

**INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA**

**AUDITED FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2017**

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

TABLE OF CONTENTS

|  | <u>Page</u> |
|--|-------------|
| <b>BOARD OF EDUCATION AND ADMINISTRATION</b>   | 1           |
| <b>INDEPENDENT AUDITORS REPORT</b>   | 2           |
| <b>MANAGEMENTS DISCUSSION AND ANALYSIS</b>   | 5           |
| <b>BASIC FINANCIAL STATEMENTS</b>  |             |
| District-wide Financial Statements:  |             |
| Statement of Net Position  | 15          |
| Statement of Activities  | 16          |
| Fund Financial Statements:   |             |
| Balance Sheet - Governmental Funds   | 17          |
| Reconciliation of the Balance Sheet to the Statement of Net Position - Governmental Funds  | 18          |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds   | 19          |
| Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities - Governmental Funds  | 20          |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual:  |             |
| General Fund   | 21          |
| Notes to Basic Financial Statements  | 22          |
| <b>REQUIRED SUPPLEMENTAL INFORMATION SECTION</b>   |             |
| Schedule of Funding Progress for Post-Employment Benefits Other Than Pension   | 50          |
| Schedule of District's Contributions – Post-Employment Benefits Other Than Pension   | 50          |
| Schedule of District's Proportionate Share of Net Pension Liability – Public Employee Retirement Association   | 51          |
| Schedule of District's Contributions – Public Employee Retirement Association  | 51          |
| Schedule of District's Proportionate Share of Net Pension Liability – Teachers Retirement Association  | 52          |
| Schedule of District's Contributions – Teachers Retirement Association   | 52          |
| <b>SUPPLEMENTAL INFORMATION SECTION</b>  |             |
| Combining Balance Sheet – Nonmajor Funds   | 54          |
| Combining Statement of Revenues, Expenditures and Changes in Fund Balance – Nonmajor Funds   | 55          |
| General Fund   |             |
| Balance Sheet  | 56          |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual   | 57          |
| Food Service Fund  |             |
| Balance Sheet  | 58          |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual   | 59          |
| Community Service Fund   |             |
| Balance Sheet  | 60          |
| Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual   | 61          |
| Uniform Financial Accounting and Reporting Standards Compliance Table  | 62          |
| <b>OTHER REQUIRED REPORTS:</b>   |             |
| Report on Minnesota Legal Compliance   | 64          |
| Report on Internal Control Over Financial Reporting and on Compliance and Other Matters<br>Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 65          |
| Schedule of Findings   | 67          |
| <b>STUDENT ACTIVITY ACCOUNTS:</b>  |             |
| Independent Auditor's Report   | 72          |
| Statement of Cash Receipts and Disbursements   | 74          |
| Notes to Student Activity Fund   | 75          |
| Report on Compliance with the Manual for Student Activity Accounting   | 76          |
| Schedule of Findings   | 77          |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

BOARD OF EDUCATION

| <u>Name</u>       | <u>Term on Board Expires</u> | <u>Position</u>  |
|-------------------|------------------------------|------------------|
| Sharon Thiel      | December, 2017               | Chairperson      |
| Jerry Haase       | December, 2017               | Vice-Chairperson |
| Matt Blashack     | December, 2019               | Clerk            |
| Keith Bauch       | December, 2017               | Treasurer        |
| Kim Gavin         | December, 2017               | Director         |
| Sarah Baumgartner | December, 2019               | Director         |
| Russ VanDenheuvel | December, 2019               | Director         |

ADMINISTRATION

|                |                  |
|----------------|------------------|
| Eric Koep      | Superintendent   |
| Lynn Lindquist | Business Manager |



# Burkhardt & Burkhardt, Ltd.

Certified Public Accountants

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Mankato, MN 56001  
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F: 507.387.5199

## INDEPENDENT AUDITOR'S REPORT

October 23, 2017

Members of the School Board  
Independent School District No. 786  
Bertha-Hewitt, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Independent School District No. 786, Bertha-Hewitt, Minnesota, (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### **Auditor's Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Independent School District No. 786, Bertha-Hewitt, Minnesota, as of June 30, 2017 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis and the required supplementary information (RSI), 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 RSI 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The supplemental information, such as the accompanying Uniform Financial Accounting and Reporting Standards Compliance Table is presented for purposes of additional analysis as required by the Minnesota Department of Education and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 Uniform Financial Accounting and Reporting Standards Compliance Table is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2017 on our consideration of the Independent School District No. 786, Bertha-Hewitt, Minnesota’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District’s internal control over financial reporting and compliance.

*Burkhardt & Burkhardt, Ltd.*

Burkhardt & Burkhardt, Ltd  
Certified Public Accountants  
Mankato, Minnesota

## MANAGEMENT'S DISCUSSION AND ANALYSIS

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

This section of Independent School District No. 786 – Bertha-Hewitt Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is Required Supplementary Information specified in the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June, 1999.

### FINANCIAL HIGHLIGHTS

Key financial highlights for the 2016-17 fiscal year include the following:

- Assets of the District exceeded its liabilities at June 30, 2017 by \$1,026,621 (net position). Of this amount \$(3,266,148) (unrestricted net position) may be used to meet the District's ongoing obligations.
- At June 30, 2017, the District's governmental funds reported total fund balances of \$2,186,983. Of this amount, \$1,626,549 (unassigned fund balance) may be used to meet the District's general spending requirements. The unassigned fund balance represents 41% of total General Fund expenditures.
- The general, food service, and debt service fund balances increased \$431,930, \$55,310 and \$23,766, while the community service fund balance decreased \$9,696.

### OVERVIEW OF THE FINANCIAL STATEMENTS

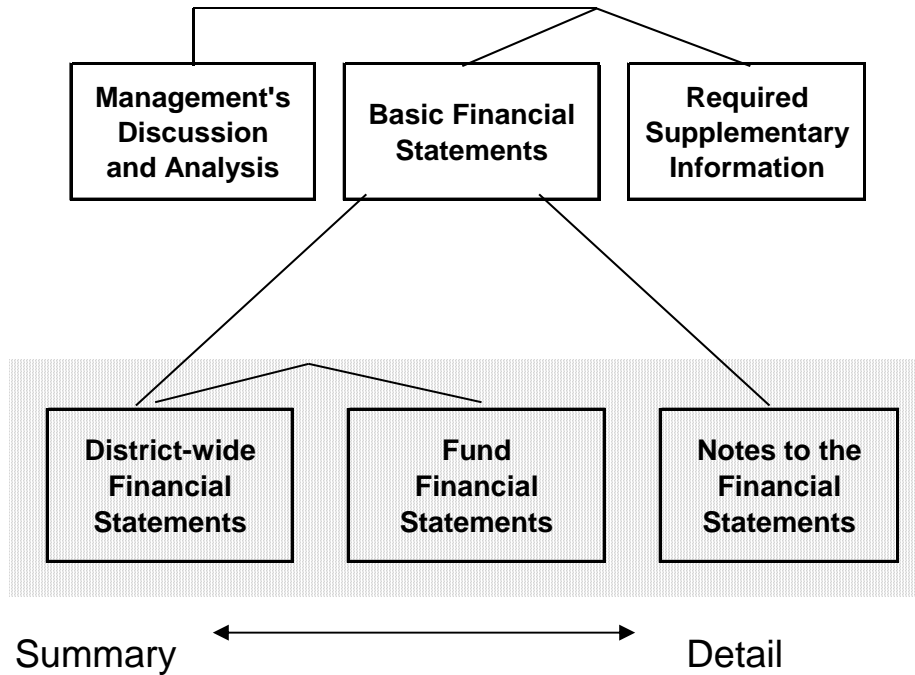
This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components:

- 1) District-wide financial statements, providing information for the District as a whole.
- 2) Fund financial statements, providing detailed information for the District's significant funds.
- 3) Notes to the financial statements, providing additional information that is essential to understanding the District-wide and fund statements.

The financial statements are followed by budget to actual comparisons for the general fund and the major special revenue funds. The diagram on the following page shows how the various parts of this annual report are arranged and related to one another.

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

**OVERVIEW OF THE FINANCIAL STATEMENTS - Continued**



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

**District-wide Statements**

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

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

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected state aids and earned but not used vacation leave).

In the District-wide financial statements, the District's activities are shown in one category, governmental activities. Most of the District's base services are included here, such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

The District-wide financial statements can be found on pages 15-16 of this report.



INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

**OVERVIEW OF THE FINANCIAL STATEMENTS - Continued**

**Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governmental units, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District has two kinds of funds, governmental and fiduciary.

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

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

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, food service, community service, building and construction, and debt service funds.

The District adopts an annual appropriated budget for its general fund and special revenue funds. Budgetary comparison statements have been provided for the general fund and the special revenue funds to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages 17-22 of this report.

*Notes to the financial statements* provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found on pages 23-46 of this report.

*Required Supplementary Information.* In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding the District's special revenue funds budget performance.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

**DISTRICT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of a governmental unit's financial position. In the case of the District, assets exceeded liabilities by \$1,026,621 at the close of the most recent fiscal year. \$3,806,455 of this amount represents net investment in capital assets

The District uses these capital assets to provide District services; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**Net Position**

The District's combined net position was \$1,026,621 on June 30, 2017. (See details in the table below.) This is down from \$1,755,173 at June 30, 2016, a decrease of \$728,552.

|   | <u>2017</u>                | <u>2016</u>                |
|---|----------------------------|----------------------------|
| <i>Assets</i>   |                            |                            |
| Current and other assets  | \$ 3,530,006               | \$ 3,025,319               |
| Capital assets  | 9,315,209                  | 9,691,175                  |
|   | <u>12,845,215</u>          | <u>12,716,494</u>          |
| <i>Deferred Outflows of Resources</i>   |                            |                            |
| Deferred outflows related to pensions   | 7,172,160                  | 916,803                    |
| <i>Liabilities</i>  |                            |                            |
| Current liabilities   | 651,495                    | 726,541                    |
| Long-term liabilities   | 16,965,725                 | 9,581,655                  |
|   | <u>17,617,220</u>          | <u>10,308,196</u>          |
| <i>Deferred Inflows of Resources</i>  |                            |                            |
| Unavailable revenue   | 721,264                    | 644,548                    |
| Deferred inflows related to pensions  | 652,270                    | 925,380                    |
|   | <u>1,373,534</u>           | <u>1,569,928</u>           |
| <b>Excess of total assets and deferred outflows of resources over total liabilities and deferred inflows of resources</b> | <b><u>\$ 1,026,621</u></b> | <b><u>\$ 1,755,173</u></b> |
| <i>Net Position</i>   |                            |                            |
| Net Investment in Capital   |                            |                            |
| Assets  | \$ 3,806,455               | \$ 3,766,357               |
| Restricted  | 486,314                    | 375,051                    |
| Unrestricted  | (3,266,148)                | (2,386,235)                |
| <b>Total net position</b>   | <b><u>\$ 1,026,621</u></b> | <b><u>\$ 1,755,173</u></b> |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

**DISTRICT-WIDE FINANCIAL ANALYSIS - Continued**

**Change in Net Position**

A summary of the revenues and expenses is presented in the table below.

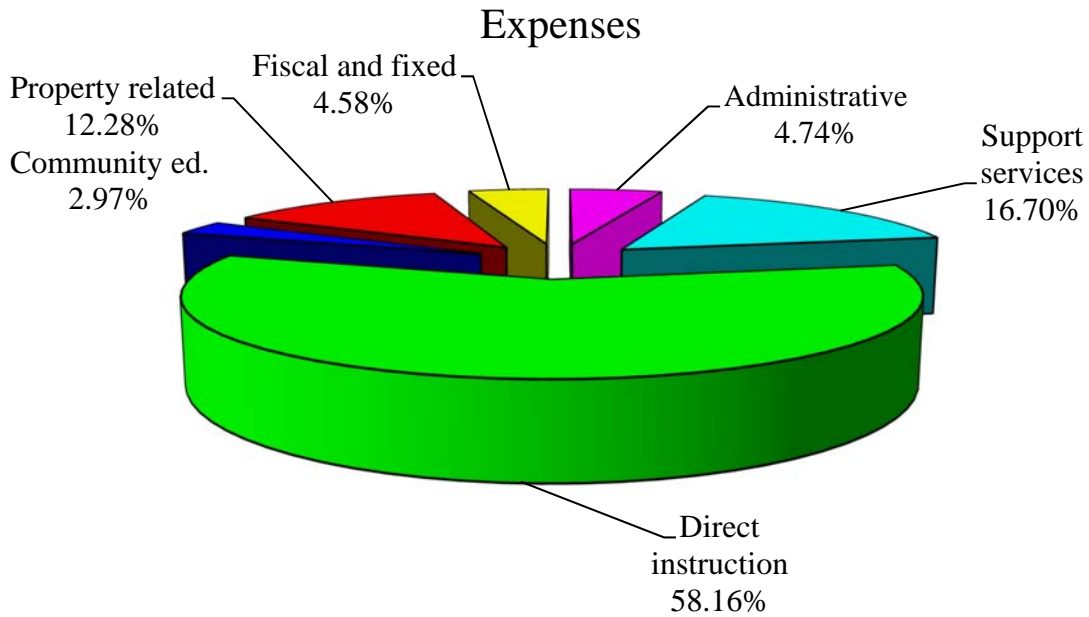
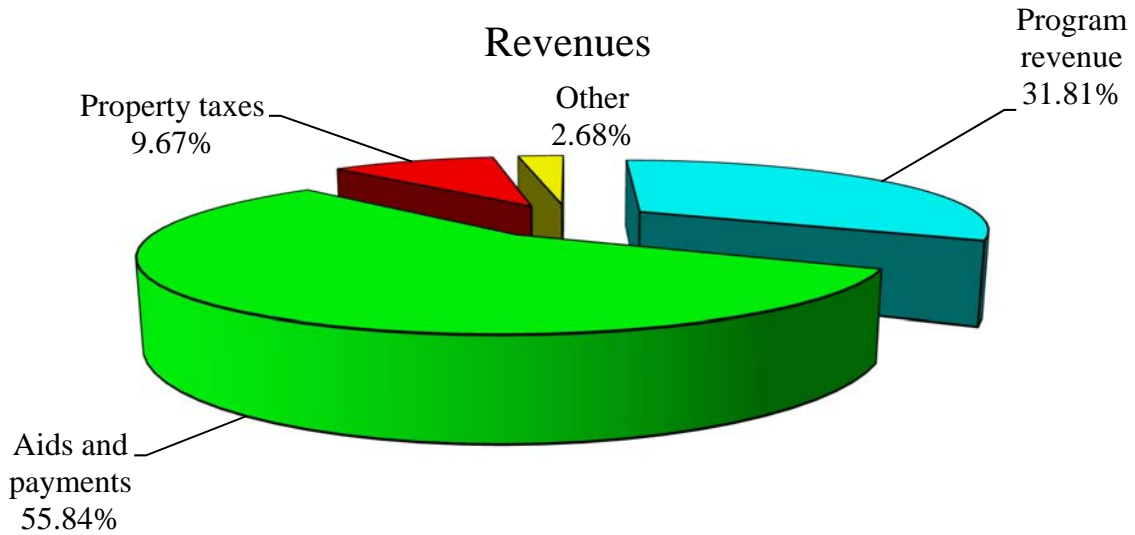
|  | <i>2017</i>         | <i>2016</i>         |
|--|---------------------|---------------------|
| <i>Revenues</i>                        |                     |                     |
| Program revenues                       |                     |                     |
| Charges for services                   | \$ 355,477          | \$ 256,212          |
| Operating grants and contributions     | 1,750,531           | 1,416,993           |
| Capital grants and contributions       | 90,362              | 88,223              |
| General revenues                       |                     |                     |
| Property taxes                         | 667,963             | 593,584             |
| Aids and payments from state and other | 3,856,139           | 3,493,834           |
| Other sources                          | 185,243             | 60,171              |
|  | 6,905,715           | 5,909,017           |
| <i>Expenses</i>                        |                     |                     |
| Administration                         | 405,091             | 486,345             |
| District support services              | 124,095             | 104,116             |
| Regular instruction                    | 3,155,625           | 2,359,672           |
| Vocational instruction                 | 181,876             | 143,656             |
| Exceptional instruction                | 1,102,350           | 871,877             |
| Community education and services       | 226,575             | 139,550             |
| Instructional support services         | 260,310             | 180,653             |
| Pupil support services                 | 890,731             | 859,815             |
| Site, buildings and equipment          | 937,726             | 934,293             |
| Fiscal and other fixed-cost programs   | 30,951              | 25,865              |
| Depreciation - unallocated             | 177,686             | 177,686             |
| Interest on long-term debt             | 141,251             | 155,326             |
|  | 7,634,267           | 6,438,854           |
| Change in net assets                   | (728,552)           | (529,837)           |
| Net position - beginning               | 1,755,173           | 2,285,010           |
| <b>Net position - ending</b>           | <b>\$ 1,026,621</b> | <b>\$ 1,755,173</b> |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

**DISTRICT-WIDE FINANCIAL ANALYSIS - Continued**

Below are specific graphs that provide comparisons of the governmental activities' direct program revenues with their expenditures. Any shortfalls in direct revenues are primarily supported by property tax levy or general state aid.



INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

**DISTRICT-WIDE FINANCIAL ANALYSIS - Continued**

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

|                                      | <i>2017</i>         | <i>2016</i>         |
|--------------------------------------|---------------------|---------------------|
| District and school administration   | \$ 405,091          | \$ 486,345          |
| District support services            | 124,095             | 104,116             |
| Regular instruction                  | 3,155,625           | 2,359,672           |
| Vocational instruction               | 181,876             | 143,656             |
| Exceptional instruction              | 1,102,350           | 871,877             |
| Community education and services     | 226,575             | 139,550             |
| Instructional support services       | 260,310             | 180,653             |
| Pupil support services               | 890,731             | 859,815             |
| Site, buildings and equipment        | 937,726             | 931,293             |
| Fiscal and other fixed cost programs | 30,951              | 25,865              |
| Depreciation - unallocated           | 177,686             | 177,686             |
| Interest on long-term debt           | 141,251             | 155,327             |
| <b>Total</b>                         | <b>\$ 7,634,267</b> | <b>\$ 6,435,855</b> |

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

**Fund Balance**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$2,186,983. This was up from \$1,685,673 at the end of the prior year, an increase of \$501,310. To further understand the changes from one year to the next, one needs to look at each individual fund balance. The major changes will be discussed here. The general fund unassigned fund balance increased \$388,465 from the previous year. This increase was expected due to an increase in state funding because of legislative changes enacted effecting schools state wide. Additionally, the food service fund balance increased by \$55,310 due to a significant increase in the number of meals served as well as a new food service director which caused expenses to decrease. The other funds did not have significant changes.

**Revenues and Expenditures**

Revenues of the District's governmental funds totaled \$6,766,224 while total expenditures were \$6,264,914. Summaries of the revenues and other financing sources and expenditures and other financing uses reported on the governmental fund financial statements appear in the tables on the following page.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

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

**Revenues and Other Financing Sources**

|                                | <u>2017</u>                | <u>2016</u>                | <i>Amount of<br/>Increase<br/>(Decrease)</i> |
|--------------------------------|----------------------------|----------------------------|--|
| General fund                   | \$ 5,723,158               | \$ 4,860,723               | \$ 862,435                                   |
| Food service fund              | 350,869                    | 309,630                    | 41,239                                       |
| Community service fund         | 172,868                    | 171,373                    | 1,495  |
| Building and construction fund | -                          | -                          | -  |
| Debt service fund              | 519,329                    | 520,413                    | (1,084)                                      |
| <b>Totals</b>                  | <b><u>\$ 6,766,224</u></b> | <b><u>\$ 5,862,139</u></b> | <b><u>\$ 904,085</u></b>                     |

**Expenditures and Other Financing Uses**

|                                | <u>2017</u>                | <u>2016</u>                | <i>Amount of<br/>Increase<br/>(Decrease)</i> |
|--------------------------------|----------------------------|----------------------------|--|
| General fund                   | \$ 5,291,228               | \$ 5,449,898               | \$ (158,670)                                 |
| Food service fund              | 295,559                    | 320,118                    | (24,559)                                     |
| Community service fund         | 182,564                    | 139,102                    | 43,462                                       |
| Building and construction fund | -                          | -                          | -  |
| Debt service fund              | 495,563                    | 494,381                    | 1,182  |
| <b>Totals</b>                  | <b><u>\$ 6,264,914</u></b> | <b><u>\$ 6,403,499</u></b> | <b><u>\$ (138,585)</u></b>                   |

**General Fund Budgetary Highlights**

The original budget was approved in June 2016 using the best forecasted data at the time. The budget was updated in January 2017 as the result of the following factors: Debt refunding, Special Ed changes, changes in staff and ADM, and levy changes.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

Note 5 to the financial statements presents an analysis of capital asset transactions occurring during the year ended June 30, 2017. Additions totaling \$74,313 consisted of a new van to transport students, a scrubber for custodians, 3D printer, portable sound system, and part of a new sidewalk. Disposals totaling \$113,894 consisted of audio visual equipment, computer hardware, copiers, and various other minor equipment with no material value.

**Long-Term Debt**

At year-end the District had \$5,932,448 of long-term debt. This consisted of bonded indebtedness of \$4,680,000, severance payable of \$28,083, capital lease of \$828,681, special assessments of \$374,089, and vacation payable of \$21,595.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2017

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

The District's student population has stabilized due to open enrollment and the District has been able to maintain current programs with the voter approved operating levy. With the inclusion of the Eagle Valley School District the District can expect to see an increase in the amount of state aid received and ADM to increase as well. Also, with the exception of voter-approved excess operating levy the District is dependent on the State of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

The political environment at the state level could have a significant effect on future finances. The state legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive. The District will strive to maximize resources available through efficient and effective management of its operations.

**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 Lynn Lindquist, Business Manager, Bertha-Hewitt ISD #786, 310 Central Avenue South, Bertha, MN 56437.

## BASIC FINANCIAL STATEMENTS



INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

STATEMENT OF NET POSITION  
June 30, 2017

|   | <u>Governmental<br/>Activities</u> |
|---|------------------------------------|
| <b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>                    |                                    |
| <b>Assets:</b>  |                                    |
| Cash and Investments  | \$ 2,073,435                       |
| Receivables   | 476,899                            |
| Due from Other Governments  | 932,226                            |
| Inventory   | 16,006                             |
| Prepaid Items   | 31,440                             |
| Capital Assets  |                                    |
| Assets Not Being Depreciated  | 39,000                             |
| Other Capital Assets, Net of Depreciation                           | <u>9,276,209</u>                   |
| Total Assets  | 12,845,215                         |
| <b>Deferred Outflows of Resources</b>                               |                                    |
| Deferred Outflows Related to Pensions                               | <u>7,172,160</u>                   |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES                     | <u><u>\$ 20,017,375</u></u>        |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b> |                                    |
| <b>Liabilities:</b>   |                                    |
| Payables  | \$ 493,051                         |
| Due to Other Minnesota School Districts                             | 104,184                            |
| Interest Payable  | 54,260                             |
| Noncurrent Liabilities  |                                    |
| Due Within One Year   | 446,042                            |
| Due in More Than One Year   | <u>16,519,683</u>                  |
| Total Liabilities   | <u>17,617,220</u>                  |
| <b>Deferred Inflows of Resources</b>                                |                                    |
| Property Taxes Levied For Subsequent Year                           | 721,264                            |
| Deferred Inflows of Resources Related to Pensions                   | <u>652,270</u>                     |
| Total Deferred Inflows of Resources                                 | <u>1,373,534</u>                   |
| <b>Net Position:</b>  |                                    |
| Net Investment in Capital Assets                                    | 3,806,455                          |
| Restricted  | 486,314                            |
| Unrestricted  | <u>(3,266,148)</u>                 |
| Total Net Position  | <u>1,026,621</u>                   |
| TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION  | <u><u>\$ 20,017,375</u></u>        |

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

STATEMENT OF ACTIVITIES  
For The Year Ended June 30, 2017

| Functions/Programs                          | Expenses     | Program Revenues        |  |  | Net (Expense)<br>Revenue and<br>Changes in<br>Net Position |
|---|--------------|-------------------------|--|--|--|
|   |              | Charges for<br>Services | Operating<br>Grants and<br>Contributions | Capital<br>Grants and<br>Contributions | Governmental<br>Activities                                 |
| <b>GOVERNMENTAL ACTIVITIES:</b>             |              |                         |  |  |  |
| District and School Administration          | \$ 405,091   | \$ 0                    | \$ 33,448                                | \$ 0                                   | \$ (371,643)   |
| District Support Services                   | 124,095      | 0                       | 0  | 0                                      | (124,095)  |
| Regular Instruction                         | 3,155,625    | 94,213                  | 674,816                                  | 0                                      | (2,386,596)  |
| Vocational Instruction                      | 181,876      | 32,463                  | 17,479                                   | 0                                      | (131,934)  |
| Special Education Instruction               | 1,102,350    | 34,618                  | 596,701                                  | 0                                      | (471,031)  |
| Community Education and Services            | 226,575      | 95,215                  | 48,687                                   | 0                                      | (82,673)   |
| Instructional Support Services              | 260,310      | 15,000                  | 29,947                                   | 0                                      | (215,363)  |
| Pupil Support Services                      | 890,731      | 68,425                  | 283,280                                  | 0                                      | (539,026)  |
| Site, Buildings, and Equipment              | 937,726      | 15,543                  | 66,173                                   | 90,362                                 | (765,648)  |
| Fiscal and Other Fixed Costs                | 30,951       | 0                       | 0  | 0                                      | (30,951)   |
| Unallocated Depreciation                    | 177,686      | 0                       | 0  | 0                                      | (177,686)  |
| Interest on Long-term Debt                  | 141,251      | 0                       | 0  | 0                                      | (141,251)  |
| Total Governmental activities               | \$ 7,634,267 | \$ 355,477              | \$ 1,750,531                             | \$ 90,362                              | (5,437,897)  |
| General Revenues:                           |              |                         |  |  |  |
| Taxes:                                      |              |                         |  |  |  |
| Property Taxes Levied for General Purposes  |              |                         |  |  | 284,994  |
| Property Taxes Levied for Specific Purposes |              |                         |  |  | 382,969  |
| Aids and Payments from the State            |              |                         |  |  | 3,843,549  |
| Aids and Payments from Local Sources        |              |                         |  |  | 12,590   |
| Other General Revenues                      |              |                         |  |  | 179,434  |
| Unrestricted Interest Earnings              |              |                         |  |  | 5,809  |
| Total General Revenues                      |              |                         |  |  | 4,709,345  |
| Change in Net Position                      |              |                         |  |  | (728,552)  |
| Net Position - Beginning                    |              |                         |  |  | 1,755,173  |
| Net Position - Ending                       |              |                         |  |  | \$ 1,026,621   |

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2017

|   | General<br>Fund     | Debt<br>Service<br>Fund | Non-Major<br>Funds | Total<br>Governmental<br>Funds |
|---|---------------------|-------------------------|--------------------|--------------------------------|
| <b>ASSETS</b>   |                     |                         |                    |                                |
| Cash and Investments  | \$ 1,760,730        | \$ 224,206              | \$ 88,498          | \$ 2,073,434                   |
| Accounts Receivable   | 6,825               | 0                       | 2,143              | 8,968                          |
| Property Taxes Receivable   | 225,255             | 241,563                 | 1,113              | 467,931                        |
| Due from Minnesota Department of Education                                | 789,456             | 14,886                  | 5,942              | 810,284                        |
| Due from Federal Through State  | 17,287              | 0                       | 12,955             | 30,242                         |
| Due from Other Minnesota School Districts                                 | 91,700              | 0                       | 0                  | 91,700                         |
| Inventory   | 0                   | 0                       | 16,006             | 16,006                         |
| Prepaid Items   | 28,699              | 0                       | 2,741              | 31,440                         |
|   | <u>\$ 2,919,952</u> | <u>\$ 480,655</u>       | <u>\$ 129,398</u>  | <u>\$ 3,530,005</u>            |
| <b>TOTAL ASSETS</b>   |                     |                         |                    |                                |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b>       |                     |                         |                    |                                |
| <b>Liabilities:</b>   |                     |                         |                    |                                |
| Salaries and Benefits Payable   | \$ 441,813          | \$ 0                    | \$ 35,998          | \$ 477,811                     |
| Accounts Payable  | 11,018              | 0                       | 4,221              | 15,239                         |
| Due to Other Minnesota School Districts                                   | 104,184             | 0                       | 0                  | 104,184                        |
| Total Liabilities   | <u>557,015</u>      | <u>0</u>                | <u>40,219</u>      | <u>597,234</u>                 |
| <b>Deferred Inflows of Resources:</b>                                     |                     |                         |                    |                                |
| Unavailable Revenue - Delinquent Taxes                                    | 9,122               | 14,289                  | 1,113              | 24,524                         |
| Property Taxes Levied for Subsequent Year                                 | 348,324             | 372,940                 | 0                  | 721,264                        |
| Total Deferred Inflows of Resources                                       | <u>357,446</u>      | <u>387,229</u>          | <u>1,113</u>       | <u>745,788</u>                 |
| <b>Fund Balance:</b>  |                     |                         |                    |                                |
| Nonspendable  | 28,699              | 0                       | 18,747             | 47,446                         |
| Restricted  | 343,681             | 93,426                  | 75,881             | 512,988                        |
| Unassigned  | 1,633,111           | 0                       | (6,562)            | 1,626,549                      |
| Total Fund Balance  | <u>2,005,491</u>    | <u>93,426</u>           | <u>88,066</u>      | <u>2,186,983</u>               |
|   | <u>\$ 2,919,952</u> | <u>\$ 480,655</u>       | <u>\$ 129,398</u>  | <u>\$ 3,530,005</u>            |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</b> |                     |                         |                    |                                |

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET POSITION  
GOVERNMENTAL FUNDS  
June 30, 2017

|  |              |
|--|--------------|
| Total Fund Balances - Governmental Funds | \$ 2,186,983 |
|--|--------------|

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

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

|                                |             |
|--------------------------------|-------------|
| Cost of capital assets         | 16,121,745  |
| Less: Accumulated depreciation | (6,806,536) |

Long-term liabilities, including compensated absences and severance benefits payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.

|                                  |             |
|----------------------------------|-------------|
| Bonds payable                    | (4,680,000) |
| Unamortized Premiums/discounts   | (75)        |
| Obligations under capital leases | (828,681)   |
| Special assessments payable      | (374,089)   |
| Severance benefits payable       | (28,083)    |
| Compensated absences payable     | (21,595)    |

Long-term receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred inflows of resources in the funds.

|                           |        |
|---------------------------|--------|
| Delinquent property taxes | 24,524 |
|---------------------------|--------|

Net pension liabilities and other post employment benefits (OPEB) obligations are not recognized under the current financial resources measurement focus and, therefore, has no effect on fund balance

|                         |              |
|-------------------------|--------------|
| Net pension liabilities | (10,960,371) |
| Net OPEB obligation     | (72,832)     |

Deferred inflows and outflows of resources related to net pension liabilities are not recognized under the current financial resources measurement focus and, therefore, has no effect on fund balance

|   |           |
|---|-----------|
| Deferred outflow of resources related to pensions | 7,172,160 |
| Deferred inflows of resources related to pensions | (652,270) |

Governmental funds do not report a liability for accrued interest payable until due and payable.

|  |          |
|--|----------|
|  | (54,260) |
|--|----------|

|  |              |
|--|--------------|
| Total Net Position - Governmental Activities | \$ 1,026,621 |
|--|--------------|

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2017

|  | General<br>Fund     | Debt<br>Service<br>Fund | Non-Major<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|-------------------------|--------------------|--------------------------------|
| <b>Revenues:</b>                             |                     |                         |                    |                                |
| Local Property Taxes                         | \$ 282,052          | \$ 369,780              | \$ 20,440          | \$ 672,272                     |
| Other Local and County Revenues              | 236,759             | 673                     | 106,561            | 343,993                        |
| Revenue From State Sources                   | 4,997,373           | 148,876                 | 76,561             | 5,222,810                      |
| Revenue From Federal Sources                 | 197,451             | 0                       | 257,180            | 454,631                        |
| Sales and Other Conversions of Assets        | 9,523               | 0                       | 62,995             | 72,518                         |
| Total Revenues                               | <u>5,723,158</u>    | <u>519,329</u>          | <u>523,737</u>     | <u>6,766,224</u>               |
| <b>Expenditures:</b>                         |                     |                         |                    |                                |
| District and School Administration           | 299,953             | 0                       | 0                  | 299,953                        |
| District Support Services                    | 99,053              | 0                       | 0                  | 99,053                         |
| Regular Instruction                          | 2,395,914           | 0                       | 0                  | 2,395,914                      |
| Vocational Instruction                       | 131,734             | 0                       | 0                  | 131,734                        |
| Exceptional Instruction                      | 864,169             | 0                       | 0                  | 864,169                        |
| Community Education and Services             | 0                   | 0                       | 182,564            | 182,564                        |
| Instructional Support Services               | 231,488             | 0                       | 0                  | 231,488                        |
| Pupil Support Services                       | 530,200             | 0                       | 295,559            | 825,759                        |
| Site, Buildings, and Equipment               | 707,766             | 0                       | 0                  | 707,766                        |
| Fiscal and Other Fixed Cost Programs         | 30,951              | 495,563                 | 0                  | 526,514                        |
| Total Expenditures                           | <u>5,291,228</u>    | <u>495,563</u>          | <u>478,123</u>     | <u>6,264,914</u>               |
| Excess of Revenues Over (Under) Expenditures | 431,930             | 23,766                  | 45,614             | 501,310                        |
| Fund Balance - Beginning                     | <u>1,573,561</u>    | <u>69,660</u>           | <u>42,452</u>      | <u>1,685,673</u>               |
| Fund Balance - Ending                        | <u>\$ 2,005,491</u> | <u>\$ 93,426</u>        | <u>\$ 88,066</u>   | <u>\$ 2,186,983</u>            |

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2017

|  |    |                  |
|--|----|------------------|
| Net Change in Fund Balances - Governmental Funds   | \$ | 501,310          |
| <p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>  |    |                  |
| <p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense.</p>   |    |                  |
| Capital outlay   |    | 74,313           |
| Book value of disposed assets  |    | (3,352)          |
| Depreciation expense   |    | (446,926)        |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources. Neither transaction, however, has any effect on net position.</p>   |    |                  |
| Principal repayments and capital lease retirement  |    | 428,108          |
| Amortization of debt premiums/discounts  |    | (1,704)          |
| <p>Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrued, regardless of when it is due.</p> |    |                  |
|  |    | 6,016            |
| <p>In the Statement of Activities, payments made after the measurement date for net pension liability determination are recognized as deferred outflows of resources. In the governmental funds pension expense is recognized as an expenditure when it is due, and thus requires the use of current financial resources.</p>  |    |                  |
|  |    | 221,575          |
| <p>Pension expense in the Statement of Activities is recognized as the change in net pension liabilities including the amortization of layered deferred outflows and deferred inflows of resources of the current and prior periods, this does not require the use of current financial resources, and therefore is not reported in the governmental funds.</p>                                    |    |                  |
|  |    | (1,476,765)      |
| <p>Certain revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>  |    |                  |
| Delinquent taxes   |    | (4,308)          |
| <p>Postemployment benefits payable in the Statement of Activities differs from the amount reported in the governmental funds because this benefit is recognized as an expenditure in the funds when due. In the Statement of Activities, postemployment benefits payable is recognized when accrued.</p>   |    |                  |
| Compensated absences   |    | (9,051)          |
| Severance  |    | 3,790            |
| Other postemployment benefits  |    | (21,557)         |
| Change in Net Position - Governmental Activities   | \$ | <u>(728,552)</u> |

The Notes to the Financial Statements are an Integral Part of this Statement.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended June 30, 2017

|   | Original<br>Budget  | Final<br>Budget   | Actual<br>Amount    | Over<br>(Under)<br>Budget |
|---|---------------------|-------------------|---------------------|---------------------------|
| <b>Revenues:</b>                            |                     |                   |                     |                           |
| Local Property Taxes                        | \$ 364,863          | \$ 301,738        | \$ 282,052          | \$ (19,686)               |
| Other Local and County Revenues             | 171,033             | 206,178           | 236,759             | 30,581                    |
| Revenue From State Sources                  | 4,179,556           | 4,709,854         | 4,997,373           | 287,519                   |
| Revenue From Federal Sources                | 170,745             | 205,519           | 197,451             | (8,068)                   |
| Sales and Other Conversion of Assets        | 13,190              | 10,822            | 9,523               | (1,299)                   |
| Total Revenues                              | 4,899,387           | 5,434,111         | 5,723,158           | 289,047                   |
| <b>Expenditures:</b>                        |                     |                   |                     |                           |
| District and School Administration          | 261,533             | 298,875           | 299,953             | 1,078                     |
| District Support Service                    | 40,850              | 104,243           | 99,053              | (5,190)                   |
| Regular Instruction                         | 2,257,740           | 2,366,315         | 2,395,914           | 29,599                    |
| Vocational Instruction                      | 125,032             | 129,835           | 131,734             | 1,899                     |
| Exceptional Instruction                     | 815,370             | 863,322           | 864,169             | 847                       |
| Instructional Support Services              | 175,540             | 222,823           | 231,488             | 8,665                     |
| Pupil Support Services                      | 557,629             | 587,832           | 530,200             | (57,632)                  |
| Sites, Buildings, and Equipment             | 809,613             | 688,106           | 707,766             | 19,660                    |
| Fiscal and Other Fixed Cost Programs        | 25,865              | 31,200            | 30,951              | (249)                     |
| Total Expenditures                          | 5,069,172           | 5,292,551         | 5,291,228           | (1,323)                   |
| Excess of Revenue Over (Under) Expenditures | <u>\$ (169,785)</u> | <u>\$ 141,560</u> | 431,930             | <u>\$ 290,370</u>         |
| Fund Balance - Beginning                    |                     |                   | 1,573,561           |                           |
| Fund Balance - Ending                       |                     |                   | <u>\$ 2,005,491</u> |                           |

The Notes to the Financial Statements are an Integral Part of this Statement.

## NOTES TO BASIC FINANCIAL STATEMENTS



INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**A. Organization**

Independent School District No. 786 (the District) is an instrumentality of the state of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District. The District's financial statements 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 District's financial statements include all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

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 includes 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 benefit or burden 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 not included in these financial statements.

**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. Generally, the effect of material 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 and an allocation of indirect administrative and support service expenses. 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. 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 related cash flows. 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. Depreciation expense is included as a direct expense in the functional areas that utilize the related capital assets. Interest on debt is considered an indirect expense and is reported separately on the Statement of Activities.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**D. Fund Financial Statement Presentation**

Major individual governmental funds are reported as separate columns in the fund financial 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. 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 funding formulas established by Minnesota Statutes. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days. 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 long-term debt, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as expenditures in the governmental funds. In the General Fund, capital expenditures are included within the applicable functional areas.

**Description of Funds**

The existence of the various district funds has been established by the Minnesota Department of Education (MDE). Each fund is accounted for as an independent entity. A description of the funds included in this report is 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. The District maintains separate accounts within the General Fund for secondary education, secondary resale activities, special education, special education resale activities, district support services, capital expenditures, and costs to be reimbursed by others.

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

**Nonmajor Governmental Funds**

**Food Service Special Revenue Fund** – The Food Service Special Revenue Fund is primarily used to account for the District's child nutrition program.

**Community Service Fund** – This Special Revenue Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs or other similar services. Community Service revenues are restricted for use in those activities permitted by state statute.

**Capital Projects – Building Construction Fund** – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**E. Budgetary Information**

Each June, the School Board adopts an annual budget for the following fiscal year for all governmental funds. The budget for each fund is prepared on the same basis of accounting as the financial statements. Legal budgetary control is at the fund level. Budgeted expenditure appropriations lapse at year-end. During the fiscal year ended June 30, 2017, expenditures exceeded budgeted amounts in the Community Service Special Revenue Fund by \$31,001. Revenues and other financing sources in excess of budget, along with available fund balance, funded these variances.

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

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

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

**F. Cash and Investments**

Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Investments are generally stated at fair value, except for investments in certain external investment pools, which are stated at amortized cost. Short-term, highly liquid debt instruments (including commercial paper, bankers' acceptance, and U.S. treasury and agency obligations) purchased with a remaining maturity of one year or less are also reported at amortized cost. Investment income is accrued at the Balance Sheet date.

The District categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

**Level 1** – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

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

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

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Debt securities classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

See Note 2 for the District's recurring fair value measurements as of June 30, 2017.

**G. Receivables**

All receivables are shown net of any allowance for uncollectible accounts to value its receivables. However, the District considers all of its current receivables to be collectible. The only receivables not expected to be fully collected within one year are property taxes receivable.

**H. Inventories**

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

**I. Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are recorded as expenditures/expenses at the time of consumption.

**J. Property Taxes**

The majority of the District's revenue in the General Fund 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. Currently, the mandated tax shift recognizes \$23,252 of the property tax levy collectible in 2017 as revenue to the District in fiscal year 2016-2017. The remaining portion of the taxes collectible in 2017 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

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 generally remits taxes to the District at periodic intervals as they are collected.

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 reported as a deferred inflow of resources (unavailable revenue) in the fund financial statements because it is not known to be available to finance the operations of the District. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year beginning July 1, 2018, are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**K. Capital Assets**

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$5,000 for equipment and vehicles and \$25,000 for building and improvements and an estimated useful life in excess of two years. 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 statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 20 years for equipment.

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

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

**L. 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. If material, bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period as other financing sources or uses, respectively. The face amount of debt issued is reported as other financing sources.

**M. Compensated Absences**

Under the terms of collectively bargained contracts, eligible employees accrue vacation and sick leave at varying rates, portions of which may be carried over to future years. Employees are reimbursed for unused, accrued vacation to the limit specified in their labor contract or School Board policy upon termination. Unused sick leave enters into the calculation of severance benefits for some employees upon termination. Compensated absences are accrued when earned in the government-wide financial statements. Compensated absences are accrued in the governmental fund financial statements only to the extent they have been used or otherwise matured prior to year-end due to employee termination or similar circumstances.

**N. Severance**

The District provides lump sum severance benefits to eligible employees in accordance with provisions in certain collectively bargained contracts. Eligibility for these benefits is based on years of service and/or minimum age requirements. Severance benefits are calculated by converting a portion of an eligible employee's unused accumulated sick leave. No individual can receive severance benefits in excess of one year's salary.

Severance benefits payable are recorded as a liability in the government-wide financial statements as they are earned and it becomes probable they will vest at some point in the future. Severance benefits payable are accrued in the governmental fund financial statements as the liability matures due to employee termination.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**O. Postemployment Health Care Benefits**

Under the terms of certain collectively bargained employment contracts, including the teachers' contract retirees, are eligible to participate in the District's health insurance plans. Employees meeting certain length of service experience requirements are required to pay the health insurance premiums until the age 65. The long-term portion of the postemployment health care benefits liability is included as Other Postemployment Benefits of long-term debt. See Notes 4 and 6 for further information.

**P. State-Wide Pension Plans**

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

The TRA has a special funding situation created by direct aid contributions made by the state of Minnesota, City of Minneapolis, and Special School District No. 1, Minneapolis Public Schools. The direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association into the TRA in 2006. A second direct aid source is from the state of Minnesota for the merger of the Duluth Teachers Retirement Fund Association (DTRFA) in 2015.

**Q. Deferred Inflows of Resources**

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred outflows of resources related to pensions reported in the government-wide Statement of Net Position. This deferred outflow results from differences between expected and actual experience, changes of assumptions, differences between projected and actual earnings on pension plan investments, and from contributions to the plan subsequent to the measurement date and before the end of the reporting period. These amounts are deferred and amortized as required under pension standards.

In addition to liabilities, statements of financial position or balance sheets will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has three items which qualify for reporting in this category.

The first item is property taxes levied for subsequent years, which represents property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the governmental funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available.

The second item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available.

The third item, deferred inflows of resources related to pensions, is reported in the government-wide Statement of Net Position. This deferred inflow results from differences between expected and actual experience, changes of assumptions, and differences between projected and actual earnings on pension plan investments. These amounts are deferred and amortized as required under pension standards.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**R. Net Position**

In the government-wide and internal service fund financial statements, net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is displayed in three components:

- **Net Investment in Capital Assets** – Consists of capital assets, net of accumulated depreciation, reduced by any outstanding debt attributable to acquire capital assets.
- **Restricted Net Position** – Consists of net position restricted when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.
- **Unrestricted Net Position** – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

The District applies restricted resources first when an expense is incurred for which both restricted and unrestricted resources are available.

**S. Fund Balance Classifications**

In the fund financial statements, governmental funds report fund balance in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

- **Nonspendable** – Consists of amounts that are not in spendable form, such as prepaid items, inventory, and other long-term assets.
- **Restricted** – Consists of amounts related to externally imposed constraints established by creditors, grantors, or contributors; or constraints imposed by state statutory provisions.
- **Committed** – Consists of internally imposed constraints that are established by resolution of the School Board. Those committed amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Consists of internally imposed constraints. These constraints consist of amounts intended to be used by the District for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds, assigned amounts represent intended uses established by the governing body itself or by an official to which the governing body delegates the authority. Pursuant to School Board resolution, the District’s Board Chair, Superintendent, Finance Committee, or Finance Director are authorized to establish assignments of fund balance.
- **Unassigned** – The residual classification for the General Fund which also reflects negative residual amounts in other funds.

When both restricted and unrestricted resources are available for use, it is the District’s policy to first use restricted resources, then use unrestricted resources as they are needed. When committed, assigned, or unassigned resources are available for use, it is the District’s policy to use resources in the following order: 1) committed, 2) assigned, and 3) unassigned.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**T. 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; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**U. Use of Estimates**

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

**V. Summarized Comparative Data**

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Note 2 DEPOSITS AND INVESTMENTS

**A. Deposits**

In accordance with applicable Minnesota Statutes, the District maintains deposits at depository banks authorized by the School Board, including checking accounts, savings accounts, and non-negotiable certificates of deposit.

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 percent 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. The District's deposit policies do not further limit depository choices.

At year-end, the carrying amount of the District's deposits was \$1,236,336 while the balance on the bank records was \$1,315,384. At June 30, 2017, all deposits were fully covered by federal depository insurance, surety bonds, or by collateral held by the District's agent in the District's name.



INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 2 DEPOSITS AND INVESTMENTS (Continued)

**B. Investments**

Investments are subject to various risks, the following of which are considered the most significant:

**Custodial Credit Risk** – For investments, this is the risk that in the event of a failure of the counterparty to an investment transaction (typically a broker-dealer) the District would not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in investment pools and money markets are not evidenced by securities that exist in physical or book entry form and, therefore, are not subject to custodial credit risk disclosures. Although the District’s investment policies do not directly address custodial credit risk, it typically limits its exposure by purchasing insured or registered investments, or by the control of who holds the securities.

**Credit Risk** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Minnesota Statutes limit the District’s investments to the following:

- Direct obligations or obligations guaranteed by the United States or its agencies;
- Shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of 13 months or less; general obligations rated “A” or better; revenue obligations rated “AA” or better;
- General obligations of the Minnesota Housing Finance Agency rated “A” or better; bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System;
- Commercial paper issued by United States corporations or their Canadian subsidiaries, rated of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories;
- Repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000; that are a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York; or certain Minnesota securities broker-dealers.

The District’s investment policies do not further restrict investing in specific financial instruments.

**Concentration Risk** – This is the risk associated with investing a significant portion of the District’s investments (considered 5 percent or more) in the securities of a single issuer, excluding U.S. guaranteed investments (such as treasuries), investment pools, and mutual funds. The District’s investment policies do not address concentration risk. At June 30, 2017, the District’s investment portfolio includes the following percentages of specific issuers:

Negotiable certificates of deposit

Star Bank CDs 63%

**Interest Rate Risk** – This is the risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk). The District’s investment policies do not limit the maturities of investments; however, when purchasing investments the District considers such things as interest rates and cash flow needs.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 2 DEPOSITS AND INVESTMENTS (Continued)

The following table presents the District's deposits and investments at year-end:

| Deposit/Investments                         | Credit Risk |        | Fair Value         | Interest Risk - |                   | Total                      |
|---|-------------|--------|--------------------|-----------------|-------------------|----------------------------|
|   | Rating      | Agency | Measurements Using | Maturity        | Duration in Years |                            |
|   |             |        |                    | Less Than 1     | 1 to 5            |                            |
| Negotiable certificates of deposit          | N/R         | N/R    | Level 1            | \$ -            | \$ 528,335        | 528,335                    |
| Investment pools/mutual funds               |             |        |                    |                 |                   |                            |
| Minnesota School District Liquid Asset Fund | AAAam       | S&P    | NAV                | N/A             | N/A               | 307,540                    |
| Total investments                           |             |        |                    |                 |                   | <u>835,875</u>             |
| Deposits                                    |             |        |                    |                 |                   | <u>1,237,560</u>           |
| <b>Total deposits and investments</b>       |             |        |                    |                 |                   | <b><u>\$ 2,073,435</u></b> |

NAV - Investments measured at the net asset value

N/A - Not applicable

N/R - Not rated

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

|                                       |                            |
|---------------------------------------|----------------------------|
| Statement of Net Position             |                            |
| Cash deposits                         | \$ 1,236,335               |
| Petty cash                            | 1,225                      |
| Investments                           | <u>835,875</u>             |
| <b>Total deposits and investments</b> | <b><u>\$ 2,073,435</u></b> |

The Minnesota School District Liquid Asset Fund (MSDLAF) and the MNTrust Investment Shares Portfolio are regulated by Minnesota Statutes and are external investment pools not registered with the Securities Exchange Commission (SEC). The District's investment in the MSDLAF is measured at the net asset value (NAV) per share provided by the pool, which approximates fair value in accordance with Rule 2a-7 of the Investment Company Act of 1940. The NAV method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of the investments. For MSDLAF investments valued at the NAV, there are no unfunded commitments, redemption frequency is daily, and there is no redemption notice for the Liquid Class; the redemption notice period is 14 days for the MAX Class.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 3 CAPITAL ASSETS

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

|  | Beginning<br>Balance       | Increases                  | Decreases                | Ending<br>Balance          |
|--|----------------------------|----------------------------|--------------------------|----------------------------|
| Capital assets not being depreciated           |                            |                            |                          |                            |
| Land   | \$ 39,000                  | \$ -                       | \$ -                     | \$ 39,000                  |
| Total capital assets not being depreciated     | <u>39,000</u>              | <u>-</u>                   | <u>-</u>                 | <u>39,000</u>              |
| Capital assets being depreciated               |                            |                            |                          |                            |
| Land improvements                              | 195,394                    | 5,839                      | -                        | 201,233                    |
| Buildings                                      | 14,771,163                 | -                          | -                        | 14,771,163                 |
| Machinery and equipment                        | <u>1,155,768</u>           | <u>68,474</u>              | <u>(113,894)</u>         | <u>1,110,348</u>           |
| Total capital assets<br>being depreciated      | <u>16,122,325</u>          | <u>74,313</u>              | <u>(113,894)</u>         | <u>16,082,744</u>          |
| Less accumulated depreciation for              |                            |                            |                          |                            |
| Land improvements                              | (115,074)                  | (6,853)                    | -                        | (121,927)                  |
| Buildings                                      | (5,467,335)                | (397,552)                  | -                        | (5,864,887)                |
| Machinery and equipment                        | <u>(887,739)</u>           | <u>(42,524)</u>            | <u>110,542</u>           | <u>(819,721)</u>           |
| Total accumulated<br>depreciation              | <u>(6,470,148)</u>         | <u>(446,929)</u>           | <u>110,542</u>           | <u>(6,806,535)</u>         |
| Total capital assets<br>being depreciated, net | <u>9,652,177</u>           | <u>(372,616)</u>           | <u>(3,352)</u>           | <u>9,276,209</u>           |
| <b>Capital assets, net</b>                     | <b><u>\$ 9,691,177</u></b> | <b><u>\$ (372,616)</u></b> | <b><u>\$ (3,352)</u></b> | <b><u>\$ 9,315,209</u></b> |

Depreciation expense was charged to the following governmental functions:

|                                   |                          |
|-----------------------------------|--------------------------|
| Administration                    | \$ -                     |
| District support                  | -                        |
| Regular instruction               | 3,146                    |
| Vocational support                | 2,663                    |
| Special Education                 | 1,038                    |
| Community education               | -                        |
| Instructional support             | 6,542                    |
| Pupil support                     | 9,100                    |
| Site, buildings and equipment     | 246,754                  |
| Unallocated                       | <u>177,686</u>           |
| <b>Total depreciation expense</b> | <b><u>\$ 446,929</u></b> |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 4 LONG-TERM LIABILITIES

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

The District currently has the following long-term obligations outstanding:

| Issue                                    | Issue Date | Interest Rate | Face/<br>Par Value | Final Maturity | Principal Outstanding             |
|--|------------|---------------|--------------------|----------------|-----------------------------------|
| General obligation bonds                 |            |               |                    |                |                                   |
| 2007 School refunding bonds              | 11/8/2007  | 4.13%         | \$ 3,625,000       | 2/1/2020       | \$ 1,140,000                      |
| 2012 School building bonds               | 5/30/2012  | 2.00-2.75%    | \$ 3,540,000       | 2/1/2029       | <u>3,540,000</u>                  |
| Total general obligation bonds payable   |            |               |                    |                | 4,680,000                         |
| Unamortized premium/discount             |            |               |                    |                | 75                                |
| Special assessments payable              |            |               |                    |                | 374,089                           |
| Capital leases payable                   |            |               |                    |                | 828,681                           |
| Net pension liability                    |            |               |                    |                | 10,960,371                        |
| Severance benefits payable               |            |               |                    |                | 28,083                            |
| Compensated absences payable             |            |               |                    |                | 21,595                            |
| Other postemployment benefits obligation |            |               |                    |                | <u>72,832</u>                     |
| <b>Total long-term obligations</b>       |            |               |                    |                | <b><u><u>\$16,965,726</u></u></b> |

**B. Descriptions of Long-Term Liabilities**

**General Obligation Bonds Payable** – These obligations were issued to finance acquisition, construction, and/or improvements of capital facilities to finance the retirement (refunding) of prior bond issues. Assets of the Debt Service Fund, together with scheduled deferred ad valorem tax levies, are dedicated for the retirement of these obligations. The annual future debt service levies authorized are equal to 105 percent of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

**Capital Leases Payable** – The District has purchased various assets through capitalized lease-purchase agreements. Annual principal and interest on these leases will be paid from the General Fund.

| Asset Leased                                  | Asset Value Capitalized | Interest Rate | Lease Date | Final Maturity | Principal Outstanding |
|---|-------------------------|---------------|------------|----------------|-----------------------|
| Energy efficiency improvements<br>Chromebooks | \$ 1,151,824            | 3.857%        | 4/20/2012  | 5/1/2027       | \$ 828,681            |
|   | <u>\$ 1,151,824</u>     |               |            |                | <u>\$ 828,681</u>     |

Amortization of assets capitalized through these lease agreements is included in depreciation expense in the government-wide financial statements. The amount charged to depreciation for the year ended June 30, 2017 was \$29,394.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 4 LONG-TERM LIABILITIES (Continued)

The assets acquired through these capital leases are reported as follows:

| Asset                         | Amount              |
|-------------------------------|---------------------|
| Building Improvements         | \$ 1,175,750        |
| Equipment                     | 20,000              |
| Less accumulated depreciation | 146,970             |
| <b>Total</b>                  | <b>\$ 1,048,780</b> |

**Net Pension Liability – PERA and TRA** – The District offers a number of benefits to its employees, including pensions. The details of these benefit liabilities are discussed elsewhere in these notes. The amounts reported as long-term debt represent the District’s proportionate share of the obligations of their respective plans. Such benefits are financed primarily from the General Fund and special revenue funds.

**Severance Benefits Payable** – Severance benefits payable consist of early retirement incentive pay or convertible sick leave benefits payable to employees upon retirement. Severance benefits are paid by the General Fund and special revenue funds. Annual payments to retire the severance benefits liability have not been determined and will depend on actual employee turnover.

**Severance Pay Non-Certified Staff** – Severance pay shall be paid to all employees who have provided 20 years of uninterrupted service to the District. Payment shall be at 50% of unused sick leave at the hourly rate in effect the year prior to the year of severance. Payment shall be in two equal installments with the first payment made in January immediately following the date of severance.

**Severance Pay Certified Staff** – Certified District employees are not eligible for severance benefits.

**Compensated Absences Payable** – Under the terms of union contracts, certain employees accrue vacation at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation and related benefits upon termination. Compensated absence benefits are paid by the General Fund and special revenue funds. Annual payments to retire this liability have not been determined and will depend on actual employee utilization and turnover.

**Special Assessment Payable** – The City of Bertha completed a water and sewer project and has levied special assessments to the District of \$418,290, payable over 30 years. Annual payments are \$20,359 with the final payment due in 2042. As of June 30, 2017 the remaining principal balance of the special assessment was \$374,089.

**Non-exchange financial guaranteed obligations** - The District has non-exchange financial guaranteed obligations outstanding during the year on its general obligation bonds. The state of Minnesota through their department of education (MDE) has guaranteed to make all required payments that the District is unable to make. The District is required to repay MDE with interest for any payments MDE makes pursuant to the guarantees. As of June 30, 2017, the District has made all required debt service payments on the guaranteed debt. At June 30, 2017, the outstanding principal amount of the guaranteed debt was \$4,680,000.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 4 LONG-TERM LIABILITIES (Continued)

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

|                                    | Beginning<br>Balance | Additions           | Reductions          | Ending<br>Balance    | Due Within<br>One Year |
|------------------------------------|----------------------|---------------------|---------------------|----------------------|------------------------|
| General obligation bonds           | \$ 5,030,000         | \$ -                | \$ (350,000)        | \$ 4,680,000         | \$ 365,000             |
| Discount/Premium                   | (1,630)              | -                   | 1,705               | 75                   | -                      |
| Total bonds payable                | 5,028,370            | -                   | (348,295)           | 4,680,075            | 365,000                |
| Capital leases payable             | 896,450              | -                   | (67,769)            | 828,681              | 70,429                 |
| Special assessments payable        | 384,429              | -                   | (10,340)            | 374,089              | 10,613                 |
| Severance benefits payable         | 31,874               | 6,436               | (10,227)            | 28,083               | -                      |
| OPEB obligations                   | 51,274               | 21,558              | -                   | 72,832               | -                      |
| Compensated absences payable       | 16,415               | 20,699              | (15,519)            | 21,595               | -                      |
| Net pension liabilities            | 3,176,715            | 7,783,656           | -                   | 10,960,371           | -                      |
| <b>Total long-term liabilities</b> | <b>\$ 9,585,527</b>  | <b>\$ 7,832,349</b> | <b>\$ (452,150)</b> | <b>\$ 16,965,726</b> | <b>\$ 446,042</b>      |

**D. Minimum Debt Payments**

Minimum annual principal and interest to maturity for general obligation bonds and other long-term debt outstanding as follows:

| Year Ending<br>June 30 | General Obligation Bonds |                   |                     | Capital Leases    |                   |                   |
|------------------------|--------------------------|-------------------|---------------------|-------------------|-------------------|-------------------|
|                        | Principal                | Interest          | Total               | Principal         | Interest          | Total             |
| 2018                   | \$ 365,000               | \$ 130,225        | \$ 495,225          | \$ 70,429         | \$ 30,939         | \$ 101,368        |
| 2019                   | 380,000                  | 115,169           | 495,169             | 73,194            | 28,174            | 101,368           |
| 2020                   | 395,000                  | 99,494            | 494,494             | 76,068            | 25,301            | 101,369           |
| 2021                   | 350,000                  | 83,200            | 433,200             | 79,054            | 22,314            | 101,368           |
| 2022                   | 370,000                  | 76,200            | 446,200             | 82,157            | 19,211            | 101,368           |
| 2023-2027              | 1,965,000                | 259,700           | 2,224,700           | 447,779           | 45,066            | 492,845           |
| 2028-2032              | 855,000                  | 34,950            | 889,950             | -                 | -                 | -                 |
| <b>Total</b>           | <b>\$ 4,680,000</b>      | <b>\$ 798,938</b> | <b>\$ 5,478,938</b> | <b>\$ 828,681</b> | <b>\$ 171,005</b> | <b>\$ 999,686</b> |

| Year Ending<br>June 30 | Special Assessments Payable |                   |                   |
|------------------------|-----------------------------|-------------------|-------------------|
|                        | Principal                   | Interest          | Total             |
| 2018                   | \$ 10,613                   | \$ 9,746          | \$ 20,359         |
| 2019                   | 10,893                      | 9,466             | 20,359            |
| 2020                   | 11,180                      | 9,179             | 20,359            |
| 2021                   | 11,475                      | 8,884             | 20,359            |
| 2022                   | 11,778                      | 8,581             | 20,359            |
| 2023-2027              | 63,724                      | 38,071            | 101,795           |
| 2028-2032              | 72,591                      | 29,204            | 101,795           |
| 2033-2037              | 82,693                      | 19,102            | 101,795           |
| 2038-2042              | 94,237                      | 7,595             | 101,832           |
| 2043                   | 4,906                       | -                 | 4,906             |
| <b>Total</b>           | <b>\$ 374,090</b>           | <b>\$ 139,828</b> | <b>\$ 513,918</b> |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 5 FUND BALANCES

The following is a breakdown of equity components of governmental funds which are defined earlier in the report. When applicable, certain restrictions which have an accumulated deficit balance at June 30 are included in unassigned fund balance in the District's financial statements in accordance with accounting principles generally accepted in the United States of America. A description of these deficit balance restrictions is included on the following page since the District has specific authority to future resources for such deficits.

**A. Classifications**

|                                  | General<br>Fund            | Debt Service<br>Funds   | Nonmajor<br>Funds       | Total                      |
|----------------------------------|----------------------------|-------------------------|-------------------------|----------------------------|
| <b>Nonspendable</b>              |                            |                         |                         |                            |
| Inventory                        | \$ -                       | \$ -                    | \$ 16,006               | \$ 16,006                  |
| Prepaid items                    | 28,699                     | -                       | 2,741                   | 31,440                     |
| Total nonspendable               | <u>28,699</u>              | <u>-</u>                | <u>18,747</u>           | <u>47,446</u>              |
| <b>Restricted</b>                |                            |                         |                         |                            |
| Debt service                     | -                          | 93,426                  | -                       | 93,426                     |
| Food service                     | -                          | -                       | 75,881                  | 75,881                     |
| Staff development                | 4,688                      | -                       | -                       | 4,688                      |
| Operating capital                | 348,117                    | -                       | -                       | 348,117                    |
| Long-term facilities maintenance | 52,307                     | -                       | -                       | 52,307                     |
| Medical assistance               | 40,034                     | -                       | -                       | 40,034                     |
| Community education programs     | -                          | -                       | 33,550                  | 33,550                     |
| Early childhood family education | -                          | -                       | 14,978                  | 14,978                     |
| Total restricted                 | <u>445,146</u>             | <u>93,426</u>           | <u>124,409</u>          | <u>662,981</u>             |
| <b>Unassigned</b>                |                            |                         |                         |                            |
| Health and safety                | (93,584)                   | -                       | -                       | (93,584)                   |
| Safe school levy                 | (7,881)                    | -                       | -                       | (7,881)                    |
| Community service                | -                          | -                       | (47,145)                | (47,145)                   |
| School readiness                 | -                          | -                       | (7,946)                 | (7,946)                    |
| Unassigned                       | 1,633,111                  | -                       | -                       | 1,633,111                  |
| Total unassigned                 | <u>1,531,646</u>           | <u>-</u>                | <u>(55,091)</u>         | <u>1,476,555</u>           |
| <b>Total</b>                     | <u><b>\$ 2,005,491</b></u> | <u><b>\$ 93,426</b></u> | <u><b>\$ 88,065</b></u> | <u><b>\$ 2,186,982</b></u> |

**B. Minimum Unassigned Fund Balance Policy**

The School Board has formally adopted a fund balance policy regarding the minimum unassigned fund balance for the General Fund. The policy establishes a minimum unassigned General Fund balance of 25.0 percent of the prior fiscal year's expenditures. At June 30, 2017, the unassigned fund balance (excluding restricted account deficits) was 30.9 percent of fiscal 2017 actual expenditures.

**C. Deficit Fund Equity**

As of June 30, 2017 the Community Service Fund had an overall deficit fund equity of \$5,925. The fund deficits are planned to be eliminated with future receipts.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 6 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN

**A. Plan Description**

The District provides post-employment benefits to certain eligible employees through its OPEB Plan, a single-employer defined benefit plan administered by the District. All post-employment benefits are based on contractual agreements with employee groups. Eligibility for these benefits is based on years of service and/or minimum age requirements. These contractual agreements do not include any specific contribution or funding requirements. The plan does not issue a publicly available financial report.

All retirees of the District have the option under state law to continue their medical insurance coverage through the District from the time of retirement. For members of certain employee groups, the District pays for all or part of the eligible retiree's premiums for medical insurance from the time of retirement until the employee reaches the age of eligibility for Medicare or a limited number of years depending on contractual language.

Benefits paid by the District differ by bargaining unit and date of hire, with some contracts specifying a certain dollar amount per month, and some covering premium costs as defined within each collective bargaining agreement. Retirees not eligible for these district-paid premium benefits must pay the full district premium rate for their coverage.

The District is legally required to include any retirees for whom it provides health insurance coverage in the same insurance pool as its active employees until the retiree reaches Medicare eligibility, whether the premiums are paid by the District or the retiree. Consequently, participating retirees are considered to receive a secondary benefit known as an "implicit rate subsidy." This benefit relates to the assumption that the retiree is receiving a more favorable premium rate than they would otherwise be able to obtain if purchasing insurance on their own, due to being included in the same pool with the District's younger and statistically healthier active employees.

**B. Funding Policy**

The required contribution is based on projected pay-as-you-go financing requirements, with additional amounts to pre-fund benefits as determined annually by the District.

**C. Annual OPEB Cost and Net OPEB Obligation**

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

|   |    |                      |
|---|----|----------------------|
| ARC   | \$ | 26,901               |
| Interest on net OPEB obligation                 |    | 1,538                |
| Adjustments to ARC                              |    | (2,606)              |
| Annual OPEB cost (expense)                      |    | <u>25,833</u>        |
| Contributions made                              |    | <u>4,276</u>         |
| Change in net OPEB obligation                   |    | 21,557               |
| Net OPEB obligation (asset) - beginning of year |    | <u>51,275</u>        |
| Net OPEB obligation (asset) - end of year       | \$ | <u><u>72,832</u></u> |



INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 6 OTHER POST-EMPLOYMENT BENEFITS (OPEB) PLAN (Continued)

The annual OPEB costs, the percentage contributed to the plan, and the net OPEB obligation/asset for the current and preceding three years are as follows:

| Fiscal<br>Year Ended<br>June 30, | Net OPEB<br>Obligation<br>(Asset)<br>Beginning<br>of Year | Annual<br>OPEB Cost | Employer<br>Contributions | Percentage<br>of Annual<br>OPEB Cost<br>Contributed | Net OPEB<br>Obligation<br>(Asset)<br>End of Year |
|----------------------------------|---|---------------------|---------------------------|---|--|
| 2015                             | \$ -  | \$ 26,901           | \$ 481                    | 1.79%   | \$ 26,420  |
| 2016                             | \$ 26,420   | \$ 26,366           | \$ 1,511                  | 5.73%   | \$ 51,275  |
| 2017                             | \$ 51,275   | \$ 25,833           | \$ 4,276                  | 16.55%  | \$ 72,832  |

**D. Funding Status and Funding Progress**

As of July 1, 2014, the most recent actuarial valuation date, the plan was 0.0 percent funded. The actuarial accrued liability for benefits was \$178,174, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$178,174. The covered payroll (annual payroll of active employees covered by the plan) was \$2,495,616, and the ratio of the UAAL to the covered payroll was 7.2 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability 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 ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress following the notes to basic financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

**E. Actuarial Methods and Assumptions**

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

In the July 1, 2014 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included: a 3.0 percent investment rate of return (net of investment expenses) based on the District's own investments; an annual healthcare cost trend rate of 7.5 percent initially, reduced by decrements to an ultimate rate of 5.0 percent after 10 years. All rates include a 2.5 percent inflation assumption. The UAAL is being amortized on a level dollar basis over a closed period. The remaining amortization period at July 1, 2014 for the various amortization layers ranged from 24 to 30 years.

**F. Membership**

Membership in the plan consisted of the following as of the most recent study:

|   |           |
|---|-----------|
| Retirees and beneficiaries receiving benefits | 0         |
| Active plan members                           | <u>62</u> |
| Total members                                 | <u>62</u> |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 7 DEFINED BENEFIT PENSION PLANS – STATE-WIDE

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

**A. Plan Descriptions**

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

**1. General Employees Retirement Fund (GERF)**

The PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356.

All full-time and certain part-time employees of the District other than teachers are covered by the 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.

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

The 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. The TRA is a separate statutory entity and administered by a Board of Trustees. The Board of Trustees consists of four active members, one retired member, and three statutory officials.

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

**B. Benefits Provided**

The PERA and the TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statutes and can only be modified by the State Legislature.

- PERA – Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90.0 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90.0 percent funded status, or have fallen below 80.0 percent, are given 1.0 percent increases.
- TRA – Post-retirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0 percent. After the TRA funded ratio exceeds 90.0 percent for two consecutive years, the annual post-retirement benefit will increase to 2.5 percent.

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

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 7 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

**1. GERS Benefits**

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

**2. TRA Benefits**

The 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 Statutes 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 the 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**

| Tier I      | Step Rate Formula   | Percentage    |
|-------------|---|---------------|
| Basic       | First 10 years of service   | 2.2% per year |
|             | All years after   | 2.7% per year |
| Coordinated | First 10 years if service years are up to July 1, 2006                | 1.2% per year |
|             | First 10 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) Three 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).

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 7 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

**Tier II Benefits**

For years of service prior to July 1, 2006, a level formula of 1.7 percent per year for Coordinated Plan members and 2.7 percent per year for Basic Plan members. For years of service July 1, 2006 and after, a level formula of 1.9 percent per year for Coordinated Plan members and 2.7 percent for Basic Plan members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statutes. 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.

**C. Contributions**

Minnesota Statutes set the rates for employer and employee contributions. Contribution rates can only be modified by the State Legislature.

**1. GERF Contributions**

Minnesota Statutes, Chapter 353 sets the rates for employer and employee contributions. Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.50 percent of pay, respectively, in fiscal year 2017. In fiscal year 2017, the District was required to contribute 11.78 percent of pay for Basic Plan members and 7.50 percent for the Coordinated Plan.

The District’s contributions to the GERF for the year ended June 30, 2017 were \$62,913. The District’s contributions were equal to the required contributions for each year as set by state statute.

**2. TRA Contributions**

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

|                  | Year Ended June 30, |          |          |          |
|------------------|---------------------|----------|----------|----------|
|                  | 2016                |          | 2017     |          |
|                  | Employee            | Employer | Employee | Employer |
| Basic Plan       | 11.0%               | 11.5%    | 11.0%    | 11.5%    |
| Coordinated Plan | 7.5%                | 7.5%     | 7.5%     | 7.5%     |

The District’s contributions to the TRA for the year ended June 30, 2017 were \$158,663. The District’s contributions were equal to the required contributions for each year as set by state statutes.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 7 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

The following is a reconciliation of employer contributions in the TRA's Comprehensive Annual Financial Report (CAFR) Statement of Changes in Fiduciary Net Position to the employer contributions used in the Schedule of Employer and Non-Employer Pension Allocations:

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

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

**D. Pension Costs**

**1. GERF Pension Costs**

At June 30, 2017, the District reported a liability of \$966,221 for its proportionate share of the GERF's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by the 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 the PERA's participating employers. At June 30, 2016, the District's proportion was 0.0119 percent, which was a decrease of 0.0001 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$1,919,119 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional \$62,080 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

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

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 7 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

| Description  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience  | \$ 2,860                             | \$ 78,491                           |
| Changes in actuarial assumptions                             | 208,391                              | -                                   |
| Differences between projected and actual investment earnings | 183,393                              | 75,521                              |
| Changes in proportion  | -                                    | 29,723                              |
| District's contributions subsequent to the measurement date  | 62,913                               | -                                   |
| <br>   |                                      |                                     |
| Total  | <u>\$ 457,557</u>                    | <u>\$ 183,735</u>                   |

A total of \$62,913 reported as deferred outflows of resources related to pensions resulting from district contributions to the GERS subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to the GERS pensions will be recognized in pension expense as follows:

| Year Ending<br>June 30, | Pension<br>Expense<br>Amount |
|-------------------------|------------------------------|
| 2018                    | \$ 53,030                    |
| 2019                    | \$ 30,967                    |
| 2020                    | \$ 92,010                    |
| 2021                    | \$ 34,902                    |
| 2022                    | \$ -                         |
| Thereafter              | \$ -                         |

**2. TRA Pension Costs**

At June 30, 2017, the District reported a liability of \$9,994,150 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. At June 30, 2016, the District's proportionate share was 0.0419%, which was an increase of 0.0006% from its proportionate share measured as of June 30, 2015.

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

| Description   | Amount       |
|---|--------------|
| District's proportionate share of net pension liability                               | \$ 9,994,150 |
| State's proportionate share of the net pension liability associated with the District | \$ 1,003,029 |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 7 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

For the year ended June 30, 2017, the District recognized pension expense of \$1,487,137. It also recognized \$140,056 as 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:

| Description  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience  | \$ 97,802                            | \$ 279                              |
| Changes in actuarial assumptions                             | 5,691,357                            | -                                   |
| Differences between projected and actual investment earnings | 735,854                              | 303,500                             |
| Changes in proportion  | 30,930                               | 164,756                             |
| District's contributions subsequent to the measurement date  | 158,662                              | -                                   |
| <br>   |                                      |                                     |
| Total  | <u>\$ 6,714,605</u>                  | <u>\$ 468,535</u>                   |

A total of \$158,662 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 ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

| Year Ending<br>June 30, | Pension<br>Expense<br>Amount |
|-------------------------|------------------------------|
| 2018                    | \$ 1,191,375                 |
| 2019                    | 1,191,375                    |
| 2020                    | 1,339,856                    |
| 2021                    | 1,250,287                    |
| 2022                    | 1,114,514                    |
| Thereafter              | \$ -                         |

**E. Actuarial Assumptions**

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

| Assumptions                  | GERF           | TRA            |
|------------------------------|----------------|----------------|
| Inflation                    | 2.50% per year | 2.75%          |
| Active member payroll growth | 3.25% per year | 3.50% per year |
| Investment rate of return    | 7.50%          | 4.66%          |

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

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 7 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

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

The following changes in actuarial assumptions for General Employees Fund 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.

There was a change in actuarial assumptions that affected the measurement of the total liability since the prior measurement date for TRA. Post-retirement benefit adjustments are now assumed to be 2.0% annually. The prior year valuation assumed a 2.5% increase commencing July 1, 2034.

The long-term expected rate of return on pension plan investments is 7.50% for GERF and 4.66% for TRA. 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 Allocation | Long-Term Expected Rate of Return |
|----------------------|-------------------|-----------------------------------|
| Domestic stocks      | 45%               | 5.50%                             |
| International stocks | 15%               | 6.00%                             |
| Bonds                | 18%               | 1.45%                             |
| Alternative assets   | 20%               | 6.40%                             |
| Cash                 | 2%                | 0.50%                             |
| Total                | 100%              |                                   |

**F. Discount Rate**

The discount rate used to measure the total General Employees Plan 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 contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability



INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 7 DEFINED BENEFIT PENSION PLANS – STATE-WIDE (Continued)

The discount rate used to measure the TRA pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date, of 8.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at 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% was applied to periods on and after 2052, resulting in a SEIR of 4.66%. Based on Fiduciary Net Position at prior year measurement date, the discount rate of 8.00% was used and it was not necessary to calculate the SEIR.

**G. Pension Liability Sensitivity**

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

| Description   | 1% Decrease in<br>Discount Rate | Discount<br>Rate | 1% Increase in<br>Discount Rate |
|---|---------------------------------|------------------|---------------------------------|
| GERF discount rate  | 6.50%                           | 7.50%            | 8.50%                           |
| District's proportionate share of<br>the GERF net pension liability | \$ 1,372,320                    | \$ 966,221       | \$ 631,706                      |
| TRA discount rate   | 3.66%                           | 4.66%            | 5.66%                           |
| District's proportionate share of<br>the TRA net pension liability  | \$ 12,874,963                   | \$ 9,994,150     | \$ 7,647,821                    |

**H. Pension Plan Fiduciary Net Position**

Detailed information about GERF's fiduciary's net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org); by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

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

Note 8 COMMITMENTS AND CONTINGENCIES

**A. Federal and State Programs**

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

**B. Contingencies**

The District has the usual and customary types of legal claims pending at year-end, mostly of a minor nature and usually covered by insurance carried for that purpose. The District's management believes that the District will not incur any material liabilities relating to these claims, and none have been accrued at year-end.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 9 JOINT VENTURE

Pursuant to an agreement authorized by state statutes, the District joined with seven other Districts to establish the Freshwater Education District (FED), an entity through which the member District's may jointly and cooperatively share services that no one District could efficiently provide. One member of the School Board of each member District serves on the governing Board of the FED. The operating and capital budget are charged to member Districts based on the annual assessment manual which allocates costs based on enrollment and program usage. Currently, the District consists of eleven members and provides coordination of member district and education district programs for handicapped pupils, gifted and talented pupils, secondary vocational education, improved learning, community education, early childhood family education, career education, and low incidence academic programs in thirteen school districts. For the year ended June 30, 2017, the cost of services provided to the District by FED was \$321,318. FED is separately audited from the District, complete financial statements can be obtained by contacting the FED business office, Freshwater Education District No. 6004, 1100 5<sup>th</sup> Street NE, Staples, MN 56479.

Note 10 INTERFUND BALANCES AND OPERATING TRANSFERS

The District had no interfund receivable or payable balances at June 30, 2017.

Note 11 REGULAR & VOCATIONAL EXPENDITURES

The District shares teachers with neighboring Districts but holds the contracts. UFARS does not have a category to record expenses for shared teachers, therefore the District expenditures for these teachers is overstated, and the receipts for these shared services are recorded in the category of other local and county revenues, with the actual source code of 021 for payments from other districts. Below is a listing of the positions and percentages shared for regular and vocational instruction, so the District's true cost of these services should be reduced by the amount paid by the other Districts

|                        | <u>Teacher Contract</u> | <u>Purchased by other<br/>School Districts</u> | <u>Bertha-Hewitt<br/>Teacher cost</u> |
|------------------------|-------------------------|--|---------------------------------------|
| Regular Instruction    |                         |  |                                       |
| Art                    | \$ 50,595               | \$ 25,298                                      | \$ 25,298                             |
| Vocational Instruction |                         |  |                                       |
| Vocational Agriculture | 75,227                  | 31,595   | 43,632                                |
| Total Expenditures     | <u>\$ 125,822</u>       | <u>\$ 56,893</u>                               | <u>\$ 68,930</u>                      |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

NOTES TO THE BASIC FINANCIAL STATEMENTS  
June 30, 2017

Note 12 SUBSEQUENT EVENT

Former Independent School District No. 2759 was involuntarily dissolved as of July 1, 2017 and its property and assets and liabilities were divided between Independent School District No. 787 (Browerville Public Schools) and Independent School District No. 786 (Bertha-Hewitt). Former Independent School District No. 2759 was required to estimate its reorganization operating debt under Minnesota Statutes, Section 123B.82 and to submit the estimate to the Commissioner of Education for adjustment and approval. The Commissioner was authorized to apportion the approved reorganization operating debt between Independent School District No. 787 (Browerville Public Schools) and Independent School District No. 786 (Bertha-Hewitt). Those districts were each authorized to issue general obligation bonds without an election to fund their shares of said approved and apportioned reorganization operating debt.

At a meeting held July 26, 2017, this Board determined to sell general obligation taxable bonds to fund the District's share of the approved reorganization operating debt as apportioned by the Commissioner and the costs of issuance of the Bonds. The portion of the principal amount of the Bonds issued to fund the approved and apportioned reorganization operating debt does not exceed the amount of the District's share of such reorganization operating debt as approved and apportioned by the Commissioner of Education pursuant to the Enabling Legislation.

**REQUIRED SUPPLEMENTARY INFORMATION**

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

SCHEDULE OF FUNDING PROGRESS FOR  
POSTEMPLOYMENT BENEFITS OTHER THAN PENSION  
Year Ended June 30, 2017

| Actuarial<br>Valuation<br>Date | Actuarial<br>Accrued<br>Liability | Actuarial<br>Value of<br>Plan Assets | Unfunded<br>Actuarial<br>Accrued<br>Liability | Funded<br>Ratio | Covered<br>Payroll | Unfunded<br>Liability as a<br>Percentage of<br>Payroll |
|--------------------------------|-----------------------------------|--------------------------------------|---|-----------------|--------------------|--|
| July 1, 2014                   | \$ 178,174                        | \$ -                                 | \$ 178,174                                    | 0.00%           | \$ 2,495,616       | 7.14%  |

The District implemented GASB Statement No. 45 for fiscal year ended June 30, 2015. Information for prior years is not available.

SCHEDULE OF DISTRICT CONTRIBUTIONS  
OTHER POST-EMPLOYMENT BENEFITS PLAN  
Year Ended June 30, 2017

| Year Ended<br>June 30, | Annual<br>Required<br>Contribution | Employer<br>Contribution | Percentage<br>Contributed | Net OPEB<br>Obligation<br>(Asset) |
|------------------------|------------------------------------|--------------------------|---------------------------|-----------------------------------|
| 2015                   | \$ 26,901                          | \$ 481                   | 1.79%                     | \$ 26,420                         |
| 2016                   | \$ 26,901                          | \$ 1,511                 | 5.62%                     | \$ 51,275                         |
| 2017                   | \$ 26,901                          | \$ 4,276                 | 15.90%                    | \$ 72,832                         |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY  
PUBLIC EMPLOYEE RETIREMENT ASSOCIATION  
Year Ended June 30, 2017

| District Fiscal Year-End Date | PERA Fiscal Year-End Date (Measurement Date) | District's Proportion of the Net Pension Liability | District's Proportionate Share of the Net Pension Liability | State's Proportionate Share of the Net Pension Liability Associated with the District | Total      | District's Covered Payroll | District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-------------------------------|--|--|---|---|------------|----------------------------|--|--|
| 6/30/2015                     | 6/30/2014                                    | 0.0131%  | \$ 615,372  | \$ -  | \$ 615,372 | \$ 662,653                 | 92.9%  | 78.7%  |
| 6/30/2016                     | 6/30/2015                                    | 0.0120%  | \$ 621,902  | \$ -  | \$ 621,902 | \$ 696,200                 | 89.3%  | 78.2%  |
| 6/30/2017                     | 6/30/2016                                    | 0.0119%  | \$ 966,221  | \$ 12,561   | \$ 978,782 | \$ 736,573                 | 132.9%   | 68.9%  |

SCHEDULE OF DISTRICT CONTRIBUTIONS  
PUBLIC EMPLOYEE RETIREMENT ASSOCIATION  
Year Ended June 30, 2017

| District Fiscal Year-End Date | PERA Fiscal Year-End Date (Measurement Date) | Statutorily Required Contributions | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | District's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-------------------------------|--|------------------------------------|---|----------------------------------|----------------------------|--|
| 6/30/2015                     | 6/30/2015                                    | \$ 52,215                          | \$ 52,215   | \$ -                             | \$ 696,200                 | 7.50%  |
| 6/30/2016                     | 6/30/2016                                    | \$ 55,243                          | \$ 55,243   | \$ -                             | \$ 736,573                 | 7.50%  |
| 6/30/2017                     | 6/30/2017                                    | \$ 62,913                          | \$ 62,913   | \$ -                             | \$ 838,840                 | 7.50%  |

Note 1: **Change of Assumptions.** The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years. 2) The assumed investment return was changed from 7.9% to 7.5%. The single discount rate was changed from 7.9% to 7.5%. 3) 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.

Note 2: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This information is not available for previous fiscal years.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

SCHEDULE OF DISTRICT'S PROPORTIONATE SHARE OF NET PENSION LIABILITY  
TEACHERS RETIREMENT ASSOCIATION  
Year Ended June 30, 2017

| District Fiscal Year-End Date | TRA Fiscal Year-End Date (Measurement Date) | District's Proportion of the Net Pension Liability | District's Proportionate Share of the Net Pension Liability | State's Proportionate Share of the Net Pension Liability Associated with the District | Total         | District's Covered Payroll | District's Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll | Plan Fiduciary Net Position as a Percentage of the Total Pension Liability |
|-------------------------------|---|--|---|---|---------------|----------------------------|--|--|
| 6/30/2015                     | 6/30/2014                                   | 0.0469%  | \$ 2,161,118  | \$ 152,034  | \$ 2,313,152  | \$ 2,000,227               | 115.6%   | 81.5%  |
| 6/30/2016                     | 6/30/2015                                   | 0.0413%  | \$ 2,554,813  | \$ 313,603  | \$ 2,868,416  | \$ 2,093,760               | 137.0%   | 76.8%  |
| 6/30/2017                     | 6/30/2016                                   | 0.0419%  | \$ 9,994,150  | \$ 1,003,029  | \$ 10,997,179 | \$ 2,178,653               | 504.8%   | 44.9%  |

SCHEDULE OF DISTRICT CONTRIBUTIONS  
TEACHERS RETIREMENT ASSOCIATION  
Year Ended June 30, 2017

| District Fiscal Year-End Date | PERA Fiscal Year-End Date (Measurement Date) | Statutorily Required Contributions | Contributions in Relation to the Statutorily Required Contributions | Contribution Deficiency (Excess) | District's Covered Payroll | Contributions as a Percentage of Covered Payroll |
|-------------------------------|--|------------------------------------|---|----------------------------------|----------------------------|--|
| 6/30/2015                     | 6/30/2015                                    | \$ 157,032                         | \$ 157,032  | \$ -                             | \$ 2,093,760               | 7.50%  |
| 6/30/2016                     | 6/30/2016                                    | \$ 163,399                         | \$ 163,399  | \$ -                             | \$ 2,178,653               | 7.50%  |
| 6/30/2017                     | 6/30/2017                                    | \$ 158,663                         | \$ 158,663  | \$ -                             | \$ 2,115,507               | 7.50%  |

Note 1: **Changes of Benefit Terms.** The Duluth Teachers Retirement Fund Association was merged into the TRA on June 30, 2015.

Note 2: **Change of Assumptions.** The annual COLA for the June 30, 2016 valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034, the COLA is now assumed to remain level at 2% annually. The discount rate used to measure the total pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. Details, if necessary, can be obtained from the TRA CAFR.

Note 3: The District implemented GASB Statement No. 68 in fiscal 2015 (using a June 30, 2014 measurement date). This information is not available for previous fiscal years.

SUPPLEMENTARY INFORMATION SECTION



INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

COMBINING BALANCE SHEET  
NONMAJOR FUNDS  
June 30, 2017

|   | Food<br>Service<br>Fund | Community<br>Service<br>Fund | Total<br>Non-Major<br>Funds |
|---|-------------------------|------------------------------|-----------------------------|
| <b>ASSETS</b>   |                         |                              |                             |
| Cash and Investments  | \$ 82,899               | \$ 5,599                     | \$ 88,498                   |
| Accounts Receivable   | 0                       | 2,143                        | 2,143                       |
| Property Taxes Receivable   | 0                       | 1,113                        | 1,113                       |
| Due from Minnesota Department of Education  | 0                       | 5,942                        | 5,942                       |
| Due from Federal Through State  | 12,955                  | 0                            | 12,955                      |
| Due from Other Minnesota School Districts   | 0                       | 0                            | 0                           |
| Inventory   | 16,006                  | 0                            | 16,006                      |
| Prepaid Items   | 2,104                   | 637                          | 2,741                       |
|   | <u>113,964</u>          | <u>15,434</u>                | <u>129,398</u>              |
| <b>TOTAL ASSETS</b>   | <u>\$ 113,964</u>       | <u>\$ 15,434</u>             | <u>\$ 129,398</u>           |
| <br><b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES,<br/>AND FUND BALANCE</b>       |                         |                              |                             |
| <b>Liabilities:</b>   |                         |                              |                             |
| Salaries and Benefits Payable   | \$ 19,629               | \$ 16,369                    | \$ 35,998                   |
| Accounts Payable  | 344                     | 3,877                        | 4,221                       |
| Due to Other Minnesota School Districts   | 0                       | 0                            | 0                           |
| Total Liabilities   | <u>19,973</u>           | <u>20,246</u>                | <u>40,219</u>               |
| <br><b>Deferred Inflows of Resources:</b>   |                         |                              |                             |
| Unavailable Revenue - Delinquent Taxes  | 0                       | 1,113                        | 1,113                       |
| Property Taxes Levied for Subsequent Year   | 0                       | 0                            | 0                           |
| Total Deferred Inflows of Resources   | <u>0</u>                | <u>1,113</u>                 | <u>1,113</u>                |
| <br><b>Fund Balance:</b>  |                         |                              |                             |
| Nonspendable  | 18,110                  | 637                          | 18,747                      |
| Restricted  | 75,881                  | 0                            | 75,881                      |
| Unassigned  | 0                       | (6,562)                      | (6,562)                     |
| Total Fund Balance  | <u>93,991</u>           | <u>(5,925)</u>               | <u>88,066</u>               |
| <br><b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES, AND FUND BALANCE</b> | <u>\$ 113,964</u>       | <u>\$ 15,434</u>             | <u>\$ 129,398</u>           |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE - NONMAJOR FUNDS  
For the Year Ended June 30, 2017

|  | Food<br>Service<br>Fund | Community<br>Service<br>Fund | Total<br>Non-Major<br>Funds |
|--|-------------------------|------------------------------|-----------------------------|
| <b>Revenues:</b>                             |                         |                              |                             |
| Local Property Taxes                         | \$ 0                    | \$ 20,440                    | \$ 20,440                   |
| Other Local and County Revenues              | 4,594                   | 101,967                      | 106,561                     |
| Revenue From State Sources                   | 26,100                  | 50,461                       | 76,561                      |
| Revenue From Federal Sources                 | 257,180                 | 0                            | 257,180                     |
| Sales and Other Conversions of Assets        | 62,995                  | 0                            | 62,995                      |
| Total Revenues                               | 350,869                 | 172,868                      | 523,737                     |
| <b>Expenditures:</b>                         |                         |                              |                             |
| District and School Administration           | 0                       | 0                            | 0                           |
| District Support Services                    | 0                       | 0                            | 0                           |
| Regular Instruction                          | 0                       | 0                            | 0                           |
| Vocational Instruction                       | 0                       | 0                            | 0                           |
| Exceptional Instruction                      | 0                       | 0                            | 0                           |
| Community Education and Services             | 0                       | 182,564                      | 182,564                     |
| Instructional Support Services               | 0                       | 0                            | 0                           |
| Pupil Support Services                       | 295,559                 | 0                            | 295,559                     |
| Site, Buildings, and Equipment               | 0                       | 0                            | 0                           |
| Fiscal and Other Fixed Cost Programs         | 0                       | 0                            | 0                           |
| Total Expenditures                           | 295,559                 | 182,564                      | 478,123                     |
| Excess of Revenues Over (Under) Expenditures | 55,310                  | (9,696)                      | 45,614                      |
| Fund Balance - Beginning                     | 38,681                  | 3,771                        | 42,452                      |
| Fund Balance - Ending                        | \$ 93,991               | \$ (5,925)                   | \$ 88,066                   |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

BALANCE SHEET  
GENERAL FUND  
June 30, 2017

(With Comparative Amounts for June 30, 2016)

|   | 2017                | 2016                |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| Cash and Investments  | \$ 1,760,733        | \$ 1,528,212        |
| Accounts Receivable   | 6,825               | 1,215               |
| Property Taxes Receivable   | 225,255             | 146,015             |
| Due from Minnesota Department of Education                                    | 789,456             | 618,592             |
| Due from Federal Through State  | 17,287              | 17,237              |
| Due from Other Minnesota School Districts                                     | 91,700              | 122,190             |
| Inventory   | 0                   | 0                   |
| Prepaid Items   | 28,699              | 29,852              |
| <b>TOTAL ASSETS</b>   | <b>\$ 2,919,955</b> | <b>\$ 2,463,313</b> |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES,<br/>AND FUND BALANCE</b>       |                     |                     |
| <b>Liabilities:</b>   |                     |                     |
| Salaries and Benefits Payable   | \$ 441,813          | \$ 448,723          |
| Accounts Payable  | 11,021              | 72,084              |
| Due to Other Minnesota School Districts                                       | 104,184             | 116,844             |
| Total Liabilities   | 557,018             | 637,651             |
| <b>Deferred Inflows of Resources:</b>   |                     |                     |
| Unavailable Revenue - Delinquent Taxes  | 9,122               | 6,179               |
| Property Taxes Levied for Subsequent Year                                     | 348,324             | 245,922             |
| Total Deferred Inflows of Resources   | 357,446             | 252,101             |
| <b>Fund Balance:</b>  |                     |                     |
| Nonspendable  | 28,699              | 29,852              |
| Restricted  | 343,681             | 299,061             |
| Unassigned  | 1,633,111           | 1,244,648           |
| Total Fund Balance  | 2,005,491           | 1,573,561           |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES, AND FUND BALANCE</b> | <b>\$ 2,919,955</b> | <b>\$ 2,463,313</b> |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - GENERAL FUND  
For the Year Ended June 30, 2017  
(With Comparative Amounts for the Year Ended June 30, 2016)

|   | 2017<br>Original<br>Budget | 2017<br>Final<br>Budget | 2017<br>Amount      | Over<br>(Under)<br>Budget | 2016<br>Amount      |
|---|----------------------------|-------------------------|---------------------|---------------------------|---------------------|
| <b>Revenues:</b>                            |                            |                         |                     |                           |                     |
| Local Property Taxes                        | \$ 364,863                 | \$ 301,738              | \$ 282,052          | \$ (19,686)               | \$ 149,364          |
| Other Local and County Revenues             | 171,033                    | 206,178                 | 236,759             | 30,581                    | 179,688             |
| Revenue From State Sources                  | 4,179,556                  | 4,709,854               | 4,997,373           | 287,519                   | 4,313,947           |
| Revenue From Federal Sources                | 170,745                    | 205,519                 | 197,451             | (8,068)                   | 204,710             |
| Sales and Other Conversion of Assets        | 13,190                     | 10,822                  | 9,523               | (1,299)                   | 13,014              |
| Total Revenues                              | <u>4,899,387</u>           | <u>5,434,111</u>        | <u>5,723,158</u>    | <u>289,047</u>            | <u>4,860,723</u>    |
| <b>Expenditures:</b>                        |                            |                         |                     |                           |                     |
| District and School Administration          | 261,533                    | 298,875                 | 299,953             | 1,078                     | 479,806             |
| District Support Service                    | 40,850                     | 104,243                 | 99,053              | (5,190)                   | 103,800             |
| Regular Instruction                         | 2,257,740                  | 2,366,315               | 2,395,914           | 29,599                    | 2,340,774           |
| Vocational Instruction                      | 125,032                    | 129,835                 | 131,734             | 1,899                     | 140,316             |
| Exceptional Instruction                     | 815,370                    | 863,322                 | 864,169             | 847                       | 867,668             |
| Instructional Support Services              | 175,540                    | 222,823                 | 231,488             | 8,665                     | 173,418             |
| Pupil Support Services                      | 557,629                    | 587,832                 | 530,200             | (57,632)                  | 531,797             |
| Sites, Buildings, and Equipment             | 809,613                    | 688,106                 | 707,766             | 19,660                    | 786,454             |
| Fiscal and Other Fixed Cost Programs        | 25,865                     | 31,200                  | 30,951              | (249)                     | 25,865              |
| Total Expenditures                          | <u>5,069,172</u>           | <u>5,292,551</u>        | <u>5,291,228</u>    | <u>(1,323)</u>            | <u>5,449,898</u>    |
| Excess of Revenue Over (Under) Expenditures | <u>\$ (169,785)</u>        | <u>\$ 141,560</u>       | 431,930             | <u>\$ 290,370</u>         | (589,175)           |
| Fund Balance - Beginning                    |                            |                         | <u>1,573,561</u>    |                           | <u>2,162,736</u>    |
| Fund Balance - Ending                       |                            |                         | <u>\$ 2,005,491</u> |                           | <u>\$ 1,573,561</u> |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

BALANCE SHEET  
FOOD SERVICE FUND

June 30, 2017

(With Comparative Amounts for June 30, 2016)

|   | 2017                  | 2016                 |
|---|-----------------------|----------------------|
| <b>ASSETS</b>   |                       |                      |
| Cash and Investments  | \$ 82,899             | \$ 39,502            |
| Accounts Receivable   | 0                     | 659                  |
| Due from Federal Through State  | 12,955                | 0                    |
| Inventory   | 16,006                | 16,666               |
| Prepaid Items   | 2,104                 | 1,921                |
| <b>TOTAL ASSETS</b>   | <b>\$ 113,964</b>     | <b>\$ 58,748</b>     |
| <br><b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES,<br/>AND FUND BALANCE</b>       |                       |                      |
| <b>Liabilities:</b>   |                       |                      |
| Salaries and Benefits Payable   | \$ 19,629             | \$ 18,567            |
| Accounts Payable  | 344                   | 0                    |
| Total Liabilities   | 19,973                | 18,567               |
| <br><b>Deferred Inflows of Resources:</b>   |                       |                      |
| Unearned Revenue  | 0                     | 1,500                |
| <br><b>Fund Balance:</b>  |                       |                      |
| Nonspendable  | 18,110                | 18,587               |
| Restricted  | 75,881                | 20,094               |
| Total Fund Balance  | 93,991                | 38,681               |
| <br><b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES, AND FUND BALANCE</b> | <br><b>\$ 113,964</b> | <br><b>\$ 58,748</b> |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - FOOD SERVICE FUND  
For the Year Ended June 30, 2017  
(With Comparative Amounts for the Year Ended June 30, 2016)

|   | <u>2017<br/>Original<br/>Budget</u> | <u>2017<br/>Final<br/>Budget</u> | <u>2017<br/>Amount</u> | <u>Over<br/>(Under)<br/>Budget</u> | <u>2016<br/>Amount</u> |
|---|-------------------------------------|----------------------------------|------------------------|------------------------------------|------------------------|
| <b>Revenues:</b>                            |                                     |                                  |                        |                                    |                        |
| Other Local and County Revenues             | \$ 400                              | \$ 1,900                         | \$ 4,594               | \$ 2,694                           | \$ 455                 |
| Revenue From State Sources                  | 21,900                              | 22,900                           | 26,100                 | 3,200                              | 23,646                 |
| Revenue From Federal Sources                | 176,400                             | 194,710                          | 257,180                | 62,470                             | 225,875                |
| Sales and Other Conversion of Assets        | <u>55,100</u>                       | <u>55,840</u>                    | <u>62,995</u>          | <u>7,155</u>                       | <u>59,654</u>          |
| Total Revenues                              | <u>253,800</u>                      | <u>275,350</u>                   | <u>350,869</u>         | <u>75,519</u>                      | <u>309,630</u>         |
| <b>Expenditures:</b>                        |                                     |                                  |                        |                                    |                        |
| Pupil Support Services                      | <u>282,010</u>                      | <u>302,390</u>                   | <u>295,559</u>         | <u>(6,831)</u>                     | <u>320,118</u>         |
| Excess of Revenue Over (Under) Expenditures | <u>\$ (28,210)</u>                  | <u>\$ (27,040)</u>               | 55,310                 | <u>\$ 82,350</u>                   | (10,488)               |
| Fund Balance - Beginning                    |                                     |                                  | <u>38,681</u>          |                                    | <u>49,169</u>          |
| Fund Balance - Ending                       |                                     |                                  | <u>\$ 93,991</u>       |                                    | <u>\$ 38,681</u>       |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

BALANCE SHEET  
COMMUNITY SERVICE FUND

June 30, 2017

(With Comparative Amounts for June 30, 2016)

|   | 2017             | 2016             |
|---|------------------|------------------|
| <b>ASSETS</b>   |                  |                  |
| Cash and Investments  | \$ 5,599         | \$ 12,512        |
| Accounts Receivable   | 2,143            | 5,175            |
| Property Taxes Receivable   | 1,113            | 13,131           |
| Due from Minnesota Department of Education                                    | 5,942            | 5,559            |
| Prepaid Items   | 637              | 387              |
| <b>TOTAL ASSETS</b>   | <b>\$ 15,434</b> | <b>\$ 36,764</b> |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES,<br/>AND FUND BALANCE</b>       |                  |                  |
| <b>Liabilities:</b>   |                  |                  |
| Salaries and Benefits Payable   | \$ 16,369        | \$ 9,839         |
| Accounts Payable  | 3,877            | 212              |
| Total Liabilities   | 20,246           | 10,051           |
| <b>Deferred Inflows of Resources:</b>   |                  |                  |
| Unavailable Revenue - Delinquent Taxes  | 1,113            | 2,494            |
| Property Taxes Levied for Subsequent Year                                     | 0                | 20,448           |
| Total Deferred Inflows of Resources   | 1,113            | 22,942           |
| <b>Fund Balance:</b>  |                  |                  |
| Nonspendable  | 637              | 387              |
| Restricted  | (6,562)          | 3,384            |
| Total Fund Balance  | (5,925)          | 3,771            |
| <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF<br/>RESOURCES, AND FUND BALANCE</b> | <b>\$ 15,434</b> | <b>\$ 36,764</b> |

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL - COMMUNITY SERVICE FUND  
For the Year Ended June 30, 2017  
(With Comparative Amounts for the Year Ended June 30, 2016)

|   | <u>2017<br/>Original<br/>Budget</u> | <u>2017<br/>Final<br/>Budget</u> | <u>2017<br/>Amount</u> | <u>Over<br/>(Under)<br/>Budget</u> | <u>2016<br/>Amount</u> |
|---|-------------------------------------|----------------------------------|------------------------|------------------------------------|------------------------|
| <b>Revenues:</b>                            |                                     |                                  |                        |                                    |                        |
| Local Property Taxes                        | \$ 16,965                           | \$ 20,032                        | \$ 20,440              | \$ 408                             | \$ 60,091              |
| Other Local and County Revenues             | 49,615                              | 101,038                          | 101,967                | 929                                | 66,707                 |
| Revenue From State Sources                  | <u>52,567</u>                       | <u>49,502</u>                    | <u>50,461</u>          | <u>959</u>                         | <u>44,575</u>          |
| Total Revenues                              | <u>119,147</u>                      | <u>170,572</u>                   | <u>172,868</u>         | <u>2,296</u>                       | <u>171,373</u>         |
| <b>Expenditures:</b>                        |                                     |                                  |                        |                                    |                        |
| Community Education and Services            | <u>111,671</u>                      | <u>151,563</u>                   | <u>182,564</u>         | <u>31,001</u>                      | <u>139,102</u>         |
| Excess of Revenue Over (Under) Expenditures | <u>\$ 7,476</u>                     | <u>\$ 19,009</u>                 | (9,696)                | <u>\$ (28,705)</u>                 | 32,271                 |
| Fund Balance - Beginning                    |                                     |                                  | <u>3,771</u>           |                                    | <u>(28,500)</u>        |
| Fund Balance - Ending                       |                                     |                                  | <u>\$ (5,925)</u>      |                                    | <u>\$ 3,771</u>        |



INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA  
UNIFORM ACCOUNTING AND REPORTING STANDARDS  
For the Year Ended June 30, 2017

|   | Audit       | UFARS              | Audit - UFARS |   | Audit     | UFARS            | Audit - UFARS |
|---|-------------|--------------------|---------------|---|-----------|------------------|---------------|
| <b>01 GENERAL FUND</b>                  |             |                    |               | <b>06 BUILDING CONSTRUCTION</b>           |           |                  |               |
| Total Revenue                           | \$5,723,158 | <u>\$5,723,158</u> | <u>\$0</u>    | Total Revenue                             | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| Total Expenditures                      | \$5,291,228 | <u>\$5,291,228</u> | <u>\$0</u>    | Total Expenditures                        | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| <i>Non Spendable:</i>                   |             |                    |               | <i>Non Spendable:</i>                     |           |                  |               |
| 4.60 Non Spendable Fund Balance         | \$28,699    | <u>\$28,699</u>    | <u>\$0</u>    | 4.60 Non Spendable Fund Balance           | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| <i>Restricted / Reserved:</i>           |             |                    |               | <i>Restricted / Reserved:</i>             |           |                  |               |
| 4.03 Staff Development                  | \$4,688     | <u>\$4,688</u>     | <u>\$0</u>    | 4.07 Capital Projects Levy                | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.06 Health and Safety                  | (\$93,584)  | <u>(\$93,584)</u>  | <u>\$0</u>    | 4.13 Project Funded by COP                | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.07 Capital Projects Levy              | \$0         | <u>\$0</u>         | <u>\$0</u>    | 4.67 LTFM                                 | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.08 Cooperative Revenue                | \$0         | <u>\$0</u>         | <u>\$0</u>    | <i>Restricted:</i>                        |           |                  |               |
| 4.13 Project Funded by COP              | \$0         | <u>\$0</u>         | <u>\$0</u>    | 4.64 Restricted Fund Balance              | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.14 Operating Debt                     | \$0         | <u>\$0</u>         | <u>\$0</u>    | <i>Unassigned:</i>                        |           |                  |               |
| 4.16 Levy Reduction                     | \$0         | <u>\$0</u>         | <u>\$0</u>    | 4.63 Unassigned Fund Balance              | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.17 Taconite Building Maint            | \$0         | <u>\$0</u>         | <u>\$0</u>    |   |           |                  |               |
| 4.24 Operating Capital                  | \$348,117   | <u>\$348,117</u>   | <u>\$0</u>    | <b>07 DEBT SERVICE</b>                    |           |                  |               |
| 4.26 \$25 Taconite                      | \$0         | <u>\$0</u>         | <u>\$0</u>    | Total Revenue                             | \$519,329 | <u>\$519,329</u> | <u>\$0</u>    |
| 4.27 Disabled Accessibility             | \$0         | <u>\$0</u>         | <u>\$0</u>    | Total Expenditures                        | \$495,563 | <u>\$495,563</u> | <u>\$0</u>    |
| 4.28 Learning & Development             | \$0         | <u>\$0</u>         | <u>\$0</u>    | <i>Non Spendable:</i>                     |           |                  |               |
| 4.34 Area Learning Center               | \$0         | <u>\$0</u>         | <u>\$0</u>    | 4.60 Non Spendable Fund Balance           | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.35 Contracted Alt. Programs           | \$0         | <u>\$0</u>         | <u>\$0</u>    | <i>Restricted / Reserved:</i>             |           |                  |               |
| 4.36 State Approved Alt. Program        | \$0         | <u>\$0</u>         | <u>\$0</u>    | 4.25 Bond Refundings                      | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.38 Gifted & Talented                  | \$0         | <u>\$0</u>         | <u>\$0</u>    | 4.51 QZAB Payments                        | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.40 Teacher Development and Evaluation | \$0         | <u>\$0</u>         | <u>\$0</u>    | <i>Restricted:</i>                        |           |                  |               |
| 4.41 Basic Skills Programs              | \$0         | <u>\$0</u>         | <u>\$0</u>    | 4.64 Restricted Fund Balance              | \$93,426  | <u>\$93,427</u>  | (\$1)         |
| 4.45 Career Tech Programs               | \$0         | <u>\$0</u>         | <u>\$0</u>    | <i>Unassigned:</i>                        |           |                  |               |
| 4.48 Achievement and Integration        | \$0         | <u>\$0</u>         | <u>\$0</u>    | 4.63 Unassigned Fund Balance              | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.49 Safe School Crime - Crime Levy     | (\$7,881)   | <u>(\$7,881)</u>   | <u>\$0</u>    |   |           |                  |               |
| 4.50 Pre-Kindergarten                   | \$0         | <u>\$0</u>         | <u>\$0</u>    | <b>08 TRUST</b>                           |           |                  |               |
| 4.51 QZAB Payments                      | \$0         | <u>\$0</u>         | <u>\$0</u>    | Total Revenue                             | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.52 OPEB Liab Not In Trust             | \$0         | <u>\$0</u>         | <u>\$0</u>    | Total Expenditures                        | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.53 Unfunded Sev & Retirement Levy     | \$0         | <u>\$0</u>         | <u>\$0</u>    | 4.22 Unassigned Fund Balance (Net Assets) | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.67 LTFM                               | \$52,307    | <u>\$52,307</u>    | <u>\$0</u>    |   |           |                  |               |
| 4.72 Medical Assistance                 | \$40,034    | <u>\$40,034</u>    | <u>\$0</u>    | <b>20 INTERNAL SERVICE</b>                |           |                  |               |
| <i>Restricted:</i>                      |             |                    |               | Total Revenue                             | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.64 Restricted Fund Balance            | \$0         | <u>\$0</u>         | <u>\$0</u>    | Total Expenditures                        | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| <i>Committed:</i>                       |             |                    |               | 4.22 Unassigned Fund Balance (Net Assets) | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.18 Committed for Separation           | \$0         | <u>\$0</u>         | <u>\$0</u>    |   |           |                  |               |
| 4.61 Committed Fund Balance             | \$0         | <u>\$0</u>         | <u>\$0</u>    | <b>25 OPEB REVOCABLE TRUST</b>            |           |                  |               |
| <i>Assigned:</i>                        |             |                    |               | Total Revenue                             | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.62 Assigned Fund Balance              | \$0         | <u>\$0</u>         | <u>\$0</u>    | Total Expenditures                        | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| <i>Unassigned:</i>                      |             |                    |               | 4.22 Unassigned Fund Balance (Net Assets) | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.22 Unassigned Fund Balance            | \$1,633,111 | <u>\$1,633,111</u> | <u>\$0</u>    |   |           |                  |               |
|   |             |                    |               | <b>45 OPEB IRREVOCABLE TRUST</b>          |           |                  |               |
| <b>02 FOOD SERVICES</b>                 |             |                    |               | Total Revenue                             | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| Total Revenue                           | \$350,869   | <u>\$350,868</u>   | <u>\$1</u>    | Total Expenditures                        | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| Total Expenditures                      | \$295,559   | <u>\$295,559</u>   | <u>\$0</u>    | 4.22 Unassigned Fund Balance (Net Assets) | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| <i>Non Spendable:</i>                   |             |                    |               |   |           |                  |               |
| 4.60 Non Spendable Fund Balance         | \$18,110    | <u>\$18,110</u>    | <u>\$0</u>    | <b>47 OPEB DEBT SERVICE</b>               |           |                  |               |
| <i>Restricted / Reserved:</i>           |             |                    |               | Total Revenue                             | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| 4.52 OPEB Liab Not In Trust             | \$0         | <u>\$0</u>         | <u>\$0</u>    | Total Expenditures                        | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| <i>Restricted:</i>                      |             |                    |               | <i>Non Spendable:</i>                     |           |                  |               |
| 4.64 Restricted Fund Balance            | \$75,881    | <u>\$75,880</u>    | <u>\$1</u>    | 4.60 Non Spendable Fund Balance           | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| <i>Unassigned:</i>                      |             |                    |               | <i>Restricted:</i>                        |           |                  |               |
| 4.63 Unassigned Fund Balance            | \$0         | <u>\$0</u>         | <u>\$0</u>    | 4.25 Bond Refundings                      | \$0       | <u>\$0</u>       | <u>\$0</u>    |
|   |             |                    |               | 4.64 Restricted Fund Balance              | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| <b>04 COMMUNITY SERVICE</b>             |             |                    |               | <i>Unassigned:</i>                        |           |                  |               |
| Total Revenue                           | \$172,868   | <u>\$172,868</u>   | <u>\$0</u>    | 4.63 Unassigned Fund Balance              | \$0       | <u>\$0</u>       | <u>\$0</u>    |
| Total Expenditures                      | \$182,564   | <u>\$182,564</u>   | <u>\$0</u>    |   |           |                  |               |
| <i>Non Spendable:</i>                   |             |                    |               |   |           |                  |               |
| 4.60 Non Spendable Fund Balance         | \$637       | <u>\$637</u>       | <u>\$0</u>    |   |           |                  |               |
| <i>Restricted / Reserved:</i>           |             |                    |               |   |           |                  |               |
| 4.26 \$25 Taconite                      | \$0         | <u>\$0</u>         | <u>\$0</u>    |   |           |                  |               |
| 4.31 Community Education                | \$33,550    | <u>\$33,550</u>    | <u>\$0</u>    |   |           |                  |               |
| 4.32 E.C.F.E                            | \$14,978    | <u>\$14,978</u>    | <u>\$0</u>    |   |           |                  |               |
| 4.40 Teacher Development and Evaluation | \$0         | <u>\$0</u>         | <u>\$0</u>    |   |           |                  |               |
| 4.44 School Readiness                   | (\$7,946)   | <u>(\$7,946)</u>   | <u>\$0</u>    |   |           |                  |               |
| 4.47 Adult Basic Education              | \$0         | <u>\$0</u>         | <u>\$0</u>    |   |           |                  |               |
| 4.52 OPEB Liab Not In Trust             | \$0         | <u>\$0</u>         | <u>\$0</u>    |   |           |                  |               |
| <i>Restricted:</i>                      |             |                    |               |   |           |                  |               |
| 4.64 Restricted Fund Balance            | (\$46,703)  | <u>(\$46,703)</u>  | <u>\$0</u>    |   |           |                  |               |
| <i>Unassigned:</i>                      |             |                    |               |   |           |                  |               |
| 4.63 Unassigned Fund Balance            | (\$442)     | <u>(\$442)</u>     | <u>\$0</u>    |   |           |                  |               |

## OTHER REPORTS



# Burkhardt & Burkhardt, Ltd.

Certified Public Accountants

Website: [www.bnbcpas.com](http://www.bnbcpas.com)

**Annandale Office:**  
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**Experienced...** Over 40 years combined experience

**Affordable...** Exceptional value for a reasonable price

**Friendly...** Family owned and run since 1990

**Mankato Office:**  
430 S. Broad St., Ste. 100  
Mankato, MN 56001  
P: 507.387.1338  
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## MINNESOTA LEGAL COMPLIANCE

### Independent Auditor's Report

October 23, 2017

Members of the School Board  
Independent School District No. 786  
Bertha-Hewitt, 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 and each major fund of the Independent School District No. 786, Bertha-Hewitt, Minnesota, (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated October 23, 2017.

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as noted in the schedule of findings as 2017-004. 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.

*Burkhardt & Burkhardt, Ltd.*

Burkhardt & Burkhardt, Ltd  
Certified Public Accountants  
Mankato, Minnesota



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

October 23, 2017

Members of the School Board  
Independent School District No. 786  
Bertha-Hewitt, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Independent School District No. 786, Bertha-Hewitt, Minnesota (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 23, 2017.

### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies as items 2017-001, 2017-002 and 2017-003.

**Compliance and Other Matters**

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

**District’s Response to Findings**

The District’s response to the findings identified in our audit 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.

**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.

*Burkhardt & Burkhardt, Ltd.*

Burkhardt & Burkhardt, Ltd  
Certified Public Accountants  
Mankato, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

SCHEDULE OF FINDINGS  
June 30, 2017

**CURRENT YEAR FINDINGS**

Significant Deficiencies

**2017-001. Segregation of Duties**

- Condition:* The District has a limited number of office personnel and accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties. An effective internal control structure provides an adequate segregation of duties so that no one individual handles a transaction from its inception to its completion.
- Criteria:* Internal controls should be in place that provides reasonable assurance that proper segregation of duties is achieved.
- Cause:* The District has a limited number of office personnel and inadequate internal controls.
- Effect:* The failure to properly segregate duties increases the risk that misstatements may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.
- Recommendation:* While it is recognized that the District's office staff may not be large enough to permit an adequate segregation of duties in all respects for an effective internal control structure, it is important that the District be aware of this situation.
- Response:* The Board has already taken measures to attempt to comply even though the District is relatively small and the number of clerical/bookkeeping staff they can employ is limited. The Board has addressed this circumstance by active participation in the District's affairs. This includes approval of disbursements, regular review of financial reports, regular review of bank reconciliations and budget comparisons.

Corrective Acton Plan (CAP)

- a) *Actions Planned in Response to the Finding:* The District has determined the benefit of adequately segregating duties is less than the cost. Based on this assessment, the District is accepting the risk posed by the deficiency while also evaluating mitigating controls that will help reduce the risk of material misstatement of the financial statements. Management is attempting to mitigate the associated risks by doing the following:
1. Identifying areas lacking segregation of duties and where there are higher risks of fraud occurring.
  2. Implementing limited segregation to the extent possible to reduce risks without impairing efficiency.
  3. Using the knowledge of management and the School Board to review accounting records and reports,
- b) *Official Responsible for Ensuring Corrective Action:* The Business Manager will monitor the effectiveness of the above actions and make changes as considered appropriate.
- c) *Planned Completion Date for the Corrective Action:* The corrective action plan for this finding will be ongoing.
- d) *Explanation of Disagreement:* There is no disagreement with the audit finding.
- e) *Plan to Monitor Completion of Corrective Action:* The School Board will be monitoring this corrective action plan to review the recommendations and take appropriate action.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

SCHEDULE OF FINDINGS  
June 30, 2017

**2017-002. Preparation of financial statements and related footnotes**

- Condition:* The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. District personnel do prepare periodic financial statements and other financial information for internal use that meets the needs of management and the School Board. However, the District does not have the internal resources to prepare full-disclosure financial statements required by GAAP for external reporting. As auditors, we were requested to draft the financial statements and accompanying footnotes.
- Criteria:* Internal controls over financial reporting include those related to the actual preparation and review of the audited financial statements. In order to prepare a complete set of financial statements in conformity with GAAP, the preparer must have the necessary expertise.
- Cause:* The District does not have the resources to compile their own financial statements.
- Effect:* This control deficiency could result in a misstatement to the financial statements that would not be prevented or detected.
- Recommendation:* This control deficiency is not unusual in a small district. However, it is the responsibility of management and the School Board to decide whether to accept the degree of risk associated with this condition based on the cost of correction and other considerations.
- Response:* The District is aware of the control deficiency, which is an unavoidable consequence of the financial restrictions of small districts. Management recognizes that it is not economically feasible to fully correct this finding. However, we are aware of the deficiency and will rely on oversight by management and the Board to monitor the deficiency. The District will also explore options and cost effective feasibility of training existing personnel to adequately prepare the annual financial reports.

Corrective Acton Plan (CAP)

- a) *Actions Planned in Response to the Finding:* The District does not plan to take any action but is aware of the condition. Based on the cost of correcting this deficiency, the District has decided to accept the risk associated with this deficiency.
- b) *Official Responsible for Ensuring Corrective Action:* The Business Manager and Superintendent will review the financial statements and related footnotes and approve them
- c) *Planned Completion Date for the Corrective Action:* The corrective action plan for this funding will be ongoing.
- d) *Explanation of Disagreement:* There is no disagreement with the audit finding.
- e) *Plan to Monitor Completion of Corrective Action:* The School Board will be monitoring this corrective action plan.

**2017-003. Adjusting journal entries**

- Condition:* The audit firm proposed and the District posted to its general ledger journal entries to correct certain year-end general ledger balances
- Criteria:* Internal controls should be in place that provides reasonable assurance that all general ledger accounts of the District are properly adjusted at year-end.
- Cause:* The District does not have adequate internal controls in place to prevent or detect material misstatement of the financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

SCHEDULE OF FINDINGS  
June 30, 2017

**2017-003. Adjusting journal entries – (continued)**

- Effect:* The potential exists that a material misstatement could exist in the financial statements and not be prevented or detected by the District's internal controls.
- Recommendation:* The District should continue to evaluate their internal processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year-end balances.
- Response:* The District is aware of the control deficiency, which is an unavoidable consequence of the financial restrictions of small districts. Management recognizes that it is not economically feasible to fully correct this finding. However, we are aware of the deficiency and will rely on oversight by management and the Board to monitor the deficiency. The District will also explore options and cost effective feasibility of training existing personnel to adequately prepare the annual financial reports.

Corrective Acton Plan (CAP)

- a) *Actions Planned in Response to the Finding:* The District will consider putting new procedures in place to ensure that all balances are properly adjusted at year-end in the District's general ledger. The District will review all adjusting entries posted this year and make all such necessary adjustments in the future. The business manager will continue to monitor all financial activity and adjust account balances as needed throughout the year and at year end to prevent material misstatements from occurring.
- b) *Official Responsible for Ensuring Corrective Action:* The Business Manager will monitor the effectiveness of the above actions and make changes as considered appropriate.
- c) *Planned Completion Date for the Corrective Action:* The corrective action plan for this finding will be ongoing.
- d) *Explanation of Disagreement:* There is no disagreement with the audit finding.
- e) *Plan to Monitor Completion of Corrective Action:* The School Board will be monitoring this corrective action plan to review the recommendations and take appropriate action.

**CURRENT YEAR MINNESOTA LEGAL COMPLIANCE FINDINGS**

**2017-004. Miscellaneous Provisions**

Minnesota statutes §465.03 requires every acceptance of a grant or devise of real or personal property on terms prescribed by the donor be made by resolution of the governing board adopted by a two-thirds majority and expressing such terms in full.

During the year ended June 30, 2017, we noted donations were accepted by the District that did not comply with applicable statutes.



INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

SCHEDULE OF FINDINGS  
June 30, 2017

**STATUS OF PRIOR AUDIT FINDINGS**

The prior audit contained two findings:

**2016-001. Segregation of Duties**

*Condition:* The District has a limited number of office personnel and, accordingly, does not have adequate internal controls in certain areas because of a lack of segregation of duties. This finding was again noted for the current year.

*Current status:* This condition is noted during the current year audit of the financial statements.

**2016-002. Preparation of financial statements and related footnotes**

*Condition:* Prior period adjustments were proposed that were not identified as a result of the District's internal controls in prior years.

*Current status:* This condition is noted during the current year audit of the financial statements.

## STUDENT ACTIVITY ACCOUNTS



# Burkhardt & Burkhardt, Ltd.

Certified Public Accountants

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## INDEPENDENT AUDITOR'S REPORT

October 23, 2017

Members of the School Board, Advisors, and Students  
Independent School District No. 786  
Bertha-Hewitt, Minnesota

### ***Report on the Financial Statements***

We have audited the accompanying financial statement of the cash receipts and disbursements of the student activity accounts of Independent School District No. 786, Bertha-Hewitt, Minnesota, for the year ended June 30, 2017, and the related notes to the financial statements.

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

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

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

As described in the note to the financial statement, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statement is prepared by the Independent School District No. 786 in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

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

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

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District No. 786 as of June 30, 2017, or changes in financial position for the year then ended.

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

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

***Qualified Opinion on Regulatory Basis of Accounting***

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion on Regulatory Basis paragraph, the financial statement referred to in the first paragraph present fairly, in all material respects, the cash balances of the Student Activity Funds of Independent School District No. 786 as of June 30, 2017, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the note to the financial statement.

*Burkhardt & Burkhardt, Ltd.*

Burkhardt & Burkhardt, Ltd  
Certified Public Accountants  
Mankato, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 786  
STUDENT ACTIVITY ACCOUNT  
BERTHA-HEWITT, MINNESOTA

STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
For The Year Ended June 30, 2017

|                             | Beginning<br>Balance | Receipts             | Disbursements        | Transfers   | Ending<br>Balance    |
|-----------------------------|----------------------|----------------------|----------------------|-------------|----------------------|
| Accelerated reader          | \$ 168.64            | \$ 7,865.64          | \$ 7,904.98          | \$ -        | \$ 129.30            |
| Accounts payable            | -                    | -                    | -                    | -           | 1,914.65             |
| Annual Staff                | 1,648.51             | 3,061.80             | 2,334.23             | -           | 2,376.08             |
| Art club                    | 25.00                | -                    | -                    | -           | 25.00                |
| Band                        | 4,396.00             | 50.00                | 890.54               | -           | 3,555.46             |
| Baseball                    | 452.33               | 2,685.00             | 1,912.91             | -           | 1,224.42             |
| Basketball - Boys           | 3,057.81             | 1,831.36             | 3,005.83             | -           | 1,883.34             |
| Basketball - Girls          | 5,575.93             | 5,009.27             | 5,713.77             | -           | 4,871.43             |
| Bear Fund                   | 6,039.82             | 1,927.19             | 1,693.65             | -           | 6,273.36             |
| Bear Cub Fund               | 7,964.65             | 1,853.20             | 1,376.27             | -           | 8,441.58             |
| B-H pops concert            | 1,837.46             | 358.01               | 300.00               | -           | 1,895.47             |
| B-H youth football          | 2,276.97             | 1,160.07             | 331.06               | -           | 3,105.98             |
| B.E.A.R.S.                  | -                    | 592.05               | 223.93               | -           | 368.12               |
| Business Professional Assoc | 3,496.53             | 3,282.99             | 3,321.80             | -           | 3,457.72             |
| Choir                       | 11,359.95            | 9,040.46             | 5,891.60             | -           | 14,508.81            |
| Concessions club            | 11,731.40            | 21,451.85            | 25,811.96            | -           | 7,371.29             |
| DARE                        | 100.00               | -                    | -                    | -           | 100.00               |
| The den                     | 2,478.60             | 2,997.44             | 2,050.08             | -           | 3,425.96             |
| Drama club                  | 1,195.92             | 1,172.07             | 874.20               | -           | 1,493.79             |
| FCCLA                       | 477.60               | -                    | -                    | -           | 477.60               |
| FFA                         | 1,436.83             | 4,736.00             | 5,028.52             | -           | 1,144.31             |
| Football                    | 620.00               | 5,980.00             | 4,636.62             | -           | 1,963.38             |
| Football cheerleaders       | 167.99               | -                    | -                    | -           | 167.99               |
| General account             | 8,266.33             | 4,447.06             | 4,036.02             | -           | 8,677.37             |
| Hangout - SACC              | 1,733.97             | 674.62               | 795.64               | -           | 1,612.95             |
| High school athletics       | 11.07                | 2,311.29             | 765.17               | -           | 1,557.19             |
| Knowledge bowl              | 272.87               | -                    | -                    | -           | 272.87               |
| Long lake cons center       | 1,691.67             | 3,798.00             | 4,677.70             | -           | 811.97               |
| National honor society      | 607.78               | 817.16               | 810.99               | -           | 613.95               |
| Spanish club                | 388.32               | 1,020.65             | 1,408.97             | -           | -                    |
| Special education           | 627.48               | -                    | -                    | -           | 627.48               |
| Speech club                 | 7.11                 | -                    | -                    | -           | 7.11                 |
| Student council             | 5,224.51             | 6,874.53             | 5,829.13             | -           | 6,269.91             |
| Trap team                   | 638.19               | 4,495.00             | 3,812.22             | -           | 1,320.97             |
| Video tech                  | 2,236.57             | 360.00               | 496.13               | -           | 2,100.44             |
| Volleyball                  | 777.49               | 1,342.86             | 1,086.94             | -           | 1,033.41             |
| Wrestling club              | 1,827.53             | 3,036.59             | 2,121.32             | -           | 2,742.80             |
| Wrestling cheerleaders      | 396.34               | -                    | -                    | -           | 396.34               |
| Kindergarten                | 539.17               | -                    | 155.00               | -           | 384.17               |
| First grade                 | 1,877.13             | -                    | 586.12               | -           | 1,291.01             |
| Second grade                | 1,027.21             | -                    | -                    | -           | 1,027.21             |
| Third grade                 | 944.81               | -                    | 82.00                | -           | 862.81               |
| Fourth grade                | 913.71               | -                    | -                    | -           | 913.71               |
| Fifth grade                 | 406.98               | -                    | -                    | -           | 406.98               |
| Sixth grade                 | 834.21               | -                    | -                    | -           | 834.21               |
| Class of 2020               | 1,116.66             | 384.84               | -                    | -           | 1,501.50             |
| Class of 2021               | 308.62               | -                    | -                    | -           | 308.62               |
| Class of 2022               | -                    | 55.00                | -                    | -           | 55.00                |
| Class of 2017               | 2,328.27             | 1,892.09             | 4,220.36             | -           | -                    |
| Class of 2018               | 1,015.11             | 3,856.37             | 1,884.47             | -           | 2,987.01             |
| Class of 2019               | 1,222.88             | 1,103.00             | 727.00               | -           | 1,598.88             |
| Totals                      | <u>\$ 103,749.93</u> | <u>\$ 111,523.46</u> | <u>\$ 106,797.13</u> | <u>\$ -</u> | <u>\$ 110,390.91</u> |

The Accompanying Note to the Financial Statement is an Integral Part of This Statement.

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA  
NOTES TO STUDENT ACTIVITY FUNDS FINANCIAL STATEMENTS  
June 30, 2017

Note 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The accounts of the student activity funds are maintained, and the accompanying financial statement has been prepared, on the cash basis of accounting. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred.



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

October 23, 2017

To the School Board,  
Advisors and Students  
Independent School District No. 786  
Bertha-Hewitt, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America, the Statements of Receipts and Disbursements of the student activity accounts of Independent School District No. 786, Bertha-Hewitt, Minnesota, for the year ended June 30, 2017, and the related Notes to the Financial Statements and have issued our report thereon dated October 23, 2017.

The *Manual for Student Activity Accounting*, issued by the Minnesota Department of Education, pursuant to *Minnesota Statutes* Section 123B.49, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this Manual.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Manual for Student Activity Accounting*, except as described in the accompanying schedule of findings. 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 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.

*Burkhardt & Burkhardt, Ltd.*

Burkhardt & Burkhardt, Ltd  
Certified Public Accountants  
Mankato, Minnesota

INDEPENDENT SCHOOL DISTRICT NO. 786  
BERTHA-HEWITT, MINNESOTA

SCHEDULE OF FINDINGS – STUDENT ACTIVITIES  
June 30, 2017

**CURRENT YEAR FINDINGS**

The-current-audit contained one finding.

1. The *Manual for Activity Fund Accounting* states that several procedures should be used to properly receipts and deposit funds including:
  - All money collected should be given a pre-numbered receipt
  - Upon receipt, all checks should be endorsed “For deposit only to the Bertha-Hewitt School Activity Account.”
  - Two different people should count the deposit (e.g. activity advisor, school district accounting clerk and/or bank teller).
  - Material discrepancies in the counting of receipts should be reported immediately to the chief accounting officer of the school district.
  - Bank deposit slips should contain the issuer name and the amount of each check.
  - Receipts should be deposited daily. Student activity money should not be left in a school over a weekend
  - Returned checks must be redeposited on a separate deposit slip indicating “not entered as a receipt.”

During our audit of student activities, we noted that there was no evidence that all receipts had two different people counting the receipt form.

Corrective Action Plan (CAP)

- a) *Actions Planned in Response to the Finding:* The District will ensure that all receipts have two independent counts performed and documented.
- b) *Official Responsible for Ensuring Corrective Action:* The Business Manager will ensure that all student activity receipts will have appropriate documentation.
- c) *Planned Completion Date for the Corrective Action:* The District is taking immediate action to correct this issue.
- d) *Explanation of Disagreement:* There is no disagreement with the audit finding.
- e) *Plan to Monitor Completion of Corrective Action:* The Superintendent will be monitoring this corrective action plan.