



Financial Statements  
June 30, 2017

**Independent School District No. 206  
Alexandria Public Schools**

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Independent School District No. 206  
Alexandria Public Schools  
School Board and Administration (Unaudited)  
June 30, 2017

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<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
<b>School Board</b>		
Dean Anderson	Chairperson	2018
Dave Anderson	Vice Chairperson	2020
Pam Carlson	Treasurer	2018
Bob Cunniff	Director	2018
Angie Krebs	Director	2020
Alan Zeithamer	Director	2018
Sandy Susag	Director	2018
<b>Administration</b>		
Julie Critz	Superintendent	
Trevor Peterson	Director of Business Services	



## Independent Auditor's Report

The School Board of  
Independent School District No. 206  
Alexandria Public Schools  
Alexandria, 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. 206 (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

## **Opinion**

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 and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

As discussed in Notes 1 and 16 to the financial statements, the District has adopted the provisions of GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets*, GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which has resulted in a restatement of the net position as of July 1, 2016. Our opinions are not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The school board and administration, combining and individual fund schedules, and other supplementary information are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.

The combining and individual fund schedules, uniform accounting and reporting compliance table, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. In addition, in our opinion, the schedule of changes in student activity cash balances presents fairly the changes in the cash balances of the student activity funds for the year ended June 30, 2017.

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated November 29, 2017 on our consideration of District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
November 29, 2017

This section of Alexandria Public Schools' – Independent School District No. 206's 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.

## Financial Highlights

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

- *General Fund 01* – The overall revenues were \$47,355,917 while the overall expenditures were \$47,220,507. These, along with other net financing uses of \$495,154, increased the fund balance by \$630,564.
- *Food Service Fund 02* – The revenues were \$2,961,827 while the expenditures were \$2,947,911, increasing the fund balance by \$13,916.
- *Community Service Fund 04* – The revenues were \$2,261,788 while the expenditures were \$2,320,963, decreasing the fund balance by \$59,175
- *Debt Service Fund 07* – The revenues were \$6,772,153 while the expenditures were \$7,270,425, decreasing the fund balance by \$498,272.
- *OPEB Debt Service Fund 47* – The revenues were \$786,195 while the expenditures were \$917,763, decreasing the fund balance by \$131,568.

## Overview of the Financial Statements

### District-Wide Statements

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

The two district-wide statements, report the District's net position and how they have changed. Net position - the difference between the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources - 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 statement the District's activities are shown in one category:

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

### **Fund Financial Statements**

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

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

The District has two kinds of funds:

- *Governmental Funds* – All of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.
- *Fiduciary Funds* – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only by those to whom the assets belong.

**Financial Analysis of the District as a Whole**

**Net Position**

The District's combined net position was a negative \$19,220,907 on June 30, 2017.

Statement of Net Position  
 June 30, 2017 and 2016

	2017	2016
Assets		
Current assets	\$ 50,193,256	\$ 54,425,352
Capital assets	118,136,003	120,535,251
Total assets	168,329,259	174,960,603
Deferred Outflows of Resources	62,498,435	8,078,567
Liabilities		
Other liabilities	7,830,294	7,861,022
Long-term liabilities	229,678,552	154,654,949
Total liabilities	237,508,846	162,515,971
Deferred Inflows of Resources	12,539,755	18,726,043
Net Position		
Net investment in capital assets	12,079,613	12,984,654
Restricted for specific purposes	25,356,620	26,626,957
Unrestricted	(56,657,140)	(37,814,455)
Total net position	\$ (19,220,907)	\$ 1,797,156
Total liabilities, deferred inflows of resources, and net position	\$ 230,827,694	\$ 183,039,170

Due to the implementation of GASB Statement No. 73 and GASB Statement No. 75 in the current year, figures may not be comparable to prior year for some areas of the financial statements.

Independent School District No. 206  
 Alexandria Public Schools  
 Management's Discussion and Analysis  
 Year Ended June 30, 2017

Statement of Activities  
 Years Ended June 30, 2017 and 2016

	2017	2016
Revenues		
Program revenues		
Charges for service	\$ 3,907,302	\$ 3,627,171
Operating grants and contributions	816,038	747,875
General		
Property taxes	13,039,674	12,063,916
Aids and payments from state and other	42,019,067	38,789,269
Miscellaneous revenues	622,925	621,842
Total revenues	60,405,006	55,850,073
Expenses		
Administration	2,051,575	1,683,208
District support services	1,373,174	2,204,301
Regular instruction	21,201,068	19,022,978
Vocational instruction	781,771	645,840
Special education instruction	10,203,885	9,862,484
Community education and services	2,295,626	1,965,970
Instructional support services	3,240,404	2,512,247
Pupil support services	18,592,349	5,314,471
Sites and buildings	4,697,481	5,933,268
Fiscal and other fixed-cost programs	7,410,939	6,471,935
Dental self-insurance	383,672	344,392
Total expenses	72,231,944	55,961,094
Change in Net Position	(11,826,938)	(111,021)
Net Position - Beginning, as restated on July 1, 2016	(7,393,969)	1,908,177
Net Position - Ending	\$ (19,220,907)	\$ 1,797,156

Due to the implementation of GASB Statement No. 73 and GASB Statement No. 75 in the current year, figures may not be comparable to prior year for some areas of the financial statements.

*Changes in Net Position* – The District's total revenues were approximately \$60.4 million for the year ended June 30, 2017. Property taxes and state formula aid accounted for 91% of total revenue for the year. Another 9% came from other program revenues.

The total cost of all programs and services was approximately \$72.2 million. The District's expenses are predominantly related to educating and caring for students. The purely administrative activities of the District accounted for just 2% of total costs.

The total expenses exceeded revenues, decreasing the net position approximately \$11,800,000 for fiscal year 2017.

Independent School District No. 206  
 Alexandria Public Schools  
 Management's Discussion and Analysis  
 Year Ended June 30, 2017

**General Fund**

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

The following schedule presents a summary of General Fund Revenues.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2017	2016		
Local property taxes	\$ 5,040,107	\$ 4,849,861	\$ 190,246	3.9%
Other local sources	1,969,100	1,885,855	83,245	4.4%
State sources	38,908,116	35,633,167	3,274,949	9.2%
Federal sources	1,426,050	1,457,002	(30,952)	-2.1%
Miscellaneous	12,544	5,595	6,949	124.2%
<b>Total General Fund revenues</b>	<b>\$ 47,355,917</b>	<b>\$ 43,831,480</b>	<b>\$ 3,524,437</b>	<b>8.0%</b>

Total General Fund revenue *increased* by \$3,524,437 or 8.0% from the previous year. Basic general education revenue is determined by a state per student funding formula and consists of an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change on revenue. The majority of the increase in revenue for 2017 was in the area of State sources and was caused by the District's increase in general education state aid and special education revenue.

The following schedule presents a summary of General Fund expenditures.

	Year Ended June 30,		Amount of Increase (Decrease)	Percent Increase (Decrease)
	2017	2016		
Salaries and benefits	\$ 35,281,707	\$ 33,667,374	\$ 1,614,333	4.8%
Purchased services	5,979,382	5,199,966	779,416	15.0%
Supplies and materials	2,092,982	1,747,402	345,580	19.8%
Capital expenditures	2,060,020	3,343,872	(1,283,852)	-38.4%
Other expenditures	1,806,416	258,205	1,548,211	599.6%
<b>Total General Fund expenditures</b>	<b>\$ 47,220,507</b>	<b>\$ 44,216,819</b>	<b>\$ 3,003,688</b>	<b>6.8%</b>

Total General Fund expenditures *increased* by \$3,003,688 or 6.8% from the previous year. The majority of the increase in expenditures for 2017 was for salaries and benefits of district staff.

**General Fund Budgetary Highlights**

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

- Actual revenues were \$2,205,628 more than budget, mainly because of more than anticipated special education aid from the state.

Actual expenditures were \$1,795,540 more than budget, mainly due to more than due to the additional pension expense related to the support received from the State of Minnesota for TRA and PERA special funding situations per GASB Statement No. 68.

**Other Non-Major Funds**

The Food Service Fund incurred a current year surplus of \$13,916. The Community Service Fund incurred a current year deficiency of \$59,175. From the standpoint of maintaining current operating expenditures within the range of annual revenue, the Community Service Fund and Food Service Fund continue to operate on a sound financial basis.

**Capital Assets and Debt Administration**

**Capital Assets**

By the end of 2017, the District had invested approximately \$156.4 million in a broad range of capital assets, including school buildings, athletic facilities, computer and audit-visual equipment, and school vehicles. Total depreciation expense for the year was \$3,553,430. Note 5 presents the detail of the District's capital assets.

Capital Assets Governmental Activities  
 June 30, 2017 and 2016

	2017	2016
Land	\$ 6,031,424	\$ 6,031,424
Buildings	128,359,653	128,119,449
Improvements	8,623,202	8,623,202
Equipment	13,366,141	12,709,434
Accumulated Depreciation	(38,244,417)	(34,948,258)
Total capital assets	\$ 118,136,003	\$ 120,535,251

### **Long-Term Debt**

At year end the District had \$123,258,647 of long term debt. This consisted of bonded indebtedness of \$119,470,000, unamortized bond premiums of \$2,673,058, capital leases payable of \$761,390, and vacation and sick leave payable of \$354,199. Note 8 presents the detail of the District's long-term debt. The District has \$99,455,244 in net pension liability at June 30, 2017. See Note 11 for further information. With the implementation of GASB No. 73, 74, and 75 the District has \$6,964,661 in liabilities for other postemployment benefits.

### **Factors Bearing on the District's Future**

With the exception of voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. The state did allocate additional resources to school districts at a much greater level in the next two years than has been seen for quite some time. However, with the continuing uncertainty of funding sustainability and a substantial change across the district surrounding the opening of the new high school and reconfiguration of grade levels at every building, the District will continue to monitor its spending to remain fiscally responsible.

### **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 Business Office, Independent School District No. 206, Alexandria, Minnesota.

Independent School District No. 206  
 Alexandria Public Schools  
 Statement of Net Position  
 June 30, 2017

Assets	
Cash and investments	\$ 17,087,179
Cash held with fiscal agent	23,590,420
Receivables	
Current property taxes	5,340,665
Delinquent property taxes	119,866
Accounts	82,247
Due from other governmental units	3,926,104
Prepaid items	29,306
Inventory	17,469
	<u>50,193,256</u>
Capital assets, net of accumulated depreciation where applicable	
Non-depreciable	
Land	6,031,424
Depreciable	
Buildings and improvements	104,162,590
Land improvements	4,369,782
Equipment	3,572,207
Total capital assets	<u>118,136,003</u>
Total assets	<u>168,329,259</u>
Deferred Outflows of Resources	
Pension plans	<u>62,498,435</u>
Liabilities	
Accounts payable	207,731
Due to other governmental units	285,713
Salaries payable	5,272,791
Accrued interest payable	2,058,059
Unearned revenue	400
Claims incurred but not reported	5,600
Long-term liabilities	
Due within one year - bonds, premiums, capital leases, and vacation and sick leave	27,905,628
Due in more than one year - bonds, premiums, capital leases, and vacation and sick leave	95,353,019
Due in more than one year - supplemental benefits	906,753
Due in more than one year - other postemployment benefits	6,057,908
Due in more than one year - net pension liability	99,455,244
Total liabilities	<u>237,508,846</u>
Deferred Inflows of Resources	
Unavailable revenue-property taxes	10,846,084
Other postemployment benefits plan	113,259
Pension plans	1,580,412
Total deferred inflows of resources	<u>12,539,755</u>
Net Position	
Net investment in capital assets	12,079,613
Restricted for specific purposes	25,356,620
Unrestricted	(56,657,140)
Total net position	<u>\$ (19,220,907)</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 230,827,694</u>

Independent School District No. 206  
 Alexandria Public Schools  
 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	
Governmental activities				
Administration	\$ 2,051,575	\$ 193,286	\$ 687,377	\$ (1,170,912)
District support services	1,373,174	5,500	-	(1,367,674)
Regular instruction	21,201,068	471,791	-	(20,729,277)
Vocational instruction	781,771	-	-	(781,771)
Special education instruction	10,203,885	-	-	(10,203,885)
Community education and services	2,295,626	1,112,481	78,661	(1,104,484)
Instructional support services	3,240,404	-	50,000	(3,190,404)
Pupil support services	18,592,349	1,761,617	-	(16,830,732)
Sites and buildings	4,697,481	-	-	(4,697,481)
Fiscal and other fixed-cost programs	7,410,939	-	-	(7,410,939)
Dental self-insurance	383,672	362,627	-	(21,045)
Total governmental activities	<u>\$ 72,231,944</u>	<u>\$ 3,907,302</u>	<u>\$ 816,038</u>	<u>(67,508,604)</u>
General Revenues				
Property taxes, levied for general purposes				5,874,624
Property taxes, levied for community education and services				449,645
Property taxes, levied for debt service				6,715,405
Aids and payments from state and federal sources				41,819,149
County apportionment				199,918
Miscellaneous revenues				622,925
Total general revenues				<u>55,681,666</u>
Changes in Net Position				(11,826,938)
Net Position - beginning, as restated (Note 16)				<u>(7,393,969)</u>
Net Position - ending				<u>\$ (19,220,907)</u>



Independent School District No. 206  
 Alexandria Public Schools  
 Governmental Funds  
 Balance Sheet  
 June 30, 2017

	General	Debt Service	OPEB Debt Service Fund	Other Governmental Funds	Totals
<b>Assets</b>					
Cash and investments	\$ 12,114,049	\$ 3,794,943	\$ -	\$ 1,053,124	\$ 16,962,116
Cash held with fiscal agent	-	17,818,202	5,772,218	-	23,590,420
Receivables					
Current property taxes	2,585,458	2,175,067	349,638	230,502	5,340,665
Delinquent property taxes	46,322	62,189	7,225	4,130	119,866
Accounts	82,247	-	-	-	82,247
Due from other governmental units	3,863,451	5,108	4,870	52,675	3,926,104
Due from other funds	144,182	-	-	-	144,182
Prepaid items	29,306	-	-	-	29,306
Inventories	-	-	-	17,469	17,469
<b>Total assets</b>	<b>\$ 18,865,015</b>	<b>\$ 23,855,509</b>	<b>\$ 6,133,951</b>	<b>\$ 1,357,900</b>	<b>\$ 50,212,375</b>
<b>Liabilities</b>					
Accounts payable	\$ 191,669	\$ -	\$ -	\$ 16,062	\$ 207,731
Due to other governmental units	285,713	-	-	-	285,713
Due to other funds	-	-	144,182	-	144,182
Salaries payable	5,035,485	-	-	237,306	5,272,791
Unearned revenue	400	-	-	-	400
<b>Total liabilities</b>	<b>5,513,267</b>	<b>-</b>	<b>144,182</b>	<b>253,368</b>	<b>5,910,817</b>
Deferred Inflows of Resources					
Unavailable revenue-property taxes	4,986,423	4,724,149	756,878	498,500	10,965,950
<b>Fund Balance</b>					
Nonspendable	29,306	-	-	17,469	46,775
Restricted	-	19,131,360	5,605,000	620,260	25,356,620
Assigned	2,775,000	-	-	-	2,775,000
Unassigned	5,561,019	-	(372,109)	(31,697)	5,157,213
<b>Total fund balance</b>	<b>8,365,325</b>	<b>19,131,360</b>	<b>5,232,891</b>	<b>606,032</b>	<b>33,335,608</b>
<b>Total liabilities, deferred inflows of resources, and fund balance</b>	<b>\$ 18,865,015</b>	<b>\$ 23,855,509</b>	<b>\$ 6,133,951</b>	<b>\$ 1,357,900</b>	<b>\$ 50,212,375</b>

Independent School District No. 206  
Alexandria Public Schools  
Reconciliation of the Balance Sheet to the Statement of Net Position  
June 30, 2017

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Total Fund Balances - Governmental Funds	\$ 33,335,608
Amounts reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds	118,136,003
Accrued interest payable for long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(2,058,059)
Delinquent property taxes are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.	119,866
Internal service funds are used by the District to charge the costs of the self-insured dental insurance pool. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.	119,463
Deferred outflows and inflows of resources related to pensions and OPEB plans are applicable to future periods and, therefore, are not reported in the funds.	60,804,764
Long-term liabilities, including bonds payable, capital lease payable, bond premiums, compensated absences, supplemental benefits, other post-employment benefits, and pension liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(229,678,552)</u>
Total Net Position - Governmental Activities	<u><u>\$ (19,220,907)</u></u>

Independent School District No. 206  
Alexandria Public Schools  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Year Ended June 30, 2017

	General	Debt Service	OPEB Debt Service Fund	Other Governmental Funds	Totals
<b>Revenues</b>					
Local property tax levies	\$ 5,040,107	\$ 6,715,405	\$ 780,259	\$ 445,920	\$ 12,981,691
Other local and county sources	1,969,100	-	-	1,265,043	3,234,143
State sources	38,908,116	49,799	-	754,840	39,712,755
Federal sources	1,426,050	-	-	1,039,778	2,465,828
Sales and other conversion of assets	-	-	-	1,718,034	1,718,034
Miscellaneous	12,544	6,949	5,936	-	25,429
Total revenues	<u>47,355,917</u>	<u>6,772,153</u>	<u>786,195</u>	<u>5,223,615</u>	<u>60,137,880</u>
<b>Expenditures</b>					
Administration	1,748,809	-	-	-	1,748,809
District support services	1,315,434	-	-	-	1,315,434
Regular instruction	21,192,771	-	-	-	21,192,771
Vocational instruction	773,129	-	-	-	773,129
Special education instruction	10,211,964	-	-	-	10,211,964
Community education and service	-	-	-	2,320,963	2,320,963
Instructional support services	3,222,834	-	-	-	3,222,834
Pupil support services	3,482,736	-	-	2,947,911	6,430,647
Sites and buildings	5,136,396	-	-	-	5,136,396
Fiscal and other fixed cost programs	136,434	7,270,425	917,763	-	8,324,622
Total expenditures	<u>47,220,507</u>	<u>7,270,425</u>	<u>917,763</u>	<u>5,268,874</u>	<u>60,677,569</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	135,410	(498,272)	(131,568)	(45,259)	(539,689)
<b>Other Financing Sources</b>					
Capital lease proceeds	495,154	-	-	-	495,154
Net Change in Fund Balance	630,564	(498,272)	(131,568)	(45,259)	(44,535)
Fund Balance, Beginning of Year	7,734,761	19,629,632	5,364,459	651,291	33,380,143
Fund Balance, End of Year	<u>\$ 8,365,325</u>	<u>\$ 19,131,360</u>	<u>\$ 5,232,891</u>	<u>\$ 606,032</u>	<u>\$ 33,335,608</u>

Independent School District No. 206  
 Alexandria Public Schools  
 Reconciliation of the Statement of Revenues, Expenditures,  
 and Changes in Fund Balances to the Statement of Activities  
 Year Ended June 30, 2017

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Net Change in Fund Balances - Total Governmental Funds \$ (44,535)

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

Capital outlays are reported as expenditures in governmental funds.  
 However, in the statement of activities the cost of capital assets  
 is allocated over their estimated useful lives as depreciation  
 expense. This is the amount by which capital outlays exceeded  
 depreciation and loss on disposals in the current period. (2,399,248)

Revenues in the statement of activities that do not provide  
 current financial resources are not reported as  
 revenues in the funds. (2,136)

In the statement of activities compensated absences are  
 measured by the amounts earned during the year.  
 In the governmental funds, however, expenditures for these  
 items are measured by the amount of financial resources used. (50,719)

In the statement of activities OPEB liabilities are measured by the  
 amounts earned during the year. In the governmental funds,  
 however, expenditures for these items are measured by the  
 amount of financial resources used. (404,744)

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. (12,313,497)

The issuance of long-term debt provides current financial resources  
 to governmental funds, while the repayment of principle of long-term  
 debt consumes the current financial resources of governmental funds.  
 Neither transactions, however, has any effect on net position. This amount  
 is the net effect of these differences in the treatment of long-term debt  
 and related items. 3,408,316

Internal service funds are used by the District to charge the costs of the self-insured  
 dental insurance pool. The net revenue of the internal service fund is reported  
 in governmental activities. (20,375)

Change in Net Position of Governmental Activities \$ (11,826,938)

Independent School District No. 206  
Alexandria Public Schools

Statement of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – General Fund  
Year Ended June 30, 2017

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget</u>
<b>Revenues</b>				
Local property tax levies	\$ 5,032,331	\$ 5,028,462	\$ 5,040,107	\$ 11,645
Other local and county sources	1,730,105	1,605,620	1,969,100	363,480
State sources	35,134,210	37,029,485	38,908,116	1,878,631
Federal sources	1,583,135	1,471,722	1,426,050	(45,672)
Miscellaneous	5,000	15,000	12,544	(2,456)
Total revenues	<u>43,484,781</u>	<u>45,150,289</u>	<u>47,355,917</u>	<u>2,205,628</u>
<b>Expenditures</b>				
Administration	1,716,071	1,732,163	1,748,809	(16,646)
District support services	1,214,028	1,275,998	1,315,434	(39,436)
Regular instruction	19,252,553	19,778,635	21,192,771	(1,414,136)
Vocational instruction	658,467	771,034	773,129	(2,095)
Special education instruction	10,317,334	10,286,249	10,211,964	74,285
Instructional support services	2,870,879	3,252,635	3,222,834	29,801
Pupil support services	3,272,375	3,444,709	3,482,736	(38,027)
Sites and buildings	3,985,633	4,683,169	5,136,396	(453,227)
Fiscal and other fixed cost programs	195,204	200,375	136,434	63,941
Total expenditures	<u>43,482,544</u>	<u>45,424,967</u>	<u>47,220,507</u>	<u>(1,795,540)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,237	(274,678)	135,410	410,088
<b>Other Financing Sources</b>				
Capital lease proceeds	-	-	495,154	495,154
Net Change in Fund Balance	<u>\$ 2,237</u>	<u>\$ (274,678)</u>	630,564	<u>\$ 905,242</u>
Fund Balance, Beginning of Year			<u>7,734,761</u>	
Fund Balance, End of Year			<u>\$ 8,365,325</u>	

Independent School District No. 206  
Alexandria Public Schools  
Statement of Net Position  
Proprietary Fund  
June 30, 2017

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	<u>Governmental Activities - Internal Service Fund</u>
Assets	
Cash and investments	<u>\$ 125,063</u>
Liabilities and Net Position	
Liabilities	
Claims incurred but not reported	<u>\$ 5,600</u>
Net Position	
Unrestricted	<u>119,463</u>
Total liabilities and net position	<u>\$ 125,063</u>

Independent School District No. 206  
 Alexandria Public Schools  
 Statement of Changes in Net Position  
 Proprietary Fund  
 June 30, 2017

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	Governmental Activities - Internal Service Fund
Additions	
Dental revenue	\$ 363,297
Deductions	
Dental claims	383,672
Change in Net Position	(20,375)
Net Position, Beginning of Year	139,838
Net Position, End of Year	\$ 119,463

Independent School District No. 206  
 Alexandria Public Schools  
 Statement of Cash Flows  
 Proprietary Fund  
 Year Ended June 30, 2017

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	<u>Governmental Activities - Internal Service Fund</u>
Operating Activities	
Receipts from participants	\$ 363,297
Payments for insurance claims and administration	<u>(383,672)</u>
Net cash used for operating activities	<u>(20,375)</u>
Net Change in Cash and Investments	(20,375)
Cash and Investments, July 1	<u>145,438</u>
Cash and Investments, June 30	<u><u>\$ 125,063</u></u>
Reconciliation of Operating Loss to Net Cash used for Operating Activities	
Operating Activities	
Operating loss	\$ (20,375)
Adjustments to reconcile operating loss to net cash used for operating activities	
Changes in assets and liabilities	
Claims incurred but not reported	<u>-</u>
Net cash used for operating activities	<u><u>\$ (20,375)</u></u>



Independent School District No. 206  
 Alexandria Public Schools  
 Statement of Fiduciary Net Position  
 June 30, 2017

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	<u>Student Activities Agency Fund</u>	<u>OPEB Trust Fund</u>
Assets		
Cash and investments	<u>\$ 537,991</u>	<u>\$ 2,335,947</u>
Liabilities and Net Position		
Liabilities		
Due to other organizations	<u>\$ 537,991</u>	<u>\$ -</u>
Net position		
Unrestricted	<u>-</u>	<u>2,335,947</u>
Total liabilities and net position	<u>\$ 537,991</u>	<u>\$ 2,335,947</u>

Independent School District No. 206  
Alexandria Public Schools  
Statement of Changes in Fiduciary Net Position  
Year Ended June 30, 2017

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	<u>OPEB Trust</u>
Additions	
Interest	<u>\$ 259,630</u>
Deductions	
OPEB health insurance	<u>875,121</u>
Net Change in Net Position	(615,491)
Net Position, Beginning of Year	<u>2,951,438</u>
Net Position, End of Year	<u><u>\$ 2,335,947</u></u>

**Note 1 - Summary of Significant Accounting Policies**

**A. Organization**

Independent School District No. 206, Alexandria Public Schools, Alexandria, Minnesota (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a School Board elected by voters of the District. The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**B. Reporting Entity**

The accompanying financial statements include all funds, departments, agencies, boards, commissions, and other organizations that comprise the District, along with any component units.

Component units are legally separate entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial burden or benefit with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's School Board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are included in these financial statements as an agency fund.

**C. Government-Wide Financial Statement Presentation**

The government-wide financial statements (Statement of Net Position and Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The fiduciary funds are reported in the Statement of Fiduciary Net Position at the fund financial statement level. Generally, the effect of interfund activity has been removed from the government-wide financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other internally directed revenues are reported as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory “tax shift” described later in these notes. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

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

#### **D. Fund Financial Statement Presentation**

Major individual governmental funds are reported as separate columns in the fund financial statements. Aggregated information for the remaining nonmajor governmental funds is reported in a single column in the fund financial statements.

Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust, private-purpose trust, and agency. Since, by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the government-wide statements.

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

1. *Revenue Recognition* – Revenue is recognized when it becomes measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the District generally considers revenues to be available if they are collected within 60 days after year-end. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met. State revenue is recognized in the year to which it applies according to Minnesota Statutes. Federal revenue is recorded in the year in which the related expenditure is made. Proceeds of long-term debt and acquisitions under capital leases are reported as other financing sources.
2. *Recording of Expenditures* – Expenditures are generally recorded when a liability is incurred, except for principal and interest on long-term debt, severance and healthcare benefits, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are included within the applicable functional areas.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting as described earlier in these notes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is receipts from participants. Operating expenses for the internal service fund includes payments for insurance claims and administration. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

### **Description of Funds**

The existence of the various district funds has been established by the Minnesota Department of Education. Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are as follows:

#### **Major Governmental Funds**

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

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

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

#### **Nonmajor Governmental Funds**

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

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

#### **Other Funds**

*Internal Service Fund* – The Dental Internal Service Fund is used to account for the activities of the District's dental plan.

*Agency Fund* – The Student Activities Agency Fund is used to account for assets held by the District as an agent for other individuals and organizations.

*Trust Fiduciary Fund* – The Postemployments Benefits Irrevocable Trust Fund is used to report the resources set aside and held in an irrevocable arrangement for postemployment benefits, including health insurance premiums.

## **E. Other Significant Accounting Policies**

### **Budgeting**

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

### **Cash and Investments**

Cash balances for all district funds are pooled and invested to the extent possible. Interest earned from such investments is allocated to each of the funds based on the fund's average monthly cash and investments balance. Funds that incur a deficit balance in pooled cash and investments during the year are charged interest.

Deposits and investments consist of certificates of deposit and monies deposited with the Minnesota School District Liquid Asset Fund (MSDLAF) and Credit Agricole Corporate & Investment Bank and are stated at market.

### **Cash Held with Fiscal Agent**

In the OPEB Debt Service fund, the Series 2013A refunding bonds are to be used to refund the OPEB Bond Series 2008B when they are available to be paid. Series 2013A bond funds will be held as cash with fiscal agent until the Series 2008B debt is callable on 2/1/2018.

In the Debt Service fund, the Series 2015B refunding bonds are to be used to refund the Capital Projects Fund Series 2008A when they are available to be paid. Series 2015B bond funds will be held as cash with fiscal agent until the Series 2008A debt is callable on 2/1/2018.

### **Receivables**

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

### **Prepaid Items**

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

### **Inventories**

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

## **Property Taxes**

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

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

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

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

## **Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historic cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$10,000 or more for capitalizing capital assets. Federally funded assets maintain a threshold of \$5,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

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

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

### **Long-Term Obligations**

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

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

### **Pensions**

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

TRA has a special funding situation created by direct aid contributions made by the State of Minnesota, City of Minneapolis and Minneapolis School District. The direct aid is a result of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the State of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 11.

For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

### **Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The District has 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(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has three 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 items are changes in the net other postemployment benefits liability and the net pension liability not included in OPEB and pension expense reported in the government-wide statement of net position.



### **Accrued Employee Benefits**

*Vacation* – The District compensates substantially all full-time noncertified employees for unused vacation upon termination. The expenditure for vacation pay is recognized when earned. As of June 30, 2017, this amount did not exceed a normal year’s accumulation.

*Sick Leave* – The District grants 13 days per year with an accumulation of up to 120 days of sick leave. Upon accumulation of 120 days of leave each teacher will be eligible for a buy back for unused days to a maximum number of 10 days per year at a rate of \$90 per day.

### **Postemployment Benefits Other Than Pensions (OPEB)**

For purposes of measure the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District’s OPEB Plan and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, the Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

### **Implementation of GASB Statement No. 73, GASB Statement No. 74, and GASB Statement No. 75**

As of June 30, 2017, the District adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are not within the Scope of GASB 68*, GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of these standards improves the usefulness of information about and improves accounting and financial reporting for postemployment benefits other than pensions (other postemployment benefits or OPEB). The effect of the implementation of these standards on net position is disclosed in Note 16 and the additional disclosures required by these standards are included in Note 6 and 7.

### **Risk Management**

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

### **Net Position**

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

## **Fund Balance**

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

- Nonspendable fund balance amounts are comprised of funds that cannot be spent because they are either not in spendable form or are legally or contractually required to be maintained intact. They include items that are inherently unspendable, such as, but not limited to, inventories, prepaid items, long-term receivables, non-financial assets held for resale, or the permanent principal of endowment funds.
- Restricted fund balance amounts are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance amounts are comprised of unrestricted funds used for specific purposes pursuant to constraints imposed by formal action of the school board and that remain binding unless removed by the school board by subsequent formal action. The formal action to commit a fund balance must occur prior to fiscal year end; however, the specific amounts actually committed can be determined in the subsequent fiscal year. A majority vote of the school board is required to commit a fund balance to a specific purpose and subsequently to remove or change any constraint so adopted by the board. A committed fund balance cannot be a negative number.
- Assigned fund balance amounts are comprised of unrestricted funds constrained by the school district's intent that they be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. In funds other than the general fund, the assigned fund balance represents the remaining amount that is not restricted or committed. The assigned fund balance category will cover the portion of a fund balance that reflects the school district's intended use of those resources. The action to assign a fund balance may be taken after the end of the fiscal year. The school board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The board also delegates the power to assign fund balances to the following: the Superintendent and the Director of Business Services. Assignments so made shall be reported to the school board on a monthly basis, either separately or as part of ongoing reporting by the assigning party if other than the school board. An assigned fund balance cannot be a negative number.
- Unassigned fund balance amounts are the residual amounts in the general fund not reported in any other classification. Unassigned amounts in the general fund are technically available for expenditure for any purpose. The general fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

If resources from more than one fund balance classification could be spent, the school district will strive to spend resources from fund balance classifications in the following order (first to last): restricted, committed, assigned, and unassigned. The school district will strive to maintain an unassigned general fund balance ranging between 8.5% and 12.75% of the annual general fund budget.

## **Note 2 - Stewardship, Compliance and Accountability**

### **Excess of Expenditures over Appropriations**

For the year ended June 30, 2017, expenditures exceeded appropriations in the General Fund by \$1,795,540. During 2017, all school districts were required to record the additional pension expense related to the support received from the State of Minnesota for TRA and PERA special funding situations per GASB Statement No. 68. During 2017, the District's additional pension expense totaled \$1,498,624. The District's General Fund expenditures did exceed expenditures by \$296,916 prior to this additional expense being recorded. These over disbursements were funded by revenues in excess of budget and existing fund balance.

## **Note 3 - Deposits and Investments**

### **Deposits**

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

The following is considered the most significant risk associated with deposits:

*Custodial Credit Risk* – In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may be lost.

Minnesota Statutes require that all deposits be protected by federal deposit insurance, corporate surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by federal deposit insurance or corporate surety bonds. Authorized collateral includes treasury bills, notes, and bonds; issues of U.S. government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota Statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

At June 30, 2017, all deposits were insured or collateralized by securities held by the District's agent in the District's name.

### **Investments**

#### **Credit Risk – Investments**

Minnesota Statutes authorize the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, bankers' acceptances, certain repurchase agreements and commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record.

**Custodial Credit Risk – Investments**

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

**Interest Rate Risk – Investments**

The District does not have a formal policy that limits investment maturities.

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

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

- Equities of \$947,891 are valued using quoted market prices (Level 1 inputs)
- Municipal bonds of \$1,925,731 are valued using the matrix pricing model (Level 2 inputs)

The following table presents the District’s deposit and investment balances at June 30, 2017:

Type	Fair Value	Investment Maturities (in Years)		
		N/A	< 1	1 - 5
Cash and cash equivalents				
Minnesota School				
District Liquid Asset Fund	\$ 15,346,052	\$ 15,346,052	\$ -	\$ -
Money market	1,741,188	1,741,188	-	-
Investments				
Equities	947,891	947,891		
Fixed income	1,925,731	-	-	1,925,731
	<u>\$ 19,960,862</u>	<u>\$ 18,035,131</u>	<u>\$ -</u>	<u>\$ 1,925,731</u>

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

Cash and Investments - Statement of Net Position	\$ 17,087,179
Cash and Investments - Statement of Fiduciary Net Position	<u>2,873,949</u>
	<u>\$ 19,961,128</u>

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

**Note 4 - Due from Other Governmental Units**

Amounts receivable from other governments as of June 30, 2017, include:

<u>Fund</u>	<u>Federal</u>	<u>State</u>	<u>Total</u>
Major funds			
General	\$ 312,457	\$ 3,550,994	\$ 3,863,451
Debt service	-	5,108	5,108
OPEB debt service	-	4,870	4,870
Non-major funds	-	52,675	52,675
	<u>\$ 312,457</u>	<u>\$ 3,613,647</u>	<u>\$ 3,926,104</u>

**Note 5 - Capital Assets**

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

	<u>Balance July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2017</u>
Capital assets not being depreciated:				
Land	\$ 6,031,424	\$ -	\$ -	\$ 6,031,424
Capital assets being depreciated:				
Buildings and improvements	128,119,449	240,204		128,359,653
Equipment	12,709,434	931,548	(274,841)	13,366,141
Land improvements	8,623,202	-	-	8,623,202
Total capital assets being depreciated	<u>149,452,085</u>	<u>1,171,752</u>	<u>(274,841)</u>	<u>150,348,996</u>
Less accumulated depreciation for:				
Buildings and improvements	21,585,013	2,612,050	-	24,197,063
Equipment	9,426,391	624,814	(257,271)	9,793,934
Land improvements	3,936,854	316,566	-	4,253,420
Total accumulated depreciation	<u>34,948,258</u>	<u>3,553,430</u>	<u>(257,271)</u>	<u>38,244,417</u>
Net capital assets, depreciated	<u>114,503,827</u>	<u>(2,381,678)</u>	<u>(17,570)</u>	<u>112,104,579</u>
Total capital assets, net	<u>\$ 120,535,251</u>	<u>\$ (2,381,678)</u>	<u>\$ (17,570)</u>	<u>\$ 118,136,003</u>

Depreciation expense for the year ended June 30, 2017 was charged to the following functions/programs:

Regular instruction	\$ 7,325
Vocational education instruction	563
Special education instruction	1,344
Pupil support services	250,942
Sites and buildings	3,293,256
Total depreciation expense	<u>\$ 3,553,430</u>

## Note 6 - Other Post-Employment Benefits

### A. Plan Description

*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. Contract groups receive other post-retirement benefits as follows:

Superintendent – For retirees reaching age 58 with 7 years of service, the District will pay the full medical insurance premium until Medicare eligibility for the retiree and spouse. For retirees reaching age 58 with 7 years of service, the District will pay the full premium at the time of retirement for a \$50,000 life insurance policy until Medicare eligibility.

Principals and Administration – For retirees reaching age 55 (58 for Administration) with 10 years of service (or “Rule of 90”), and for Administration a hire date prior to July 1, 2015 and not electing to Defined Contribution Plan, the District will pay the full medical insurance premium until Medicare eligibility (includes HSA contributions up to IRS maximum) for the retiree and spouse. For retirees reaching age 55 (58 for Administration) with 10 years of service (or “Rule of 90”), the District will pay the full premium at the time of retirement for a \$40,000 life insurance policy until age 65.

Cabinet – For retirees reaching age 58 with 7 years of service (or “Rule of 90”), and a hire date prior to July 1, 2015, the District will pay the full medical insurance premium until Medicare eligibility (includes HSA contributions up to IRS maximum) for the retiree and spouse. For retirees reaching age 58 with 7 years of service (or “Rule of 90”), the District will pay the full premium at the time of retirement for a \$50,000 life insurance policy until age 65.

Teachers – For retirees reaching age 55 with 10 years of service, and with a hire date prior to June 2014, 2014. The District will pay the Board Contribution for medical insurance premium at the same as active teachers (full single or 2/3 of family if retired before June 30, 2005) which is currently \$525 per month until Medicare eligibility. For retirees reaching age 55 with 10 years of service, the District will pay the full premium at the time of retirement for a \$10,000 life insurance policy until age 65.

Secretaries, Custodians, K-12 Classified Personnel and Food Service – For retirees reaching age 55 with 10 years of service, with a hire date prior to July 1, 2014 (and Custodians hired before July 1, 2014 or hired between June 1, 2014 and July 1, 2015 and not electing the Defined Contribution Plan), the District will pay the Board Contribution for medical insurance premium at the same as actives which is currently \$465 per month, until Medicare eligibility.

Confidential Secretary – For retirees reaching age 55 with 10 years of service and a hire date prior to July 1, 2014, the District will pay the Board Contribution for medical insurance premium at the same as actives which is currently \$465 per month, until Medicare eligibility. For retirees reaching age 55 with 10 years of service (or “Rule of 90”), the District will pay the full premium at the time of retirement for a \$10,000 life insurance policy until age 65.

Supervisors – For retirees reaching age 55 with 10 years of service and a hire date prior to July 1, 2015 and not electing the Defined Contribution Plan, the District will pay the Board Contribution for medical insurance premium at the same as actives which is currently \$545 per month, until Medicare eligibility.

The retiree health plan does not issue a publicly available financial report.

**B. Benefits Provided**

The plan provides medical, dental, and life insurance benefits provided to terminated or retired employees and their dependents and beneficiaries. Benefits are provided through a third-party insurer, and the cost of the benefits covered by the plan are described above.

**C. Employees Covered by Benefit Terms**

At the valuation date of July 1, 2015, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	77
Inactive employees entitled to but not yet receiving benefit payments	-
Active employees	488
	565
	565

**D. Contributions**

For the year ended June 30, 2017, the District’s contribution rate was 3.64 percent of covered employee payroll. Employees are not required to contribute to the plan.

**E. Net OPEB Liability**

The District’s net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

**F. Actuarial Assumptions**

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.00 percent
Investment rate of return	3.00 percent, net of OPEB plan investment expense
Healthcare cost trend rates	7.00 percent grading to 5.00% over 8 years

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study as of June 30, 2017.

The long-term expected rate of return on OPEB 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 OPEB 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
Fixed Income	95%	2.50%
Cash	5%	1.00%
	100%	

**G. Discount Rate**

The discount rate used to measure the total OPEB liability was 3.40 percent. The projection of cash flows used to determine the discount rate assumed that the District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.



**H. Changes in the Net OPEB Liability**

	Increase (Decrease)		
	Total OPEB Liability (a)	Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2016	\$ 8,585,486	\$ 2,951,437	\$ 5,634,049
Changes from the Prior Year:			
Service Cost	392,975	-	392,975
Interest Cost	290,515	-	290,515
Employer Contributions	-	-	-
Projected Investment Return	-	118,057	(118,057)
Differences between Expected and Actual Experience	-	141,574	(141,574)
Benefit Payments	(875,121)	(875,121)	-
Administrative Expenses	-	-	-
Total Net Changes	<u>(191,631)</u>	<u>(615,490)</u>	<u>423,859</u>
Balances at June 30, 2017	<u>\$ 8,393,855</u>	<u>\$ 2,335,947</u>	<u>\$ 6,057,908</u>

The measurement date of the net OPEB liability was June 30, 2017; the date of the actuarial valuation on which the total OPEB liability is based was July 1, 2015. Update procedures were used to roll forward the total OPEB liability to the measurement date.

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 changes in the District's net OPEB liability and related ratios, presented as required supplementary information following the notes to the financial statements, presents multiple year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits will be displayed.

**I. Sensitivity of the Net OPEB Liability to Changes in Discount Rate and the Healthcare Cost Trend Rates**

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

	<u>1% Decrease in Discount Rate</u>	<u>Discount Rate</u>	<u>1% Increase in Discount Rate</u>
Discount rate	2.40%	3.40%	4.40%
Net OPEB Liability	\$ 6,494,873	\$ 6,057,908	\$ 5,635,026

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

	<u>1% Decrease in Healthcare Trend Rate</u>	<u>Selected Healthcare Trend Rate</u>	<u>1% Increase in Healthcare Trend Rate</u>
Net OPEB liability	\$ 5,274,727	\$ 6,057,908	\$ 5,966,358
Medical trend rate	6% decreasing to 4% over 8 years	7% decreasing to 5% over 8 years	8% decreasing to 6% over 8 years
Dental trend rate	N/A	N/A	N/A

**J. OPEB Plan Fiduciary Net Position**

Detailed information about the OPEB plan's fiduciary net position is available in a separately issued OPEB financial report.

**K. OPEB Expense and Deferred Outflows and Inflows of Resources Related to OPEB**

For the year ended June 30, 2017, the District recognized OPEB expense of \$537,118. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between projected and actual investment earnings	\$ -	\$ 113,259

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Years Ended June 30,	Pension Expense Amount
2018	\$ 28,315
2019	28,315
2020	28,315
2021	28,314
2022	-

**Note 7 - Supplemental Benefit Plan**

**A. Plan Description**

The District provides a defined contribution supplemental pension benefit to certain eligible employees and report them following the guidance of GASB Statement No. 73. All of the pension benefits are based on contractual agreements with employee groups. Contract groups receive other supplement benefits as follows:

Teachers – For retirees reaching age 55 with 10 years of service, the benefit where probation is complete before July 1, 1998 and not electing the Matching Contribution Program is \$30,000. All teachers with 20 years of service and electing the Matching Contribution Plan the benefit is \$30,000 minus the District contributions to the Matching Contribution Plan. The limitation on the total benefit is \$30,000 and matching contributions are equal to 2% of annual base salary up to \$2,000 per year. The benefit is payable in 3 equal payments over 2 years to a 403(b) plan.

Principals and Administration – For retirees reaching age 55 (58 for Administration) with 10 years of service (or “Rule of 90”), the benefit is \$40,500 minus the District contributions to the Matching Contribution Plan. The limitation on the total benefit is \$40,500 and matching contributions are equal to 2% of annual base salary up to \$2,000 per year. The benefit is payable in 3 equal payments over 2 years to a 403(b) plan.

Cabinet – For retirees reaching age 58 with 7 years of service (or “Rule of 90”), hired before July 1, 2012, and with a retirement date prior to July 1, 2015, the District will pay 5 days per year of service times the daily rate of pay at the time of termination, minus the District contributions to the Matching Contribution Plan. The limitation on the total benefit is 120 days and matching contributions are equal to 2% of annual base salary up to \$2,000 per year. The benefit is payable in 3 equal payments over 2 years to a 403(b) plan. Cabinet employees hired prior to July 1, 2012 who retire in the future will no longer have a benefit.

K-12 Classified Employees, Secretaries, Paraprofessionals and Bus Drivers – For retirees reaching age 55 with 10 years of service (15 for Secretaries and 25 for K-12 Classified Employees) the benefit is a percentage of annual salary at the time of retirement at the following rates:

- With 10-15 years of service 20%
- With 16-19 years of service 30%
- With 20+ years of service 40%

The benefit is payable in one lump sum.

Confidential Employees – For retirees reaching age 55 with 15 years of service the benefit is a percentage of annual salary at the time of retirement at the following rates:

- With 15-19 years of service 30%
- With 20-24 years of service 40%
- With 25+ years of service 50%

The benefit is payable in one lump sum.

Food Service Employees – For retirees reaching age 55 with 20 years of service the District will pay \$1,200 in one lump sum.

**B. Employees Covered by Benefit Terms**

At June 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	18
Inactive employees entitled to but not yet receiving benefit payments	0
Active employees	643
	661
	661

**D. Contributions**

For the year ended June 30, 2017, the District’s contribution rate was 0.91 percent of covered employee payroll. Employees are not required to contribute to the plan.

**E. Supplemental Benefits Liability**

The District’s supplemental benefits liability was measured as of June 30, 2017.

**F. Actuarial Assumptions**

The supplemental benefits liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.00 percent
Discount Rate	3.40 percent
20-Year Municipal Bond Yield	3.40 percent

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study as of July 1, 2015.

**G. Discount Rate**

The discount rate used to measure the supplemental benefits liability was 3.40 percent. The projection of cash flows used to determine the discount rate assumed that the District contributions will be made at rates equal to the actuarially determined contribution rates.

**H. Changes in the Supplemental Benefits Liability**

Service cost	\$ 60,479
Interest cost	33,570
Supplemental benefits cost	<u>94,049</u>
 Benefit payments	 <u>(226,423)</u>
 Change in supplemental benefits obligation	 (132,374)
Supplemental benefits liability, beginning of year, as restated	<u>1,039,127</u>
 Supplemental benefits liability, end of year	 <u><u>\$ 906,753</u></u>

**I. Sensitivity of the Supplemental Benefits Liability to Changes in Discount Rate**

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount rate	2.40%	3.40%	4.40%
Supplemental Benefits Liability	\$ 944,089	\$ 906,753	\$ 870,351

**Note 8 - Long-Term Liabilities**

Changes in long-term liabilities during the year ended June 30, 2017 are as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Due Within One Year
Bonds payable	\$ 122,655,000	\$ -	\$ 3,185,000	\$ 119,470,000	\$ 26,345,000
Unamortized bond premium	2,911,203	5,142	243,287	2,673,058	780,704
Capital leases payable	695,597	495,154	429,361	761,390	425,725
Vacation and sick leave	303,480	582,881	532,162	354,199	354,199
	<u>\$ 126,565,280</u>	<u>\$ 1,083,177</u>	<u>\$ 4,389,810</u>	<u>\$ 123,258,647</u>	<u>\$ 27,905,628</u>

Vacation and sick leave consists of vested vacation and sick leave as discussed in Note 1. These expenses are paid out of the general fund.

Capital leases payable are to account for items that the District has entered into leases that are considered capital assets to the District. These leases include copiers, buses, and network hardware. Total cost of capital lease assets as of June 30, 2017 was \$2,169,914 and total accumulated depreciation on these assets as of June 30, 2017 was \$736,416. Payments on capital leases are made out of the general fund.

In the current year the district added a capital lease for 4 busses. The lease calls for annual principal and interest payments of \$112,832 for the first three years and \$100,000 in the fourth year. Payments commence in July 2016 through July 2019.

The district also added a capital lease for 4 vans. The lease calls for annual principal and interest payments of 20,435 for the first three years and \$15,000 in the fourth year. Payments commence in July of 2016 through July 2019.

Independent School District No. 206  
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Following is a summary of bonds payable as of June 30, 2017:

Bond Description	Final	Interest Rate	Original Principal	Outstanding Balance
General Obligation School Building Bonds Series 2008A	2018	4 - 5%	\$ 23,590,000	\$ 18,755,000
General Obligation Taxable OPEB Bonds Series 2008B	2018	6 - 7%	7,910,000	5,950,000
General Obligation Alternative and Capital Facilities Bonds Series 2010A	2025	1.25 - 4.5%	5,820,000	3,225,000
General Obligation School Building Bonds Series 2011A	2037	2 - 5%	64,500,000	62,590,000
General Obligation School Building Bonds Series 2011B	2037	2 - 3%	650,000	445,000
General Obligation Taxable OPEB Refunding Bonds Series 2013A	2029	3 - 3.65%	6,365,000	6,365,000
General Obligation School Capital Facilities Bonds Series 2015A	2031	2 - 3.125%	5,560,000	5,245,000
General Obligation School Refunding Bonds Series 2015B	2028	2 - 5%	16,895,000	16,895,000
				<u>\$ 119,470,000</u>

Bond principal and interest payments are made by the debt service fund, except for the principal and interest payments on the OPEB Bonds of 2010A, which are made by the OPEB debt service fund.

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

Years Ending June 30,	Bonds Payable		Capital Lease Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 26,345,000	\$ 4,314,036	\$ 425,725	\$ 8,974	\$ 26,770,725	\$ 4,323,010
2019	3,220,000	3,619,426	223,964	2,809	3,443,964	3,622,235
2020	3,845,000	3,539,116	111,701	3,042	3,956,701	3,542,158
2021	4,055,000	3,438,965	-	-	4,055,000	3,438,965
2022	3,895,000	3,330,153	-	-	3,895,000	3,330,153
2023 - 2027	20,800,000	14,496,820	-	-	20,800,000	14,496,820
2028 - 2032	26,900,000	10,146,088	-	-	26,900,000	10,146,088
2033 - 2037	30,410,000	4,376,368	-	-	30,410,000	4,376,368
	<u>\$ 119,470,000</u>	<u>\$ 47,260,972</u>	<u>\$ 761,390</u>	<u>\$ 14,825</u>	<u>\$ 120,231,390</u>	<u>\$ 47,275,797</u>

**Note 9 - Interfund Receivables, Payables, and Transfers**

Interfund receivables and payables are used when a fund has a cash deficit. A summary of the District's interfund balances at June 30, 2017, is as follows:

	Due From Other Funds	Due To Other Funds
General Fund	\$ 144,182	\$ -
OPEB Debt Service Fund	-	144,182
	\$ 144,182	\$ 144,182

**Note 10 - Fund Balance**

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

The following is a summary of fund balances as of June 30, 2017:

	General	Debt Service	OPEB Debt Service Fund	Other Government Funds	Totals
<b>Nonspendable</b>					
Inventory	\$ -	\$ -	\$ -	\$ 17,469	\$ 17,469
Prepays	29,306	-	-	-	29,306
Total nonspendable	29,306	-	-	17,469	46,775
<b>Restricted</b>					
Debt service	-	1,726,360	-	-	1,726,360
Debt service bond refundings	-	17,405,000	-	-	17,405,000
OPEB bond refundings	-	-	5,605,000	-	5,605,000
Food service	-	-	-	230,990	230,990
Community education	-	-	-	266,089	266,089
School readiness	-	-	-	12,282	12,282
Community service	-	-	-	110,899	110,899
Total restricted	-	19,131,360	5,605,000	620,260	25,356,620
<b>Assigned</b>					
Capital projects	775,000	-	-	-	775,000
Technology	1,000,000	-	-	-	1,000,000
Academic innovation projects	1,000,000	-	-	-	1,000,000
Total assigned	2,775,000	-	-	-	2,775,000
<b>Unassigned</b>	5,561,019	-	(372,109)	(31,697)	5,157,213
<b>Total fund balance</b>	\$ 8,365,325	\$ 19,131,360	\$ 5,232,891	\$ 606,032	\$ 33,335,608



## Note 11 - Defined Benefit Pension Plans

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

### Public Employees Retirement Association (PERA)

#### A. Plan Descriptions

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

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

#### B. Benefits Provided

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

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

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

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

**C. Contribution Rate**

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5% of pay, respectively of their annual covered salary in calendar year 2016. The District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members in calendar year 2016. The District’s contributions to the GERF for the year ended June 30, 2017, were \$642,271. The District’s contributions were equal to the required contributions for each year as set by state statute.

**D. Actuarial Assumptions**

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

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

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

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

The following changes in actuarial assumptions occurred in 2016:

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

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

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

**E. Discount Rate**

The discount rate used to measure the total pension liability in 2016 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 these assumptions, the fiduciary net position of the GERS was projected to be available to make all projected future benefit payments of current active plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**F. Pension Costs**

At June 30, 2017, the District reported a liability of \$10,271,173 for its proportionate share of the GERS'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 \$39,982. 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 0.1265%, which was an increase of 0.0062% from June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$1,503,950 for its proportionate share of GERS's pension expense. In addition, the District recognized an additional \$39,982 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERS.

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 Notes to Financial Statements  
 June 30, 2017

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At June 30, 2017, the District reported its proportionate share of GERF's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 30,399	\$ 834,380
Changes in actuarial assumptions	2,215,244	-
Difference between projected and actual investment earnings	1,146,706	-
Changes in net pension liability proportion	258,276	-
District's contributions to GERF subsequent to the measurement date	642,271	-
Total	\$ 4,292,896	\$ 834,380

\$642,271 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Years Ended June 30,	Pension Expense Amount
2018	\$ 803,792
2019	569,252
2020	1,072,190
2021	371,011
2022	-

**G. Pension Liability Sensitivity**

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
GERF discount rate	6.50%	7.50%	8.50%
District’s proportionate share of the GERF net pension liability	\$ 14,588,109	\$ 10,271,173	\$ 6,234,570

**H. Pension Plan Fiduciary Net Position**

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

**Teachers Retirement Association (TRA)**

**A. Plan Descriptions**

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

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

**B. Benefits Provided**

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

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

*Tier I Benefits*

<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 year ending June 30, 2015, June 30, 2016, and June 30, 2017 were:

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

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

Employer contributions reported in TRA's CAFR, Statement of Changes in Fiduciary Net Position	\$ 354,961,140
Add employer contributions not related to future contribution efforts	26,356
Deduct TRA's contributions not included in allocation	<u>(442,978)</u>
Total employer contributions	354,544,518
Total non-employer contributions	<u>35,587,410</u>
Total contributions reported in <i>Schedule of Employer and Non-Employer Allocations</i>	<u><u>\$ 390,131,928</u></u>

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

**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	3.50 - 9.50%
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%
	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 \$89,184,071 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. The District’s proportionate share was 0.3739% at the end of the measurement period and 0.0206% 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	\$ 89,184,071
State's proportionate share of the net pension liability associated with the district	\$ 8,951,105

There was a change in actuarial assumptions that affected the measurement of the total pension liability since the prior measurement date. Power-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 \$13,427,846. It also recognized \$1,249,874 as an increase to pension expense for the support provided by direct aid.

At June 30, 2017, the District reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 873,596	\$ 2,486
Changes in actuarial assumptions	50,856,153	-
Difference between projected and actual investment earnings	3,858,166	-
Change in proportion and differences between contributions made and District's proportionate share of contributions	1,061,926	743,546
District's contributions to TRA subsequent to the measurement date	1,555,698	-
Total	\$ 58,205,539	\$ 746,032

\$1,555,698 was reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

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

Years Ended June 30,	Pension Expense Amount
2018	\$ 10,996,730
2019	10,996,738
2020	12,313,506
2021	11,494,152
2022	10,102,683

**G. Net Pension Liability**

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	\$ 114,891,375	\$ 89,184,071	\$ 68,246,311

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

**H. Pension Plan Fiduciary Net Position**

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

**Note 12 - Employee Benefit Plan 403(B)**

All teachers having completed their tenth year of teaching in the District are eligible to participate in the matching 403(b) program. The District will match the employees’ deferral up to a maximum of \$2,000 per year. The maximum career matching contribution by the District will not exceed \$30,000 per teacher. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2017, 2016, and 2015 were \$240,708, \$239,368, and \$248,286.

**Note 13 - Dental Self-Insurance**

The District is self-insured with respect to dental insurance costs. The District implemented the self-insurance medical plan on July 1, 1985. Terms of the plan do not include a stop-loss provision which would limit the District's liability. The following is the activity for the year ended June 30, 2017:

Claims incurred but not reported at beginning of year	\$ 5,600
Claims incurred	359,209
Claims paid	<u>(359,209)</u>
Claims incurred but not reported at end of year	<u>\$ 5,600</u>

**Note 14 - Commitments and Contingencies**

**Federal and State Revenue**

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

**Contingencies**

The District has the usual and customary legal claims pending at year-end. Although the outcomes of these lawsuits are not presently determinable, the District believes that the resolution of these matters will not have a material adverse effect on its financial position.

**Note 15 - Joint Ventures**

Lakes Area Recreation was established by an agreement between Independent School District No. 206 and the Alexandria and LaGrande Townships, pursuant to authority contained in the Minnesota State Statute 471.59. The Recreation Board is responsible for legislative and fiscal control of the program. The majority of the Recreation Program's funding is provided by patron fees and local government contributions.

The Runestone Area Education District No. 61-6014 was organized on August 15, 1988. The purpose of the Education District is to increase options for learning and access to educational opportunities for all residents within the boundaries of the member districts by facilitating cooperation among school districts. Funding is provided by the member districts. The following school districts are member of the Runestone Area Education District:

- Independent School District No. 206, Alexandria, Minnesota
- Independent School District No. 2908, Brandon - Evansville, Minnesota
- Independent School District No. 213, Osakis, Minnesota
- Independent School District No. 2149, Glenwood, Minnesota
- Independent School District No. 547, Parkers Prairie, Minnesota

Central Minnesota Educational Telecommunications System, (CMETS) is a joint powers entity established pursuant to provisions of Minnesota Statute Section 471.59. The purpose of CMETS is to provide a comprehensive educational program for all member districts involved. Member districts jointly provide planning, research, purchasing, development, implementation, and programming of distance learning systems and technological services. The following school districts are members of CMETS:

- Independent School District No. 745, Albany, Minnesota
- Independent School District No. 206, Alexandria, Minnesota
- Independent School District No. 2908, Brandon - Evansville, Minnesota
- Independent School District No. 213, Osakis, Minnesota
- Independent School District No. 547, Parkers Prairie, Minnesota
- Independent School District No. 740, Melrose, Minnesota
- Independent School District No. 743, Sauk Centre, Minnesota
- Independent School District No. 2149, Glenwood, Minnesota

Each joint venture's financial statements are audited and available for inspection.

**Note 16 - Restatement of Beginning Net Position**

As of July 1, 2016, the District adopted GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That are not within the Scope of GASB 68* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The implementation of these standards requires governments calculate and report the cost and obligations associated with these benefit plans in their financial statements, including additional note disclosures and required supplementary information. Beginning net position was restated to retroactively report the beginning liability

Net Position - June 30, 2016, as previously reported	\$ 1,797,156
Restatement due to implementation of GASB Statement No. 73	(1,779,399)
Restatement due to implementation of GASB Statement No. 75	<u>(7,411,726)</u>
Net Position - July 1, 2016, as restated	<u><u>\$ (7,393,969)</u></u>

**Note 17 - 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. 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 second statement issued but not yet implemented that will significantly affect the District is statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. This statement will be implemented at the District in the year ended June 30, 2020.

The third statement issued but not yet implemented that will significantly affect the District is statement No. 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. 206**  
**Alexandria Public Schools**



Independent School District No. 206  
 Alexandria Public Schools  
 Schedule of Changes in the District's Net OPEB Liability and Related Ratios  
 June 30, 2017

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**Schedule of Total OPEB Liability and Related Ratios, Last 10 Fiscal Years \***

Service cost	\$ 392,975
Interest	290,515
Benefit payments	<u>(875,121)</u>
Net change in total OPEB liability	(191,631)
Total OPEB liability - beginning	<u>8,585,486</u>
Total OPEB liability - ending (a)	<u><u>\$ 8,393,855</u></u>
Plan fiduciary net position	
Projected investment return	\$ 118,057
Differences between expected and actual experience	141,574
Benefit payments	<u>(875,121)</u>
Net change in plan fiduciary net position	(615,490)
Total fiduciary net position - beginning	<u>2,951,437</u>
Total fiduciary net position - ending (b)	<u><u>\$ 2,335,947</u></u>
District's net OPEB liability - ending (a) - (b)	<u><u>\$ 6,057,908</u></u>
Plan fiduciary net position as a percentage of the total OPEB Liability	27.83%
Covered-employee payroll	\$24,033,865
District's net OPEB liability as a percentage of covered-employee payroll	25.21%

\*GASB Statements No. 74/75 require ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**Note to the Schedule of Changes in the District's Net OPEB Liability and Related Ratios**

The District implemented the standard as of June 30, 2017, and as such there has been one valuation performed. The valuation date was July 1, 2015, and the measurement date was June 30, 2017. There have been no changes to plan provisions, assumptions, or methods since the prior report except for the following:

- A change of assumption since prior measurement date was the discount rate was changed from 3.00% to 3.40%.
- A change in actuarial funding method from the prior measurement date from projected unit credit to entry age as prescribed by GASB 74/75.

**Schedule of District OPEB Contributions, Last 10 Fiscal Years \***

Actuarially determined contribution	\$ -
Contributions in relation to the actuarially determined contribution	-
Contribution deficiency (excess)	\$ -
Covered-employee payroll	\$24,033,865
Contributions as a percentage of covered-employee payroll	0.00%

\*GASB Statements No. 74/75 require ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**Note to the Schedule of District Contributions**

Valuation date:	Actuarially determined contribution rates are calculated as of June 30, 2015, two years prior to the end of the fiscal year in which contributions are reported.
Actuarial cost method	Entry Age, level percentage of pay
Amortization method	Average of expected remaining service on a closed basis for differences between expected and actual experience and assumption changes. Closed five-year period for differences between expected and actual asset returns.
Amortization period	20 years
Asset valuation method	Closed five-year period
Inflation	2.50 percent
Healthcare cost trend rates	7.00 percent in 2016 grading to 5.00 percent over 8 years
Salary increases	3.00 percent
Investment rate of return	4.00 percent (net of investment expenses)
Retirement age	In the June 30, 2017 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience.
Mortality	RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale

Independent School District No. 206  
Alexandria Public Schools

Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions  
June 30, 2017

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

Pension Plan	Measurement Date	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	State's Proportionate Share (Amount) of the Net Pension Liability Associated With District (b)	Total (d) (a+b)	Employer's Covered-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	6/30/2014	0.1196%	\$ 5,618,209	N/A	\$ 5,618,209	\$ 6,499,980	86.4%	78.8%
PERA	6/30/2015	0.1203%	\$ 6,234,570	N/A	\$ 6,234,570	\$ 7,342,953	84.9%	78.2%
PERA	6/30/2016	0.1265%	\$ 10,271,173	N/A	\$ 10,271,173	\$ 8,125,945	126.4%	78.2%
TRA	6/30/2014	0.3817%	\$ 17,588,461	\$ 1,237,470	\$ 18,825,931	\$ 17,696,238	106.4%	81.5%
TRA	6/30/2015	0.3533%	\$ 89,184,071	\$ 8,951,105	\$ 98,135,176	\$ 18,773,863	522.7%	76.8%
TRA	6/30/2016	0.3739%	\$ 89,184,071	\$ 8,951,105	\$ 98,135,176	\$ 19,882,744	493.6%	76.8%

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

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

Pension Plan	Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)**	Contributions as a Percentage of Covered-Employee Payroll (b/d)**
PERA	6/30/2015	\$ 527,584	\$ 527,584	\$ -	\$ 7,342,953	7.2%
PERA	6/30/2016	\$ 588,688	\$ 588,688	\$ -	\$ 8,125,945	7.2%
PERA	6/30/2017	\$ 642,271	\$ 642,271	\$ -	\$ 8,805,490	7.3%
TRA	6/30/2015	\$ 1,359,295	\$ 1,359,295	\$ -	\$ 18,773,863	7.2%
TRA	6/30/2016	\$ 1,461,876	\$ 1,461,876	\$ -	\$ 19,882,744	7.4%
TRA	6/30/2017	\$ 1,461,876	\$ 1,461,876	\$ -	\$ 20,963,428	7.0%

\* 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**

Since the last actuarial valuation as of July 30, 2014, the following have changed:

- PERA's CAFR may be obtained on the PERA's website at [www.mnpera.org](http://www.mnpera.org) for notes to the Schedule of Employer's Share of Net Pension Liability and Schedule of Employer's Contributions.
- TRA's CAFR may be obtained on the PERA's website at [www.MinnesotaTRA.org](http://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 No. 82, *Pension Issues*.

Independent School District No. 206  
Alexandria Public Schools

Schedule of Changes in Supplemental Benefits Liability and Supplemental Benefits Liability  
June 30, 2017

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**Schedule of Changes in Supplemental Benefits Liability  
Last 10 Fiscal Years \***

Supplemental benefits liability, beginning of year	\$ 1,039,127
Service cost	60,479
Interest cost	33,570
Assumption changes	-
Plan changes	-
Employer contributions	-
Projected investment return	-
Differences between expected and actual experience	-
Benefit payments	(226,423)
Administrative expenses	-
Other changes	-
	\$ 906,753
Supplemental benefits liability, end of year	\$ 906,753

\* GASB Statement No. 73 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**Schedule of Supplemental Benefits Liability  
Last 10 Fiscal Years \***

Supplemental benefits liability	\$ 906,753
Covered-employee payroll	\$ 24,863,378
Supplemental benefits liability as a percentage of covered-employee payroll	3.65%

There are no assets accumulated in an irrevocable trust to pay plan benefits.

\* GASB Statement No. 73 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.



Combining and Individual Fund Schedules  
June 30, 2017

# Independent School District No. 206 Alexandria Public Schools

Independent School District No. 206  
 Alexandria Public Schools  
 General Fund  
 Schedule of Changes in UFARS Fund Balances  
 Year Ended June 30, 2017

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	Fund Balance Beginning of Year	Net Change in Fund Balance	Fund Balance End of Year
Nonspendable	\$ 29,306	\$ -	\$ 29,306
Assigned for capital projects	775,000	-	775,000
Assigned for technology	1,000,000	-	1,000,000
Assigned for academic innovation projects	750,000	250,000	1,000,000
Unassigned	5,180,455	380,564	5,561,019
	\$ 7,734,761	\$ 630,564	\$ 8,365,325

Independent School District No. 206  
 Alexandria Public Schools  
 Nonmajor Governmental Funds  
 Combining Balance Sheet  
 June 30, 2017

	Food Service	Community Service	Totals
<b>Assets</b>			
Cash and investments	\$ 352,167	\$ 700,957	\$ 1,053,124
Receivables			
Current property taxes	-	230,502	230,502
Delinquent property taxes	-	4,130	4,130
Due from other governmental units	-	52,675	52,675
Inventories	17,469	-	17,469
	<u>\$ 369,636</u>	<u>\$ 988,264</u>	<u>\$ 1,357,900</u>
<b>Liabilities</b>			
Accounts payable	\$ 2,228	\$ 13,834	\$ 16,062
Salaries payable	118,949	118,357	237,306
Total liabilities	<u>121,177</u>	<u>132,191</u>	<u>253,368</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue-property taxes	-	498,500	498,500
	<u>-</u>	<u>498,500</u>	<u>498,500</u>
<b>Fund Balance</b>			
Nonspendable	17,469	-	17,469
Restricted	230,990	357,573	588,563
Total fund balance	<u>248,459</u>	<u>357,573</u>	<u>606,032</u>
	<u>\$ 369,636</u>	<u>\$ 988,264</u>	<u>\$ 1,357,900</u>
Total liabilities, deferred inflows of resources, and fund balance	<u>\$ 369,636</u>	<u>\$ 988,264</u>	<u>\$ 1,357,900</u>

Independent School District No. 206  
 Alexandria Public Schools  
 Nonmajor Governmental Funds  
 Combining Schedule of Revenues, Expenditures and Changes in Fund Balance  
 Year Ended June 30, 2017

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	Food Service	Community Service	Totals
Revenues			
Local property tax levies	\$ -	\$ 445,920	\$ 445,920
Other local and county sources	69,038	1,196,005	1,265,043
State sources	142,534	612,306	754,840
Federal sources	1,032,221	7,557	1,039,778
Sales and other conversion of assets	1,718,034	-	1,718,034
Total revenues	2,961,827	2,261,788	5,223,615
Expenditures			
Community education and service	-	2,320,963	2,320,963
Pupil support services	2,947,911	-	2,947,911
Total expenditures	2,947,911	2,320,963	5,268,874
Net Change in Fund Balance	13,916	(59,175)	(45,259)
Fund Balance, Beginning of Year	234,543	416,748	651,291
Fund Balance, End of Year	\$ 248,459	\$ 357,573	\$ 606,032





Other Supplementary Information  
June 30, 2017

# Independent School District No. 206 Alexandria Public Schools

Independent School District No. 206  
 Alexandria Public Schools  
 Changes in Student Activity Cash Balances  
 Year Ended June 30, 2017

Activity	Balance 7/1/16	Receipts and and Transfers	Disbursements and Transfers	Balance 6/30/17
A-Club	\$ 104,374	\$ 144,898	\$ 182,401	\$ 66,871
Baseball	263	975	975	263
Boys Basketball	10	4,621	1,434	3,197
Boys Hockey	541	322	863	-
Boys Soccer	6,895	1,174	1,378	6,691
Cardinal Dance	592	1,950	1,535	1,007
CES	17,857	20,135	22,348	15,644
CES Student Field Trip	443	3,263	3,304	402
Cheerleaders	2,091	7,064	5,145	4,010
Cross Country	8,164	4,750	4,287	8,627
DMS 6th Grade Field Trip	660	7,028	6,815	873
DMS Box Tops	6,528	727	2,133	5,122
DMS Cardinal	5,944	1,101	1,929	5,116
DMS Choir	504	750	944	310
DMS Guthrie Trip	1,088	11,763	12,336	515
DMS Orchestra	314	1,819	1,950	183
DMS Pencil Fund	950	111	143	918
DMS Renaissance	1,765	-	321	1,444
DMS Student Council	4,797	5,471	5,805	4,463
Drama Club	3,194	2,536	1,734	3,996
Football	13,777	55,241	28,944	40,074
GES Academic Support	956	3,874	4,830	-
GES Activity	11,781	2,627	1,144	13,264
GES Deep Portage	4,276	2,790	2,650	4,416
GES Playground	1,114	-	-	1,114
GES Student Fund	9,750	12,627	16,382	5,995
Gifted & Talented	93	-	93	-
Girls Basketball	9,215	46,667	44,264	11,618
Girls Hockey	188	2,946	1,184	1,950
Girls Soccer	1,299	1,606	2,151	754
Golf	1,288	-	675	613
Gymnastic	875	1,850	244	2,481
AAHS Band	662	75	431	306

Independent School District No. 206  
 Alexandria Public Schools  
 Changes in Student Activity Cash Balances  
 Year Ended June 30, 2017

<u>Activity</u>	<u>Balance 7/1/16</u>	<u>Receipts and and Transfers</u>	<u>Disbursements and Transfers</u>	<u>Balance 6/30/17</u>
AAHS Carolers	1,252	4,087	1,903	3,436
AAHS Choir	2,727	3,363	3,234	2,856
AAHS DECA	13,402	17,852	8,610	22,644
AAHS FFA	6,417	17,125	15,414	8,128
AAHS Industrial Ed (VICA)	732	-	-	732
AAHS Jazz Band	12	145	155	2
AAHS Jr Viking Sportsmen	376	-	-	376
AAHS Knowledge Bowl	935	200	100	1,035
AAHS Math Team	936	-	15	921
AAHS National Honor Society	1,417	400	620	1,197
AAHS Orchestra	1,573	9,386	8,081	2,878
AAHS Rainbow Strings	795	400	-	1,195
AAHS Robotics	5,635	1,175	1,158	5,652
AAHS Science Fund	5,419	1,653	1,500	5,572
AAHS SLAM	5,478	5,500	10,644	334
AAHS Speech	546	2,327	343	2,530
AAHS Senior Citizen Dance	869	-	300	569
AAHS Student Council	6,502	15,474	6,619	15,357
LES	37,949	30,208	39,526	28,631
MES	29,053	240,188	114,961	154,280
Miscellaneous	494	1,424	1,369	549
Nordic Skiing	1,856	490	886	1,460
Softball	349	55	-	404
Swimming	2,120	6,147	1,510	6,757
Tennis	314	-	69	245
Track	5,584	500	895	5,189
VES Music	1,031	-	115	916
VES Student	18,543	27,761	34,204	12,100
Volleyball	8,036	18,352	20,242	6,146
Weight Training	14,918	-	1,309	13,609
WES Cupigram	1,471	-	1,471	-
WES Student Activity	29,844	22,531	34,629	17,746
Wrestling	2,379	-	60	2,319
	<u>\$ 431,212</u>	<u>\$ 777,504</u>	<u>\$ 670,714</u>	<u>\$ 538,002</u>

Independent School District No. 206  
Alexandria Public Schools  
Uniform Accounting and Reporting Standards Compliance Table  
Year Ended June 30, 2017

**Fiscal Compliance Report - 6/30/2017**

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District: **ALEXANDRIA (206-1)**   [Back](#)   [Print](#)

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$47,355,917	<u>\$47,355,914</u>	\$3	Total Revenue	\$0	\$0	\$0
Total Expenditures	\$47,220,507	<u>\$47,220,504</u>	\$3	Total Expenditures	\$0	\$0	\$0
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$29,306	<u>\$29,306</u>	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.03 Staff Development	\$0	\$0	\$0	4.07 Capital Projects Levy	\$0	\$0	\$0
4.06 Health and Safety	\$0	\$0	\$0	4.13 Project Funded by COP	\$0	\$0	\$0
4.07 Capital Projects Levy	\$0	\$0	\$0	4.67 LTFM	\$0	\$0	\$0
4.08 Cooperative Revenue	\$0	\$0	\$0	<i>Restricted:</i>			
4.13 Project Funded by COP	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$0	\$0	\$0
4.14 Operating Debt	\$0	\$0	\$0	<i>Unassigned:</i>			
4.16 Levy Reduction	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.17 Taconite Building Maint	\$0	\$0	\$0	<b>07 DEBT SERVICE</b>			
4.24 Operating Capital	\$0	\$0	\$0	Total Revenue	\$6,772,153	<u>\$6,772,152</u>	\$1
4.26 \$25 Taconite	\$0	\$0	\$0	Total Expenditures	\$7,270,425	<u>\$7,270,425</u>	\$0
4.27 Disabled Accessibility	\$0	\$0	\$0	<i>Non Spendable:</i>			
4.28 Learning & Development	\$0	\$0	\$0	4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.34 Area Learning Center	\$0	\$0	\$0	<i>Restricted / Reserved:</i>			
4.35 Contracted Alt. Programs	\$0	\$0	\$0	4.25 Bond Refundings	\$17,405,000	<u>\$17,405,000</u>	\$0
4.36 State Approved Alt. Program	\$0	\$0	\$0	4.51 QZAB Payments	\$0	\$0	\$0
4.38 Gifted & Talented	\$0	\$0	\$0	<i>Restricted:</i>			
4.40 Teacher Development and Evaluation	\$0	\$0	\$0	4.64 Restricted Fund Balance	\$1,726,360	<u>\$1,726,361</u>	(\$1)
4.41 Basic Skills Programs	\$0	\$0	\$0	<i>Unassigned:</i>			
4.45 Career Tech Programs	\$0	\$0	\$0	4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.48 Achievement and Integration	\$0	\$0	\$0	<b>08 TRUST</b>			
4.49 Safe School Crime - Crime Levy	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
4.50 Pre-Kindergarten	\$0	\$0	\$0	Total Expenditures	\$0	\$0	\$0
4.51 QZAB Payments	\$0	\$0	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$0	\$0	\$0
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	<b>20 INTERNAL SERVICE</b>			
4.53 Unfunded Sev & Retirement Levy	\$0	\$0	\$0	Total Revenue	\$363,297	<u>\$363,296</u>	\$1
4.67 LTFM	\$0	\$0	\$0	Total Expenditures	\$383,672	<u>\$383,671</u>	\$1
4.72 Medical Assistance	\$0	\$0	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$119,463	<u>\$119,464</u>	(\$1)
<i>Restricted:</i>				<b>25 OPEB REVOCABLE TRUST</b>			
4.64 Restricted Fund Balance	\$0	\$0	\$0	Total Revenue	\$0	\$0	\$0
<i>Committed:</i>				Total Expenditures	\$0	\$0	\$0
4.18 Committed for Separation	\$0	\$0	\$0	4.22 Unassigned Fund Balance (Net Assets)	\$0	\$0	\$0
4.61 Committed Fund Balance	\$0	\$0	\$0	<b>45 OPEB IRREVOCABLE TRUST</b>			
<i>Assigned:</i>				Total Revenue	\$259,630	<u>\$259,630</u>	\$0
4.62 Assigned Fund Balance	\$2,775,000	<u>\$2,775,000</u>	\$0	Total Expenditures	\$875,121	<u>\$875,121</u>	\$0
<i>Unassigned:</i>				4.22 Unassigned Fund Balance (Net Assets)	\$2,335,947	<u>\$2,335,947</u>	\$0
4.22 Unassigned Fund Balance	\$5,561,019	<u>\$5,561,018</u>	\$1	<b>47 OPEB DEBT SERVICE</b>			
<b>02 FOOD SERVICES</b>				Total Revenue	\$786,195	<u>\$786,196</u>	(\$1)
Total Revenue	\$2,961,827	<u>\$2,961,826</u>	\$1	Total Expenditures	\$917,763	<u>\$917,765</u>	(\$2)
Total Expenditures	\$2,947,911	<u>\$2,947,909</u>	\$2	<i>Non Spendable:</i>			
<i>Non Spendable:</i>				4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.60 Non Spendable Fund Balance	\$17,469	<u>\$17,469</u>	\$0	<i>Restricted:</i>			
<i>Restricted / Reserved:</i>				4.52 OPEB Liab Not In Trust	\$0	\$0	\$0
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	<i>Restricted:</i>			
<i>Restricted:</i>				4.64 Restricted Fund Balance	\$230,990	<u>\$230,991</u>	(\$1)
4.64 Restricted Fund Balance	\$230,990	<u>\$230,991</u>	(\$1)	<i>Unassigned:</i>			
<i>Unassigned:</i>				4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.63 Unassigned Fund Balance	\$0	\$0	\$0	<b>04 COMMUNITY SERVICE</b>			
<b>04 COMMUNITY SERVICE</b>				Total Revenue	\$2,261,788	<u>\$2,261,787</u>	\$1
Total Revenue	\$2,261,788	<u>\$2,261,787</u>	\$1	Total Expenditures	\$2,320,963	<u>\$2,320,962</u>	\$1
Total Expenditures	\$2,320,963	<u>\$2,320,962</u>	\$1	<i>Non Spendable:</i>			
<i>Non Spendable:</i>				4.60 Non Spendable Fund Balance	\$0	\$0	\$0
4.60 Non Spendable Fund Balance	\$0	\$0	\$0	<i>Restricted / Reserved:</i>			
<i>Restricted / Reserved:</i>				4.26 \$25 Taconite	\$0	\$0	\$0
4.26 \$25 Taconite	\$0	\$0	\$0	4.31 Community Education	\$266,089	<u>\$266,089</u>	\$0
4.31 Community Education	\$266,089	<u>\$266,089</u>	\$0	4.32 E.C.F.E	(\$31,697)	<u>(\$31,697)</u>	\$0
4.32 E.C.F.E	(\$31,697)	<u>(\$31,697)</u>	\$0	4.40 Teacher Development and Evaluation	\$0	\$0	\$0
4.40 Teacher Development and Evaluation	\$0	\$0	\$0	4.44 School Readiness	\$12,282	<u>\$12,282</u>	\$0
4.44 School Readiness	\$12,282	<u>\$12,282</u>	\$0	4.47 Adult Basic Education	\$0	\$0	\$0
4.47 Adult Basic Education	\$0	\$0	\$0	4.52 OPEB Liab Not In Trust	\$0	\$0	\$0
4.52 OPEB Liab Not In Trust	\$0	\$0	\$0	<i>Restricted:</i>			
<i>Restricted:</i>				4.64 Restricted Fund Balance	\$110,899	<u>\$110,900</u>	(\$1)
4.64 Restricted Fund Balance	\$110,899	<u>\$110,900</u>	(\$1)	<i>Unassigned:</i>			
<i>Unassigned:</i>				4.63 Unassigned Fund Balance	\$0	\$0	\$0
4.63 Unassigned Fund Balance	\$0	\$0	\$0				

Independent School District No. 206  
Alexandria Public Schools  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Title	Federal CFDA Number	Pass-through Entity Identifying Number	Expenditures	Amounts Passed- Through to Subrecipients
<u>Department of Agriculture</u>				
Passed through Minnesota Department of Education				
Non-Cash Assistance (Commodities):				
Food Distribution	10.558	0206-01-000 FIN 701	\$ 161,931	
Cash Assistance:				
Food Distribution	10.558	0206-01-000 FIN 701	<u>58,085</u>	
Total CFDA No. 10.558			\$ 220,016	\$ -
School Breakfast Program	10.553	0206-01-000 FIN 705	102,741	
National School Lunch Program	10.555	0206-01-000 FIN 701	704,005	
Special Milk Program for Children	10.556	0206-01-000 FIN 703	1,869	
Summer Food Service Program for Children	10.559	0206-01-000 FIN 709	<u>5,459</u>	
Total Child Nutrition Cluster			<u>814,074</u>	-
Total Department of Agriculture			\$ 1,034,090	-
<u>Department of Education</u>				
Passed through Minnesota Department of Education				
Title I, Part A, Improving the Academic Achievement of the Disadvantaged	84.010	0206-01-000 FIN 401	409,490	-
Title II, Part A, Teacher and Principal Training and Recruitment	84.367	0206-01-000 FIN 414	118,528	-
Part C IEIC, Ages 0-2	84.181	0206-01-000 FIN 422	15,693	-
Limited Eligibility Adult Basic Education	84.002	0206-01-000 FIN 438	7,557	-
IDEA Special Education Part B, Section 611 Part B Section 611 Coordinated Early Intervening Services (CEIS)	84.027	0206-01-000 FIN 419	839,584	20,703
Special Education Grant	84.027	0206-01-000 0206-01-000	19,818 9,867	- -
Part B Section 619 Preschool Incentive, Ages 3-5 Total Special Education Cluster	84.173	0206-01-000 FIN 420	<u>19,647</u>	
Total Department of Education			<u>888,916</u>	-
Total Federal Financial Assistance			<u>1,440,184</u>	<u>20,703</u>
			<u>\$ 2,474,274</u>	<u>\$ 20,703</u>

**Note A – Basis of Presentation**

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the Uniform Guidance. The District received federal awards indirectly through pass-through entities. Federal financial assistance provided to a subrecipient is treated as an expenditure when it is paid to the subrecipient.

**Note B – Significant Accounting Policies**

Governmental fund types account for the District's federal grant activity. Therefore, expenditures in the schedule of expenditures of federal awards are recognized on the modified accrual basis - when they become a demand on current available financial resources. The District's summary of significant accounting policies is presented in Note 1 in the District's basic financial statements.

The organization has not elected to use the 10% de minimis cost rate.

**Note C – Food Donation**

Non-monetary assistance is reported in the schedule of expenditures of federal awards at the fair market value of commodities received and disbursed. At June 30, 2017 the District had food commodities totaling \$17,469 in inventory.



Additional Reports  
June 30, 2017

# Independent School District No. 206 Alexandria Public Schools



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

The School Board of  
Independent School District No. 206  
Alexandria Public Schools  
Alexandria, 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. 206, Alexandria, 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 29, 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 schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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



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

### **Compliance and Other Matters**

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

### **Response to Findings**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the 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 "Eide Bailly LLP".

Fargo, North Dakota  
November 29, 2017



## **Independent Auditor’s Report on Compliance for Each Major Federal Program; Report on Internal Control over Compliance Required by the Uniform Guidance**

The School Board of  
Independent School District No. 206  
Alexandria Public Schools  
Alexandria, Minnesota

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

We have audited the District’s compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District’s major federal programs for the year ended June 30, 2017. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

### **Management’s Responsibility**

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

### **Auditor’s Responsibility**

Our responsibility is to express an opinion on the compliance for each of the District’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District’s compliance.

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect of each of its major Federal programs for the year ended June 30, 2017.

## **Report on Internal Control over Compliance**

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

The image shows a handwritten signature in black ink that reads "Esde Bailly LLP". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
November 29, 2017



## Report on Compliance over Financial Reporting of the Student Activity Accounts

The School Board of  
Independent School District No. 206  
Alexandria Public Schools  
Alexandria, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the provisions of the *Manual for Activity Fund Accounting (MAFA)*, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 206, Alexandria Public Schools, 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 29, 2017.

### Compliance

As part of obtaining reasonable assurance about whether the District's student activity accounts are free of material misstatement, we performed tests of the district's compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of student activity amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. Findings 2017-D is the attached schedule of findings were noted to be in noncompliance through testing of these requirements.

### Response to Finding

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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

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

Fargo, North Dakota  
November 29, 2017



## Independent Auditor's Report on *Minnesota Legal Compliance*

The School Board of  
Independent School District No. 206  
Alexandria Public Schools  
Alexandria, 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. 206 Alexandria Public Schools 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 29, 2017.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, 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 Political Subdivisions*. 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". The signature is written in a cursive, flowing style.

Fargo, North Dakota  
November 29, 2017

**Section I – Summary of Auditor’s Results**

**FINANCIAL STATEMENTS**

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weaknesses identified	Yes
Significant deficiencies identified not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

**FEDERAL AWARDS**

Internal control over major program:	
Material weaknesses identified	No
Significant deficiencies identified not considered to be material weaknesses	None reported
Type of auditor's report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Uniform Guidance 2 CFR 200.516:	No

**Identification of major programs:**

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Child Nutrition Cluster	10.553, 10.555 & 10.559
Special Education Cluster	84.027 & 84.173

Dollar threshold used to distinguish between type A and type B programs:	\$ 750,000
Auditee qualified as low-risk auditee?	No

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**Section II – Financial Statement Findings**

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

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

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

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

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

*Recommendation:* It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Views of Responsible Officials:* There is no disagreement with the audit finding.

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

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

*Condition:* During the course of our engagement, we proposed material audit adjustments that were not identified as a result of the District's existing internal controls, and therefore could have resulted in a material misstatement of the District's financial statements.

*Cause:* The District does not have an internal control system designed to identify all necessary adjustments.

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

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

*Views of Responsible Officials:* There is no disagreement with the audit finding.

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

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

*Condition:* The District does not adequately separate duties in cash receipts and journal entry posting.

*Cause:* One individual is responsible for receipting cash, preparing the deposit slip, making the deposit in the financial institution, and entering the transaction into the accounting system. Also, there is no formal process to review journal entries that are posted into the accounting system.

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

*Recommendation:* The accounting functions should be reviewed to determine if additional segregation of duties is feasible and to improve the efficiency and effectiveness of financial management and financial statement accuracy for the District. Segregation of authorization, custody of assets, record keeping and reconciliation functions would assist in mitigating the risk of fraud or misstatements to the financial statements.

*Views of Responsible Officials:* There is no disagreement with the audit finding.

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**Section III – Federal Award Findings and Questioned Costs**

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**None reported**



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**Section IV – Student Activities**

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**2017-D Failure to Have Proper Signature on Requisition form for Student Activity Check Requests**

*Criteria:* A good system of internal accounting control contemplates an adequate system for compliance with the MAFA guidelines of requiring a signature by an advisor representing the activity on all check requests. Page 15 of the MAFA guidelines describe the requirements for cash disbursements.

*Condition:* During the course of our engagement, we discovered that a check request did not have the required requisition form that should contain the signature by the advisor representing the activity.

*Cause:* The District did not follow the procedures to having a requisition form with approved signatures for all student activity checks.

*Effect:* The finding could result in student activities dollars being misused.

*Recommendation:* A thorough policy requiring a student representing the activity to sign all check requests in accordance with MAFA guidelines.

*Views of Responsible Officials:* There is no disagreement with the audit finding.

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**Section V – Minnesota Legal Compliance Findings**

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**None reported**