any teacher who has twenty or more years of service to the District and was employed before the 1998-99 school year and has not elected to participate in the 403(b) matching fund can receive severance pay based on a formula outlined in the master agreement between the District and Education Minnesota - NRHEG. An employee who has ten or more years of service to the District can receive severance pay based on a formula outlined in the labor agreement between the District and the American Federation of State, County, and Municipal Employees, AFL-CIO Local Union No. 2438.

6. Postemployment Benefits

Under the provisions of the various employee and union contracts the District provides Health coverage until age 65 if certain criteria are met. The amount to be incurred is limited as specified by contract. All premiums are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB Statement No. 45, at July 1, 2015.

7. Pensions

The District has adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*. For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and the Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA, except that PERA's and TRA's fiscal year end is June 30. TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. 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.

8. Deferred Outflows/Inflows of Resources

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

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

9. Net Position and Fund Equity

Net position represents the difference between assets and liabilities in the government-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the government-wide financial statements when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance represents a portion of fund balance that includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.
- Restricted fund balances represents a portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either (1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which is the School Board through an ordinance or resolution.
- Assigned fund balance represents amounts constrained by the government's intent to be used for specific purposes, but neither restricted nor committed. The School Board has the authority to assign a fund balance.
- Unassigned fund balance represents residual classification for the general fund. This classification represents fund balance not assigned to other funds and not restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it would be necessary to report a negative unassigned fund balance.

The District strives to maintain as a minimum unassigned general fund balance of 22% to 28% of the general fund annual operating budget. If resources from more than one fund balance classification could be spent, the District will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned.

E. Inter-Fund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses in the government-wide financial statements and fund financial statements. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other inter-fund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Transfers have been removed from the government-wide financial statements.

F. Property Tax Shift

Each year the State of Minnesota requires school districts to shift property taxes and general education aid in accordance with state statutes. During prior years the District shifted \$145,029 in property tax revenues and general education aid; the state decreased the shift amount by \$216 during the current year. The District has recognized as an increase in property tax revenues an amount equal to this shifted amount. The net amount shifted to date has reduced taxes levied for subsequent years by \$144,812 in the general fund. Of this total shifted amount, \$52,098 was for career tech and \$3,456 was for reemployment shifted at 100% of the 2016 payable 2017; and \$77,590 was for the 2000 pay 2001 referendum shifted at 31 percent; \$11,668 was for the decrease in the pay 1994 levy due to net of changes in the allocation of HACA and the increase in referendum equalization aid.

The referendum, career tech, and reemployment levy shift amounts are an early revenue recognition and have increased the current year's fund balance in the general fund. The other property tax amounts have no effect on the District's fund balances. The referendum shift amount will remain constant from year to year until changed by state statutes.

Note 2 - Stewardship, Compliance, and Accountability

A. Budgetary Information

The District adopts an annual budget for all funds in accordance with Minnesota State Statutes. The budget is prepared on the modified accrual basis of accounting. Before July 1, the proposed budget is presented to the School Board for review. The School Board holds public hearings and a final budget must be prepared and adopted no later than one week after the School Board approves the audited financial statements and has published the final budget in the local newspaper. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The actual revenues, expenditures, and transfers for the year ended June 30, 2017, have been compared to the District's budget for the year where applicable. Variances in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Any revisions that alter total expenditures of any fund must be approved by the School Board.

Budgetary control is maintained by fund, at the object of expenditure category level within each program, and in compliance with state requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the School Board. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (1) adequate funds were appropriated, (2) the expenditure is still necessary, and (3) funds are available. Budgeted amounts are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year end. The School Board made several supplemental budgetary appropriations throughout the year.

B. Excess of Expenditures over Appropriations

For the year ended June 30, 2017, expenditures exceeded appropriations in the food service fund, community service fund, and the debt service fund (the legal level of budgetary control) by \$30,284, \$3,044, and \$14,207, respectively. These over expenditures were funded by greater than anticipated revenues and available fund balance.

Note 3 - Detailed Notes on All Funds

A. Cash and Investments

1. Cash

In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the School Board. All such depositories are members of the Federal Reserve System. Minnesota Statutes require that all District 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 bonds. Minnesota Statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing the collateral.

Custodial Credit Risk—Deposits. 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. As of June 30, 2017, none of the District's bank balances were exposed to custodial credit risk.

2. Investments

As of June 30, 2017, the District had an investment in Minnesota School District Liquid Asset Fund (MSDLAF) with a fair value of \$267,182. MSDLAF is a money market account and is available to service the District's financial needs immediately. The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities and Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. According to GASB 79, the fair value of the position in the pool is the same as the value of the pool's shares.

Custodial Credit Risk—Investments. The investment in the MSDLAF is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement No. 40. The District does not have an investment policy for custodial credit risk.

Interest Rate Risk. The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The District may invest funds as authorized by Minnesota Statutes Section 118A.04. All funds in the MSDLAF are invested in accordance with Minnesota Statutes Section 475.66. Each Minnesota school district owns a pro-rata share of each investment which is held in the name of the funds. The District has no investment policy that would further limit its investment choices. As of June 30, 2017, the District's MSDLAF accounts were rated AAAM by S&P.

Concentration of Credit Risk. The District places no limit on the amount the District may invest in any one issuer. More than 5% of the District's investments are invested in the MSDLAF (100%).

B. Receivables

Receivables as of the year end for the District are reported on the Statement of Net Position and the Balance Sheet.

The Balance Sheet reports unavailable revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The Statement of Net Position and the Balance Sheet also defer revenue recognition in connection with resources that have been received, but not yet earned.

At the end of the current fiscal year, the various components of unearned revenue reported was as follows:

	Received but Unearned
Deferred revenue (general fund)	\$ 25,034
Prepaid food service meals (food service fund)	9,895
Prepaid enrollment (community service fund)	9,167
	\$ 44,096

C. Capital Assets

Depreciation expense was charged to functions/programs of the primary government as follows:

Administration	\$ 118
District support services	107
Regular instruction	169,013
Vocational education instruction	3,122
Special education instruction	3,301
Community services	1,493
Instructional support services	2,405
Pupil support services	66,722
Sites and buildings	465,959
Total Depreciation Expense	\$ 712,240

Independent School District No. 2168
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Notes to Financial Statements
June 30, 2017

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, not being depreciated				
Land	\$ 211,320	\$ -	\$ -	\$ 211,320
Capital Assets, being depreciated				
Land improvements	1,079,082	22,832	-	1,101,914
Buildings	19,239,005	25,026	-	19,264,031
Equipment	5,467,110	122,551	-	5,589,661
Eligible pupil vehicles	837,525	-	22,952	814,573
Total Capital Assets, being depreciated	<u>26,622,722</u>	<u>170,409</u>	<u>22,952</u>	<u>26,770,179</u>
Less Accumulated Depreciation				
Land improvements	611,480	32,011	-	643,491
Buildings	7,890,302	403,010	-	8,293,312
Equipment	4,286,592	230,213	-	4,516,805
Eligible pupil vehicles	627,468	47,006	22,952	651,522
Total Accumulated Depreciation	<u>13,415,842</u>	<u>712,240</u>	<u>22,952</u>	<u>14,105,130</u>
Total Capital Assets Being Depreciated, Net	<u>13,206,880</u>	<u>(541,831)</u>	<u>-</u>	<u>12,665,049</u>
Governmental Activities Capital Assets, Net	<u>\$ 13,418,200</u>	<u>\$ (541,831)</u>	<u>\$ -</u>	<u>\$ 12,876,369</u>

D. Operating Leases

The District entered into a noncancelable five year lease agreement for school buses, beginning August 2015. Rent is paid in annual installments of \$20,522 each year until the lease agreement is met. Total cost for the lease was \$20,522 for the year ended June 30, 2017. The District also entered into a noncancelable four year lease agreement for school buses, beginning August 2016. Rent is paid in annual installments of \$21,018 until the lease agreement is met. Total cost for the lease was \$21,018 for the year ended June 30, 2017. Lease payments were made from the general fund. The future minimum lease payments for these leases are as follows:

Years Ending June 30, <u>2018</u>	\$ 41,540
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E. Capital Leases

The District entered into a lease agreement in December 2007 as lessee for the financing of energy cost savings projects. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The lease is payable in monthly installments of \$12,351 over seven years through November 2023 at a 4.25% interest rate.

The District entered into a lease agreement in July 2014 as lessee for the financing of technology equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The lease was paid off in July 2016.

The District entered into a lease agreement in July 2015 as lessee for the financing of computer technology equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The lease is payable in two annual installments of \$29,660 through July 2019 at a 5.98% interest rate.

Capital leases are paid from the general fund.

Annual debt service requirements to maturity for capital lease payments are as follows:

Years Ending June 30,	
2018	\$ 177,877
2019	177,877
2020	148,217
2021	148,217
2022	148,217
2023-2024	<u>209,974</u>
Total Capital Lease Payments	1,010,379
Less: Amount Representing Interest	<u>(124,859)</u>
Present Value of Capital Lease Payments	<u><u>\$ 885,520</u></u>

The assets acquired through capital leases are as follows:

<u>Asset:</u>	
Energy Savings Upgrades	\$ 5,199,531
iPads	159,610
Chromebooks	108,972
Accumulated Depreciation - Energy Savings Upgrades	(779,930)
Accumulated Depreciation - iPads	(79,805)
Accumulated Depreciation - Chromebooks	<u>(32,692)</u>
Total Value of Assets Acquired	<u><u>\$ 4,575,686</u></u>

F. Long-Term Debt

General Obligation Bonds. The District issued general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District, and are paid from the debt service fund. The District issued General obligation bonds currently outstanding are as follows:

Bond Description	Final Maturities	Interest Rate	Original Principal	Outstanding Balance
General Obligation Alternative Facilities Bonds of 2008A	2/1/2023	3.50% - 4.25%	\$ 3,045,000	\$ 1,510,000
General Obligation Capital Facilities Bonds of 2008B	2/1/2018	3.50% - 4.00%	510,000	70,000
General Obligation Capital Facilities Bonds of 2013A	2/1/2028	0.30% - 2.50%	1,215,000	910,000
General Obligation Crossover Refunding Bonds of 2016A	2/1/2023	2.00%	1,300,000	1,300,000
			<u>\$ 6,070,000</u>	<u>\$ 3,790,000</u>

Annual debt service requirements to maturity for general obligation bonds are as follows:

Years Ending June 30,	Governmental Activities	
	Principal	Interest
2018	\$ 1,655,000	\$ 107,288
2019	325,000	41,865
2020	335,000	36,045
2021	340,000	30,025
2022	350,000	23,625
2023-2027	695,000	46,288
2028	90,000	2,250
Total	<u>\$ 3,790,000</u>	<u>\$ 287,386</u>

Severance Payable. The District has 12 current employees who have qualified for severance benefits. Current year severance payments, as were prior year severance payments, were made from the general fund of the governmental funds.

Annual debt service requirements to maturity for severance payments are as follows:

Years Ending June 30,	
2018	\$ 21,131
2019	46,341
2020	33,690
2021	54,669
2022	13,521
2023-2027	92,291
2028-2030	10,333
Total	<u>\$ 271,976</u>

Changes in Long-Term Debt. During the year ended June 30, 2017, the following changes occurred in liabilities reported in the government-wide financial statements:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
General obligation bonds	\$ 2,850,000	\$ 1,300,000	\$ 360,000	\$ 3,790,000	\$ 1,655,000
Severance	304,525	-	32,549	271,976	21,131
Capital lease	1,073,966	-	188,446	885,520	141,527
	<u>\$ 4,228,491</u>	<u>\$ 1,300,000</u>	<u>\$ 580,995</u>	<u>\$ 4,947,496</u>	<u>\$ 1,817,658</u>

Legal Debt Margin. Minnesota State Statutes do not allow net debt (as defined in Minn. Stat. Para. 475.51 subd. 4) to exceed 15 percent of the actual market value of all taxable property within the District. The District's market value per the School Tax Report 2016 Payable 2017 was \$313,208,980.

On July 15, 2016, the District issued \$1,300,000 of General Obligation Crossover Refunding Bonds, Series 2016A, with an average interest rate of 2.01%. This refunding was undertaken to reduce total debt service payments over the next six years and resulted in an economic gain of \$68,020. The net proceeds will be used to refund the General Obligation Alternative Facilities Bonds, Series 2008A, with a current outstanding principal amount of \$1,510,000. The crossover refunding will occur on February 1, 2018.

G. Other Post-Employment Benefits

Plan Description – All employees are allowed upon meeting the eligibility requirements under Minn. Stat. 471.61 subd, 2b, to participate in the District's health insurance plan after retirement. This plan covers active and retired employees. Benefit provisions are established through negotiations between the District and the union representing District employees and are renegotiated at the end of each contract period. The implicit rate subsidy is only until Medicare eligibility. The retiree health plan does not issue a publicly available financial report.

Funding Policy - For the fiscal year 2017, the District will continue on a "pay-as-you-go" funding policy.

Annual OPEB Cost and Net OPEB Obligation – The District’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period of 30 years.

The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation:

Annual Required Contribution	\$ 87,006
ARC Adjustment with Interest	(6,450)
Interest on Net OPEB Obligation	<u>4,224</u>
Annual OPEB Cost	84,780
Contributions Made	<u>(47,084)</u>
Change in Net OPEB Obligation	37,696
Net OPEB Obligation, beginning of year	<u>120,696</u>
Net OPEB Obligation, end of year	<u><u>\$ 158,392</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Actual Employer Contribution	Annual OPEB Cost Contributed	Net Ending OPEB Obligation
6/30/2015	\$ 71,830	\$ 44,412	61.8	\$ 94,350
6/30/2016	85,266	58,920	69.1	120,696
6/30/2017	84,780	47,084	55.5	158,392

Funded Status and Funding Progress – As of July 1, 2015, the most recent actuarial valuation date, the plan was unfunded. The actuarial accrued liability for benefits was \$688,098, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$688,098. The covered payroll (annual payroll of active employees covered by the plan) was \$4,198,248, and the ratio of the UAAL to the covered payroll was 16.4 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015, actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.5 percent investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on the employer's own investments calculated based on the funded level of the plan at the valuation date, and an annual healthcare cost trend rate of 7.25 percent initially, reduced by decrements to an ultimate rate of 5.0 percent over nine years. Both rates included an inflation assumption. The UAAL is being amortized as a level percentage of projected payroll on an open basis over 30 years.

H. Other Post-Employment Benefits

The District permanently transferred \$66,984 from the building construction fund to the debt service fund in order to eliminate the building construction fund balance.

I. Fund Balance

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

	GASB Balance	Reconciling Transfers	UFARS Balance
Nonspendable			
Inventory	\$ 7,855	\$ -	\$ 7,855
Restricted			
Staff development	36,878	-	36,878
Health and safety	-	15,861	(15,861)
Teacher development and evaluation	6,611	-	6,611
Career and technical program	220	-	220
Safe schools	5,682	-	5,682
Long-term facilities maintenance	-	17,901	(17,901)
Medical assistance	31,108	-	31,108
Food service	26,817	-	26,817
Community education	13,098	-	13,098
Early childhood and family education	29,538	-	29,538
School readiness	27,629	-	27,629
Community service	23,495	-	23,495
Bond refunding	1,302,566	-	1,302,566
Debt service	153,726	-	153,726
Total Restricted	1,657,368	33,762	1,623,606
Committed			
Student activities	39,607	-	39,607
Unassigned	2,936,566	(33,762)	2,970,328
Total Fund Balance	\$ 4,641,396	\$ -	\$ 4,641,396

Note 4 - Defined Benefit Pension Plans

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

1. Public Employees Retirement Association (PERA)

A. Plan Description

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

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

B. Benefits Provided

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

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

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

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

C. Contribution Rate

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively of their annual covered salary in calendar year 2016. In fiscal year 2016, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the GERP for the year ended June 30, 2017, were \$101,815. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

At June 30, 2017, the District reported a liability of \$1,786,291 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$23,343. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.0220%, a decrease of 0.0001% from the prior year.

For the year ended June 30, 2017, the District recognized pension expense of \$246,291 for its proportionate share of GERP's pension expense. In addition, the District recognized an additional \$6,960 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 5,287	\$ 145,110
Changes in actuarial assumptions	385,260	-
Difference between projected and actual investment earnings	199,428	-
Change in proportion and differences between contributions made and District's proportionate share of contributions	-	50,862
District's contributions to GERP subsequent to the measurement date	101,815	-
Total	\$ 691,790	\$ 195,972

\$101,815 reported as deferred outflows of resources related to pensions resulting from the District’s contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2018	\$ 99,533
2019	58,744
2020	171,202
2021	64,524
2022	-

E. Actuarial Assumptions

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

Assumptions	GERF
Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50% per year
Cost of Living Adjustment	0.0%

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

Actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan was completed in 2015.

The following changes in actuarial assumptions occurred in 2016:

General Employee fund

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

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

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

F. Discount Rate

The discount rate used to measure the total pension liability was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates set in Minnesota Statutes. Based on that assumption, 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.

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability 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:

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
District's proportionate share of the GERF net pension liability	\$ 2,537,062	\$ 1,786,291	\$ 1,167,859

H. Pension Plan Fiduciary Net Position

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

2. Teachers Retirement Association (TRA)

A. Plan Descriptions

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

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

B. Benefits Provided

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

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

Tier I Benefits

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

With these provisions:

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

or

Tier II Benefits

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

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

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

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

C. Contribution Rate

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

	Employees	Employers
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability	
Actuarial Information	
Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	4.66%, from the Single Equivalent Interest Rate calculation
Price inflation	2.75%
Wage growth rate	3.50%
Projected salary increase	3.5 - 9.5%
Cost of living adjustment	2.00%
Mortality assumptions	
Pre-retirement:	RP-2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP-2015 scale.
Post-retirement:	RP-2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
Post-disability:	RP-2014 disabled retiree mortality table, without adjustment.

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

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

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

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

E. Discount Rate

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

F. Net Pension Liability

At June 30, 2017, the District reported a liability of \$18,437,894 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District’s proportion of the net pension liability was based on the District’s contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District’s proportionate share was 0.0773% at the end of the measurement period and 0.0803% for the beginning of the year.

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

District's proportionate share of net pension liability	<u>\$ 18,437,894</u>
State's proportionate share of the net pension liability associated with the district	<u>\$ 1,851,578</u>

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

For the year ended June 30, 2017, the District recognized pension expense of \$2,701,231. It also recognized \$258,542 as an increase to pension expense for the support provided by direct aid.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 180,607	\$ 514
Changes in actuarial assumptions	10,513,989	-
Difference between projected and actual investment earnings	797,636	-
Change in proportion and differences between contributions made and District's proportionate share of contributions	-	368,803
District's contributions to TRA subsequent to the measurement date	<u>320,418</u>	<u>-</u>
Total	<u>\$ 11,812,650</u>	<u>\$ 369,317</u>

\$320,418 reported as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

<u>Years Ended June 30,</u>	<u>Pension Expense Amount</u>
2018	\$ 2,188,474
2019	2,188,474
2020	2,455,108
2021	2,277,067
2022	2,013,792

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
TRA discount rate	3.66%	4.66%	5.66%
District’s proportionate share of the TRA net pension liability	\$ 23,752,616	\$ 18,437,894	\$ 14,109,227

The NRHEG Public Schools ISD No. 2168’s proportion of the net pension liability was based on the employer contributions to TRA in relation to TRA’s total employer contributions including direct aid contributions from the State of Minnesota, City of Minneapolis and Minneapolis School District.

H. Pension Plan Fiduciary Net Position

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

Note 5 - 403(b) 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 beginning their fourth year of service with the District. Some employees are eligible to receive a match of employee contributions up to the qualifying amount set forth in their contract. Contributions are invested in tax deferred annuities hosted by a vendor from whom the District has obtained. The District’s contributions for the years ended June 30, 2017, 2016, and 2015 are \$58,372, \$36,103 and \$37,356, respectively. The related employee contributions were \$153,106, \$105,274, and \$57,203 for the years ended June 30, 2017, 2016, and 2015, respectively.

Note 6 - Other Information

A. Contingent Liabilities

The District participates in a number of federal and state programs that are either partially or fully funded by grants or aids received from these agencies or other governmental units. Such programs are subject to audit by the grantor agencies which could result in requests for reimbursement to the granting agency for expenditures that are disallowed under the terms of the grant. Based on past experience, the District believes that any disallowed costs as a result of such audits will be immaterial.

B. Joint Ventures

The District, in conjunction with South Central Service Cooperative (SCSC), created a joint powers agreement for group employee benefits and other financial and risk management services. The SCSC's board is defined in the Joint Powers Agreement. A member may withdraw upon written notice given to the Board. In the event of dissolution, amounts received from participants to the benefit fund reserve shall be used exclusively for the payment of benefits to or on behalf of enrolled employees, payment of reasonable expenses, and payment of taxes. Separate financial statements of the joint venture may be obtained from SCSC. The joint venture is in good financial health. It is not anticipated to be a burden on the District.

Note 7 - Issued But Non-effective Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the District. The first statement issued but not yet implemented that will significantly affect the District is statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. This statement will be implemented at the District in the year ended June 30, 2018.

The second statement issued but not yet implemented that will significantly affect the District is statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). The requirements of this Statement will improve the decision-usefulness of information in employer and governmental nonemployer contributing entity financial reports and will enhance its value for assessing accountability and interperiod equity by requiring recognition of the entire OPEB liability and a more comprehensive measure of OPEB expense. This statement will be implemented at the District in the year ended June 30, 2019.

The third statement issued but not yet implemented that will significantly affect the District is statement No. 80, *Blending Requirements for Certain Component Units—an Amendment of GASB Statement No. 14*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The requirements of this Statement enhance the comparability of financial statements among governments. This statement will be implemented at the District in the year ended June 30, 2018.

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

The fifth statement issued but not yet implemented that will significantly affect the District is statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. This statement will be implemented at the District in the year ended June 30, 2018.

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

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



Required Supplementary Information
June 30, 2017

**Independent School District No.
2168**
New Richland, Minnesota

Independent School District No. 2168
New Richland, Minnesota
Schedule of Funding Progress
Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Simplified Entry Age	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
7/1/2009	\$ -	\$ 619,499	\$ 619,499	0.0%	\$ 3,759,533	16.5%
7/1/2012	\$ -	\$ 598,793	\$ 598,793	0.0%	\$ 4,259,566	14.1%
7/1/2015	\$ -	\$ 688,098	\$ 688,098	0.0%	\$ 4,198,248	16.4%

Note to the Schedule of Funding Progress

The standard requires a schedule of funding progress for the three most recent valuations and accompanying notes to describe factors that significantly affect the trends in the amounts reported. The District implemented the standard as of July 1, 2009, and there have only been three valuations performed.

Since the last actuarial valuation as of July 1, 2012, the following actuarial assumptions have been changed:

- The health care trend rates were changed to better anticipate short term and long term medical increases.
- The mortality table was updated from the projection of RP 2000 rates to 2012 to the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.
- The withdrawal table for all employees and retirement table for only employees eligible to retire with Rule of 90 were also updated.
- The discount rate was changed from 4.50% to 3.50%.

Since the last actuarial valuation as of July 1, 2012, the following plan provisions have changed:

- None

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

Pension Plan	Measurement Date	Employer's Proportion of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b)	Total (d) (a+b)	Employer's Covered-Employee Payroll (e) **	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (d/e) **	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
PERA	6/30/2016	0.0220%	\$ 1,786,291	N/A	\$ 1,786,291	\$ 1,438,567	124.2%	68.9%
	6/30/2015	0.0221%	\$ 1,145,337	N/A	\$ 1,145,337	\$ 1,375,166	83.3%	78.2%
	6/30/2014	0.0240%	\$ 1,127,400	N/A	\$ 1,127,400	\$ 1,346,698	83.7%	78.8%
TRA	6/30/2016	0.0773%	\$ 18,437,894	1,851,578	\$ 20,289,472	\$ 4,087,847	451.0%	44.9%
	6/30/2015	0.0803%	\$ 4,967,349	608,958	\$ 5,576,307	\$ 4,155,898	119.5%	76.8%
	6/30/2014	0.0844%	\$ 3,889,091	273,479	\$ 4,162,570	\$ 3,903,735	99.6%	81.5%

**Schedule of Employer's Contributions
Last 10 Fiscal Years ***

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d) **	Contributions as a Percentage of Covered-Employee Payroll (b/d) **
PERA	6/30/2017	\$ 101,815	\$ 101,815	\$ -	\$ 1,410,965	7.2%
	6/30/2016	\$ 102,244	\$ 102,244	\$ -	\$ 1,438,567	7.1%
	6/30/2015	\$ 96,843	\$ 96,843	\$ -	\$ 1,375,166	7.0%
TRA	6/30/2017	\$ 320,418	\$ 320,418	\$ -	\$ 4,308,634	7.4%
	6/30/2016	\$ 301,667	\$ 301,667	\$ -	\$ 4,087,847	7.4%
	6/30/2015	\$ 305,984	\$ 305,984	\$ -	\$ 4,155,898	7.4%

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

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

- PERA's CAFR may be obtained on the PERA website at www.mnpera.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.
- TRA's CAFR may be obtained on the TRA website at www.minnesotatra.org for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.
- Covered payroll has been retrospectively restated for all years presented to conform to the definition of covered payroll as clarified in GASB Statement No. 82, *Pension Issues*.

** Covered payroll as restated to conform to GASB Statement No. 82.

Independent School District No. 2168
New Richland, Minnesota
Budgetary Comparison Schedule: General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
Revenues				
Local property tax levies	\$ 828,647	\$ 801,342	\$ 812,912	\$ 11,570
Other local and county sources	420,500	518,000	771,670	253,670
State sources	7,942,852	7,891,718	8,034,928	143,210
Federal sources	342,400	385,800	388,974	3,174
Local sales and insurance recovery	6,100	13,600	17,259	3,659
Total Revenues	9,540,499	9,610,460	10,025,743	415,283
Expenditures				
Administration	593,464	597,132	589,630	7,502
District support services	262,298	260,798	519,792	(258,994)
Regular instruction	4,338,369	4,404,492	4,314,537	89,955
Vocational instruction	217,255	221,255	215,052	6,203
Special education instruction	1,684,022	1,708,205	1,594,160	114,045
Instructional support services	467,905	460,292	454,353	5,939
Pupil support services	824,447	807,487	755,002	52,485
Sites and buildings	871,239	917,973	871,093	46,880
Fiscal and other fixed cost programs	44,500	44,500	44,354	146
Debt service				
Principal	188,298	188,298	188,446	(148)
Interest and fiscal charges	44,525	44,179	44,074	105
Total Expenditures	9,536,322	9,654,611	9,590,493	64,118
Excess (deficiency) of revenues over (under) expenditures	4,177	(44,151)	435,250	479,401
Other Financing Sources (Uses)				
Sales of equipment	-	3,000	3,000	-
Net Change in Fund Balances	4,177	(41,151)	438,250	479,401
Fund Balances - Beginning	2,618,422	2,618,422	2,618,422	-
Fund Balances - Ending	<u>\$ 2,622,599</u>	<u>\$ 2,577,271</u>	<u>\$ 3,056,672</u>	<u>\$ 479,401</u>

1. Budgetary Information

The District adopts an annual budget for all funds in accordance with Minnesota State Statutes. The budget is prepared on the modified accrual basis of accounting. Before July 1, the proposed budget is presented to the School Board for review. The School Board holds public hearings and a final budget must be prepared and adopted no later than one week after the School Board approves the audited financial statements and has published the final budget in the local newspaper. Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The actual revenues, expenditures, and transfers for the year ended June 30, 2017, have been compared to the District's budget for the year where applicable. Variances in parentheses are unfavorable and indicate revenues are less than budget or expenditures are greater than budget. The budget is adopted through passage of a resolution. Any revisions that alter total expenditures of any fund must be approved by the School Board.

Budgetary control is maintained by fund, at the object of expenditure category level within each program, and in compliance with state requirements. Also inherent in this controlling function is the management philosophy that the existence of a particular item or appropriation in the approved budget does not automatically mean that it will be spent. The budget process has flexibility in that, where need has been properly demonstrated, an adjustment can be made within the department budget by the School Board. Therefore, there is a constant review process and expenditures are not approved until it has been determined that (1) adequate funds were appropriated, (2) the expenditure is still necessary, and (3) funds are available. Budgeted amounts are as originally adopted or as amended by the School Board. Budgeted expenditure appropriations lapse at year end. The School Board made several supplemental budgetary appropriations throughout the year.



Supplementary Information
June 30, 2017

**Independent School District No.
2168**
New Richland, Minnesota

Independent School District No. 2168
New Richland, Minnesota
Combining Balance Sheet – Nonmajor Governmental Funds
June 30, 2017

	Special Revenue		Total Nonmajor Funds
	Food Service	Community Service	
Assets			
Cash and investments	\$ 60,507	\$ 140,999	\$ 201,506
Receivables			
Current property taxes	-	31,383	31,383
Delinquent property taxes	-	512	512
Accounts	-	3,000	3,000
Due from Minnesota Department of Education	-	4,124	4,124
Inventory	7,855	-	7,855
Total Assets	<u>\$ 68,362</u>	<u>\$ 180,018</u>	<u>\$ 248,380</u>
Liabilities			
Salaries payable	\$ 3,110	\$ 8,450	\$ 11,560
Accounts payable	20,685	7,060	27,745
Unearned revenue	9,895	9,167	19,062
Total Liabilities	<u>33,690</u>	<u>24,677</u>	<u>58,367</u>
Deferred Inflows of Resources			
Unavailable revenue-property taxes	-	61,069	61,069
Unavailable revenue-delinquent taxes	-	512	512
Total deferred inflows of resources	<u>-</u>	<u>61,581</u>	<u>61,581</u>
Fund Balances			
Nonspendable	7,855	-	7,855
Restricted	26,817	93,760	120,577
Total Fund Balances	<u>34,672</u>	<u>93,760</u>	<u>128,432</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 68,362</u>	<u>\$ 180,018</u>	<u>\$ 248,380</u>

Independent School District No. 2168

New Richland, Minnesota

Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds

Year Ended June 30, 2017

	Special Revenue		Capital	Total
	Food Service	Community Service	Projects Building Construction	
Revenues				
Local property tax levies	\$ -	\$ 62,525	\$ -	\$ 62,525
Other local and county sources	478	107,629	-	108,107
State sources	34,058	56,182	-	90,240
Federal sources	258,935	-	-	258,935
Local sales and insurance recovery	220,372	-	-	220,372
Total Revenues	513,843	226,336	-	740,179
Expenditures				
Community education and services	-	206,950	-	206,950
Pupil support services	498,881	-	-	498,881
Sites and buildings	-	-	7,609	7,609
Total Expenditures	498,881	206,950	7,609	713,440
Excess (deficiency) of revenues over (under) expenditures	14,962	19,386	(7,609)	26,739
Other Financing Sources				
Operating transfers in (out)	-	-	(66,984)	(66,984)
Net Change in Fund Balances	14,962	19,386	(74,593)	(40,245)
Fund Balances - Beginning	19,710	74,374	74,593	168,677
Fund Balances - Ending	\$ 34,672	\$ 93,760	\$ -	\$ 128,432



Report on Minnesota Legal Compliance

Members of the School Board
Independent School District No. 2168
New Richland, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2168 as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated November 28, 2017.

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

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

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

A handwritten signature in black ink that reads "Eide Bailly LLP".

Mankato, Minnesota
November 28, 2017

Independent School District No. 2168
New Richland, Minnesota
Uniform Financial Accounting and Reporting Standards Compliance Table
Year Ended June 30, 2017

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$10,025,743	<u>\$10,025,742</u>	<u>\$1</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$9,590,493	<u>\$9,590,494</u>	<u>(\$1)</u>	Total Expenditures	\$7,609	<u>\$7,609</u>	<u>\$0</u>
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.03 Staff Development	\$36,878	<u>\$36,878</u>	<u>\$0</u>	4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>
4.06 Health and Safety	(\$15,861)	<u>(\$15,861)</u>	<u>\$0</u>	4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>	4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
4.08 Cooperative Revenue	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted:</i>			
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.14 Operating Debt	\$0	<u>\$0</u>	<u>\$0</u>	<i>Unassigned:</i>			
4.16 Levy Reduction	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.17 Taconite Building Maint	\$0	<u>\$0</u>	<u>\$0</u>				
4.24 Operating Capital	\$0	<u>\$0</u>	<u>\$0</u>	07 DEBT SERVICE			
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$509,992	<u>\$509,993</u>	<u>(\$1)</u>
4.27 Disabled Accessibility	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$483,695	<u>\$483,695</u>	<u>\$0</u>
4.28 Learning & Development	\$0	<u>\$0</u>	<u>\$0</u>	<i>Non Spendable:</i>			
4.34 Area Learning Center	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted / Reserved:</i>			
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	<u>\$0</u>	4.25 Bond Refundings	\$1,302,566	<u>\$1,302,566</u>	<u>\$0</u>
4.38 Gifted & Talented	\$0	<u>\$0</u>	<u>\$0</u>	4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
4.40 Teacher Development and Evaluation	\$6,611	<u>\$6,611</u>	<u>\$0</u>	<i>Restricted:</i>			
4.41 Basic Skills Programs	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$153,726	<u>\$153,726</u>	<u>\$0</u>
4.45 Career Tech Programs	\$220	<u>\$220</u>	<u>\$0</u>	<i>Unassigned:</i>			
4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.49 Safe School Crime - Crime Levy	\$5,682	<u>\$5,682</u>	<u>\$0</u>				
4.50 Pre-Kindergarten	\$0	<u>\$0</u>	<u>\$0</u>	08 TRUST			
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$695	<u>\$695</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$4,000	<u>\$4,000</u>	<u>\$0</u>
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$119,950	<u>\$119,951</u>	<u>(\$1)</u>
4.67 LTFM	(\$17,901)	<u>(\$17,901)</u>	<u>\$0</u>				
4.72 Medical Assistance	\$31,108	<u>\$31,108</u>	<u>\$0</u>	20 INTERNAL SERVICE			
<i>Restricted:</i>				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Committed:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
4.18 Committed for Separation	\$0	<u>\$0</u>	<u>\$0</u>				
4.61 Committed Fund Balance	\$39,607	<u>\$39,607</u>	<u>\$0</u>	25 OPEB REVOCABLE TRUST			
<i>Assigned:</i>				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.62 Assigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
4.22 Unassigned Fund Balance	\$2,970,328	<u>\$2,970,327</u>	<u>\$1</u>				
				45 OPEB IRREVOCABLE TRUST			
02 FOOD SERVICES				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Revenue	\$513,843	<u>\$513,843</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$498,881	<u>\$498,881</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net Assets)	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>							
4.60 Non Spendable Fund Balance	\$7,855	<u>\$7,855</u>	<u>\$0</u>	47 OPEB DEBT SERVICE			
<i>Restricted / Reserved:</i>				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>				<i>Non Spendable:</i>			
4.64 Restricted Fund Balance	\$26,817	<u>\$26,817</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>				<i>Restricted:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
				4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
04 COMMUNITY SERVICE				<i>Unassigned:</i>			
Total Revenue	\$226,336	<u>\$226,335</u>	<u>\$1</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$206,950	<u>\$206,950</u>	<u>\$0</u>				
<i>Non Spendable:</i>							
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>				
<i>Restricted / Reserved:</i>							
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>				
4.31 Community Education	\$13,098	<u>\$13,098</u>	<u>\$0</u>				
4.32 E.C.F.E	\$29,538	<u>\$29,538</u>	<u>\$0</u>				
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>				
4.44 School Readiness	\$27,629	<u>\$27,629</u>	<u>\$0</u>				
4.47 Adult Basic Education	\$0	<u>\$0</u>	<u>\$0</u>				
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>				
<i>Restricted:</i>							
4.64 Restricted Fund Balance	\$23,495	<u>\$23,494</u>	<u>\$1</u>				
<i>Unassigned:</i>							
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>				



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

To the Members of the School Board
Independent School District No. 2168
New Richland, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 2168 (District), New Richland, Minnesota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated November 28, 2017.

Internal Control over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies described in the accompanying summary of audit findings costs to be material weaknesses: 2017-A, 2017-B, and 2017-C.

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.

Compliance and Other Matters

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

District's Response to Findings

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Eric Sully LLP".

Mankato, Minnesota
November 28, 2017

Section I – Financial Statement Findings

**2017-A Segregation of Duties
 Material Weakness**

Condition: The District has a lack of segregation of duties in certain areas due to limited staff. The District has limited segregation of duties in many accounting and financial reporting internal control areas. The areas involved are receipts and receivables, disbursements and payables, payroll, deposits, and reconciliations of these areas.

Criteria: A good system of internal control contemplates an adequate segregation of duties so that no one individual handles a transaction from its inception to completion.

Cause: The District does not have the economic resources to hire additional qualified accounting staff in order to segregate duties.

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

Recommendation: While we recognize that your staff may not be large enough to permit complete segregation of duties in all respects for an effective system of internal control, the functions should be reviewed to determine if additional segregation is feasible and to improve efficiency and effectiveness of financial management of the District.

Views of Responsible Officials: Management agrees with this finding.

**2017-B Significant Journal Entries
 Material Weakness**

Condition: During the course of our engagement, we proposed material audit adjustments to the trial balance.

Criteria: A good system of internal control contemplates an adequate system for recording and processing entries material to the financial statements.

Cause: The District does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to make all of the necessary year-end adjustments to the trial balance.

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

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

Views of Responsible Officials: Management agrees with this finding.

**2017-C Preparation of Financial Statements
 Material Weakness**

Condition: The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we are requested to draft the financial statements, accompanying notes to the financial statements, and required supplementary budgetary comparison information.

Criteria: A good system of internal control contemplates an adequate system for drafting of the financial statements.

Cause: The District does not have the economic resources to hire additional qualified accounting staff or hire professional accounting services in order to draft financial statements.

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

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

Views of Responsible Officials: Management agrees with this finding.

Section II – Minnesota Legal Compliance Findings

None reported