

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2019

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INDEPENDENT SCHOOL DISTRICT NO. 181
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INTRODUCTORY SECTION

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2019**

BOARD OF EDUCATION

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Sue Kern	December 31, 2020	Chairperson
Tom Haglin	December 31, 2022	Vice-Chairperson
Bob Nystrom	December 31, 2020	Treasurer
Reed Campbell	December 31, 2020	Clerk
Charles Black Lance	December 31, 2022	Director
Ruth Nelson	December 31, 2022	Director

ADMINISTRATION

Laine Larson	Superintendent
Heidi Hahn	Assistant Superintendent
Marci Lord	Director of Business Services
Tim Murtha	Director of Teaching and Learning
Cori Reynolds	Director of Community Education
Jennifer Johnson	Director of Special Education
Sarah Porisch	Director of Media Services
Alissa Thompson	Director of Food Services
Earl Wolleat	Director of Building and Grounds
District Offices	Independent School District No. 181 Brainerd Public Schools 804 Oak Street Brainerd, MN 56401 (218) 454-6900

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 181
Brainerd Public Schools
Brainerd, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District 181 (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2019, and the respective changes in financial position, and cash flows, where applicable, thereof and the budgetary comparison for General Fund, Food Service Fund, and Community Service Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Report on Summarized Comparative Information

We have previously audited the District's 2018 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated December 4, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The individual fund financial statements and the Uniform Financial Accounting and Reporting Standards Compliance Table, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

Other Matters (Continued)

Supplementary Information (Continued)

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2019, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Brainerd, Minnesota
December 18, 2019

REQUIRED SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

This section of Brainerd Public Schools – Independent School District No. 181's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2019.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2018 - 2019 fiscal years include the following:

- District-wide, accrual basis net position increased by approximately \$18,598,000, on revenues of \$102,045,000 compared to expenses of \$83,447,000.
- Total General Fund revenues were approximately \$84,430,000 as compared to \$83,454,000 of expenditures.
- The fund balance of the General Fund increased by approximately \$2,051,000 from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

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

District-Wide Statements

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

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

- Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall financial health of the District, you need to consider additional nonfinancial factors such as enrollment trends, changes in the District's property tax base, and the condition of school buildings and other facilities.

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

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

Fund Financial Statements

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

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

The District has three kinds of funds:

- Governmental funds – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the District-wide statements, we provide additional reconciling information within the governmental funds statements to explain the relationship (or differences) between the funds.
- Proprietary funds – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the District-wide statements.
 - The District uses the internal service fund to report activities that provide services for the District's other programs and activities. The District currently has one internal service fund for its self-insured health insurance fund.
- Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the District's Postemployment Benefits Irrevocable Trust Fund and the amounts reported for the special education cooperative. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District-wide financial statements because the District cannot use these assets to finance its operations.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position was a deficit of \$25,346,321 on June 30, 2019. This was an increase from prior year net position deficit balance of \$43,944,819 (see Table A-1).

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

	Governmental Activities as of June 30,		Percentage Change
	2019	2018	
Current and Other Assets	\$ 237,006,636	\$ 200,821,820	18.0 %
Capital and Noncurrent Assets	82,251,858	65,161,251	26.2
Total Assets	<u>319,258,494</u>	<u>265,983,071</u>	20.0
Deferred Outflows of Resources	60,408,795	77,659,486	(22.2)
Current Liabilities	23,007,729	14,930,095	54.1
Long-Term Liabilities	281,428,798	330,223,321	(14.8)
Total Liabilities	<u>304,436,527</u>	<u>345,153,416</u>	(11.8)
Deferred Inflows of Resources	<u>100,577,083</u>	<u>42,433,960</u>	137.0
Net Position			
Net Investment in Capital Assets	28,834,415	22,317,549	29.2
Restricted	15,739,711	17,248,869	(8.7)
Unrestricted	(69,920,447)	(83,511,237)	(16.3)
Total Net Position	<u>\$ (25,346,321)</u>	<u>\$ (43,944,819)</u>	(42.3)

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's total revenues were \$102,045,231 for the year ended June 30, 2019. Property taxes and state aid formula accounted for 67% of total revenue for the year. Another 27% came from other program-specific federal and state aid.

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

	Governmental Activities for the Fiscal Year Ended June 30,		Total % Change
	2019	2018	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 4,784,162	\$ 5,342,490	(10.5)%
Operating Grants and Contributions	26,544,882	23,804,938	11.5
Capital Grants and Contributions	1,095,609	1,009,284	8.6
<u>General Revenues</u>			
Property Taxes	19,826,338	19,531,871	1.5
Unrestricted Federal and State Aid	48,249,115	47,595,311	1.4
Investment Earnings	560,939	297,778	88.4
Other	984,186	1,071,866	(8.2)
Total Revenues	<u>102,045,231</u>	<u>98,653,538</u>	3.4
Expenses			
Administration	2,562,249	4,130,856	(38.0)
District Support Services	1,801,170	2,096,830	(14.1)
Regular Instruction	23,775,607	46,224,788	(48.6)
Vocational Education Instruction	827,972	1,723,794	(52.0)
Special Education Instruction	17,634,324	25,987,972	(32.1)
Instructional Support Services	4,539,229	6,288,889	(27.8)
Pupil Support Services	7,150,417	7,452,556	(4.1)
Sites and Buildings	9,276,311	9,857,181	(5.9)
Fiscal and Other Fixed Cost Programs	322,495	304,200	6.0
Food Service	3,499,133	3,537,373	(1.1)
Community Service	3,069,624	3,781,143	(18.8)
Interest and Fiscal Charges on Long-Term Liabilities	8,988,202	1,586,686	466.5
Total Expenses	<u>83,446,733</u>	<u>112,972,268</u>	(26.1)
Increase (Decrease) in Net Position	18,598,498	(14,318,730)	
Net Position - Beginning of Year	<u>(43,944,819)</u>	<u>(29,626,089)</u>	
Net Position - End of Year	<u>\$ (25,346,321)</u>	<u>\$ (43,944,819)</u>	

Revenues increased in 2019 primarily in investment earnings due to the additional cash held in the capital projects fund. Expenses decreased during fiscal year 2019 due to the decrease in the net pension liability and the change in deferred inflows and outflows of resources.

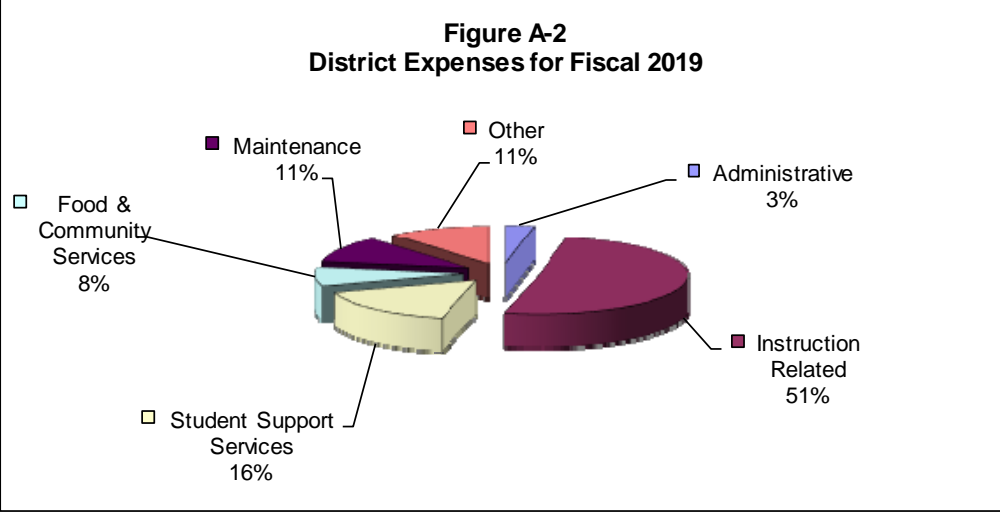
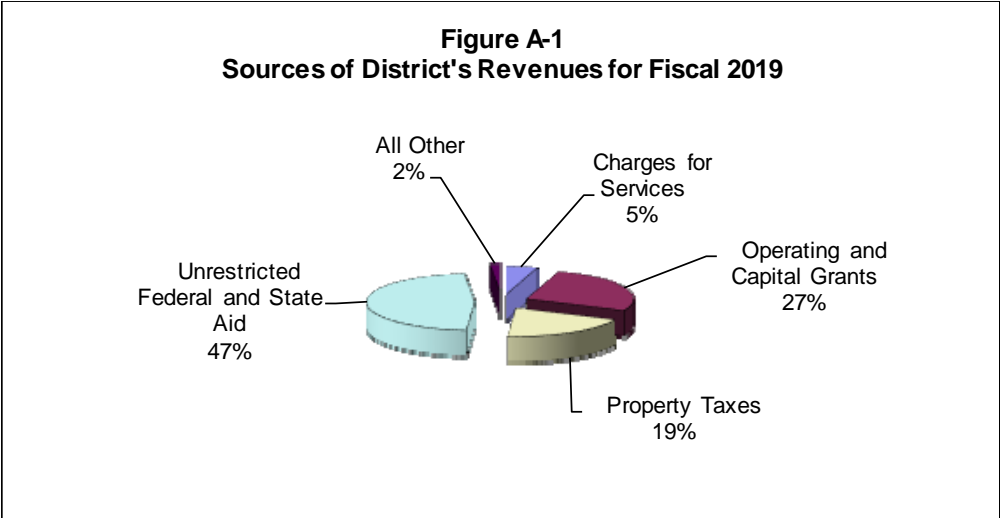
**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

The cost of all governmental activities this year was \$83,447,000.

- Some of the cost was paid by the users of the District's programs (\$4,784,162).
- The federal and state governments subsidized certain programs with grants and contributions (\$27,640,491).
- The rest of the remaining District's costs, however, were paid by District taxpayers and the taxpayers of our state in property taxes and state aid based on the statewide education aid formula and other miscellaneous revenues.



**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

Table A-3
Cost and Net Cost of Services

	Total Cost of Services			Net Cost of Services		
	2019	2018	Change	2019	2018	Change
Administration	\$ 2,562,249	\$ 4,130,856	(38.0)%	\$ 2,251,865	\$ 3,537,297	(36.3)%
District Support Services	1,801,170	2,096,830	(14.1)	1,813,998	2,096,280	(13.5)
Regular Instruction	23,775,607	46,224,788	(48.6)	18,575,817	39,920,891	(53.5)
Vocational Education Instruction	827,972	1,723,794	(52.0)	834,699	1,658,115	(49.7)
Special Education Instruction	17,634,324	25,987,972	(32.1)	2,979,382	10,874,587	(72.6)
Instructional Support Services	4,539,229	6,288,889	(27.8)	3,976,228	5,633,173	(29.4)
Pupil Support Services	7,150,417	7,452,556	(4.1)	6,497,924	6,676,658	(2.7)
Sites and Buildings	9,276,311	9,857,181	(5.9)	4,360,185	9,427,738	(53.8)
Fiscal and Other Fixed Cost Programs	322,495	304,200	6.0	322,495	304,200	6.0
Food Service	3,499,133	3,537,373	(1.1)	(1,049)	(107,722)	(99.0)
Community Service	3,069,624	3,781,143	(18.8)	615,581	1,240,837	(50.4)
Interest and Fiscal Charges on Long-Term Liabilities	8,988,202	1,586,686	466.5	8,794,955	1,553,502	466.1
Total	<u>\$ 83,446,733</u>	<u>\$ 112,972,268</u>	(26.1)	<u>\$ 51,022,080</u>	<u>\$ 82,815,556</u>	(38.4)

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the school district as a whole is further detailed in the governmental funds balance sheet on pages 19 and 20. As the District completed the year, its governmental funds reported combined balances of \$192,911,177, showing an increase of about \$28,435,000 from prior year.

As detailed in the statement of revenues, expenditures, and changes in fund balances on pages 22 and 23, the District's overall governmental fund revenues increased by approximately 6.37% to a level of \$104,761,434. Expenditures for 2019 increased 24.38%; expenditures exceeded revenues. The large increase in fund balance is due to the issuance of bonds, with minimal expenditures in the current year.

GENERAL FUND

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

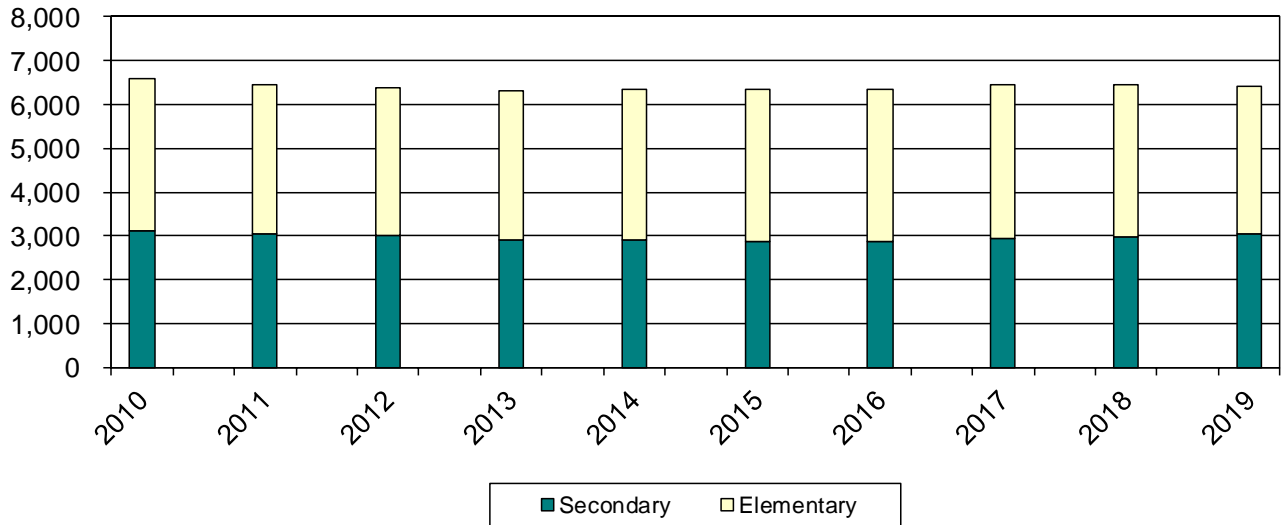
GENERAL FUND (CONTINUED)

The following graph shows the trend in student counts over the past ten years:

**Table A-4
Student Enrollment (Average Daily Membership)**

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Pre-K	79	86	85	101	107	101	107	115	122	121
HCP K	65	72	73	76	81	94	97	96	102	123
Reg K	457	427	410	394	407	411	378	375	394	307
Elementary	2,919	2,899	2,877	2,920	2,918	2,946	2,999	3,015	2,972	2,947
Secondary	3,119	3,049	3,009	2,907	2,903	2,884	2,865	2,932	2,977	3,040
Total Students for Aid	6,639	6,533	6,454	6,398	6,416	6,436	6,446	6,533	6,567	6,538
Percent Change	30.00%	-1.60%	-1.21%	-0.87%	0.28%	0.31%	0.16%	1.35%	0.52%	-0.44%

**Table A-3
BRAINERD PUBLIC SCHOOLS
Student Enrollment (in ADM's)**



**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND (CONTINUED)

The following schedule presents a summary of General Fund Revenues:

**Table A-5
General Fund Revenues**

Fund	Year Ended		Change	
	June 30, 2019	June 30, 2018	Amount Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	\$ 10,377,299	\$ 9,638,318	\$ 738,981	7.7 %
Earnings on Investments	267,069	148,374	118,695	80.0
Other	2,782,663	3,284,951	(502,288)	(15.3)
State Sources	68,852,909	67,329,738	1,523,171	2.3
Federal Sources	2,150,513	1,976,646	173,867	8.8
Total General Fund Revenue	<u>\$ 84,430,453</u>	<u>\$ 82,378,027</u>	<u>\$ 2,052,426</u>	2.5

Overall, total General Fund revenue increased by \$2,052,426 or 2.5% from the prior year as shown above. This was primarily a result of an increase in state revenues which is largely driven by enrollment and an increase in the state funding formula.

The following schedule presents a summary of General Fund Expenditures:

**Table A-6
General Fund Expenditures**

	Year Ended		Change	
	June 30, 2019	June 30, 2018	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	\$ 46,509,681	\$ 45,594,003	\$ 915,678	2.0 %
Employee Benefits	19,005,005	18,089,078	915,927	5.1
Purchased Services	11,832,088	11,458,332	373,756	3.3
Supplies and Materials	2,938,427	3,831,678	(893,251)	(23.3)
Capital Expenditures	1,909,696	1,970,623	(60,927)	(3.1)
Other Expenditures	1,259,079	1,275,477	(16,398)	(1.3)
Total Expenditures	<u>\$ 83,453,976</u>	<u>\$ 82,219,191</u>	<u>\$ 1,234,785</u>	1.5

Total General Fund expenditures increased \$1,234,785 or 1.5% due to an increase in salaries and benefits.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

GENERAL FUND (CONTINUED)

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget one time. This budget amendment falls into one category:

- Generally speaking, the budget amendment concentrates on students and staff. Actual student counts from the beginning of the school year are tracked and matched against the student enrollment estimates used to project many of the revenue components in the preliminary budget revenue categories. Actual staffing and respective assignments are verified for accuracy against the projected staffing costs used to establish the preliminary budget expense for salaries and benefits.

Depending on how actual revenue and expense items are tracking against the preliminary budget amounts, adjustments are proposed to specific categories for review and approval by the school board.

Actual results differed from budget as follows:

- The District's final budget for the General Fund anticipated that revenues would exceed expenditures by \$190,411, actual revenues exceeded actual expenditures by \$976,477.
- Overall, actual revenues were about \$389,000 more than budgeted, representing a .46% variation from budget to actual, primarily due to unexpected tax forfeited sales and higher than projected interest earnings.
- The actual expenditures for current year were about \$397,000 under budget, which represents less than .47% of budgeted expenditures.
- The General Fund's fund balance increased by approximately \$2,051,000. Each category experienced an increase from prior year. The unassigned fund balance increased by approximately \$101,000, and the restricted fund balances increased by approximately \$1,719,000. Nonspendable fund balance increased by approximately \$116,000. Assigned fund balance increased by approximately \$115,000.

CONSTRUCTION PROJECTS AND DEBT SERVICE

An annual levy is made to fund the bond payments of approximately \$7,330,000 in principal and \$5,300,000 of interest.

INTERNAL SERVICE FUND

The District provides group health insurance and dental insurance for various employee groups through a self-insurance program funded by District contributions and payroll withholding. Medica is the current provider of administrative services for health insurance and Delta Dental is the current provider of administrative services for dental insurance. Expenses for the year ended June 30, 2019 exceeded revenues by approximately \$440,000 and net position at year-end totaled approximately \$6,050,000 as compared to annual expenses of approximately \$15,885,000.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

CAPITAL ASSETS

As shown in the table below, the District has invested \$157,011,120 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. More detailed information about capital assets can be found in Note 4 to the financial statements. Total depreciation expense for the year was \$4,304,218.

**Table A-7
The District's Capital Assets**

	<u>2019</u>	<u>2018</u>	<u>Percentage Change</u>
Land	\$ 4,565,005	\$ 2,533,546	80.2 %
Construction-in-Progress	19,292,540	835,500	2209.1
Land Improvements	12,546,877	12,531,800	0.1
Buildings and Improvements	104,711,546	104,501,569	0.2
Equipment	15,895,152	15,300,301	3.9
Less: Accumulated Depreciation	<u>(74,759,262)</u>	<u>(70,541,465)</u>	6.0
Total	<u><u>\$ 82,251,858</u></u>	<u><u>\$ 65,161,251</u></u>	26.2

Long-Term Liabilities

At year-end, the District had \$209,940,000 in general obligation bonds outstanding, approximately \$3,596,000 in a lease purchase, and about \$2,521,000 in capital leases as shown in Note 5 to the financial statements.

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

	<u>2019</u>	<u>2018</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 209,940,000	\$ 185,160,000	13.4 %
Net Bond Premium and Discount	11,659,802	7,368,066	58.2
Certificates of Participation	9,485,000	-	100.0
Obligations Under Capital Leases	2,521,108	2,027,213	24.4
Lease Purchases	<u>3,596,392</u>	<u>3,880,012</u>	(7.3)
Total	<u><u>\$ 237,202,302</u></u>	<u><u>\$ 198,435,291</u></u>	19.5
Long-Term Debt			
Due Within One Year	\$ 6,632,925	\$ 8,196,797	
Due in More Than One Year	<u>230,569,377</u>	<u>190,238,494</u>	
Total	<u><u>\$ 237,202,302</u></u>	<u><u>\$ 198,435,291</u></u>	

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2019**

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of voter-approved excess capital referendums, the District is mostly dependent on the State of Minnesota for its revenue authority.

The general education per pupil formula is the method by which school districts receive the majority of their financial support. This source of funding is primarily state aid and, as such, school districts rely heavily on the State of Minnesota for educational resources.

As the state economy followed national trends during the downturn from 2009 – 2012, increased funding from the state was very limited and at a level that was insufficient in meeting the instructional program needs and increasing operating costs. The district responded to these financial challenges by taking appropriate expense reduction steps to bring relative stability to its budget and maintain an adequate amount in fund reserves. With recent increases in education funding from the state, the District's operating results have improved and allowed for an increase in its fund reserves, better positioning itself for continued financial stability in the future.

With continued proactive and prudent management of expenses, combined with the effects of increased funding from the state and increasing trends in enrollment, the District is well-positioned to achieve stability in its operating budget going forward.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Business Services, Independent School District No. 181, 804 Oak Street, Brainerd, Minnesota 56401.

BASIC FINANCIAL STATEMENTS

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF NET POSITION
JUNE 30, 2019
(WITH SUMMARIZED INFORMATION AS OF JUNE 30, 2018)**

	Governmental Activities	
	2019	2018
ASSETS		
Cash and Investments	\$ 201,572,148	\$ 176,699,994
Cash Held by Fiscal Agent	10,160,708	151,508
Receivables		
Property Taxes	11,231,283	9,068,563
Other Governments	9,401,128	9,150,900
Other	318,110	333,582
Prepaid Items	527,106	252,257
Net OPEB Asset	2,678,894	4,989,137
Inventories	122,515	104,090
Due from Other Funds	994,744	71,789
Capital Assets		
Land	4,565,005	2,533,546
Construction in Progress	19,292,540	835,500
Other Capital Assets, Net of Depreciation	58,394,313	61,792,205
Total Assets	319,258,494	265,983,071
DEFERRED OUTFLOWS OF RESOURCES		
Loss on Refunding	-	57,004
OPEB Related	1,703,048	15,065
Pension Related	58,705,747	77,587,417
Total Deferred Outflows of Resources	60,408,795	77,659,486
LIABILITIES		
Salary and Benefits Payable	2,841,486	2,852,091
Accounts and Contracts Payable	8,696,690	2,143,431
Accrued Interest	3,687,560	761,942
Due to Other Governmental Units	577,994	613,743
Unearned Revenue - Charges for Services	278,814	106,906
Long-Term Liabilities		
Net Pension Liability	50,720,887	139,861,168
Net Supplemental Pension Liability	138,534	123,659
Portion Due Within One Year	6,925,185	8,451,982
Portion Due in More Than One Year	230,569,377	190,238,494
Total Liabilities	304,436,527	345,153,416
DEFERRED INFLOWS OF RESOURCES		
Gain on Refunding	2,073,260	98,011
Pension Related	75,574,158	23,260,191
OPEB Related	275,365	222,617
Property Taxes Levied for Subsequent Year	22,654,300	18,853,141
Total Deferred Inflows of Resources	100,577,083	42,433,960
NET POSITION		
Net Investment in Capital Assets	28,834,415	22,317,549
Restricted for:		
General Fund Operating Capital Purposes	1,121,870	914,100
General Fund State-Mandated Reserves	3,951,576	2,441,449
Food Service	541,910	627,920
Community Service	1,640,286	1,861,834
Capital Projects	5,653,047	1,146,555
Cash Held by Fiscal Agent	152,128	151,508
Debt Service	-	5,116,366
Other Postemployment Benefits	2,678,894	4,989,137
Unrestricted	(69,920,447)	(83,511,237)
Total Net Position	\$ (25,346,321)	\$ (43,944,819)

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)**

Functions	2019				2018	
	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position	Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating	Capital	Total	Total
			Grants and Contributions	Grants and Contributions	Governmental Activities	Governmental Activities
Governmental Activities						
Administration	\$ 2,562,249	\$ 1,085	\$ 308,888	\$ 411	\$ (2,251,865)	\$ (3,537,297)
District Support Services	1,801,170	950	(13,778)	-	(1,813,998)	(2,096,280)
Regular Instruction	23,775,607	1,156,175	3,650,663	392,952	(18,575,817)	(39,920,891)
Vocational Education Instruction	827,972	48,320	(55,047)	-	(834,699)	(1,658,115)
Special Education Instruction	17,634,324	437,488	14,217,454	-	(2,979,382)	(10,874,587)
Instructional Support Services	4,539,229	3,486	241,142	318,373	(3,976,228)	(5,633,173)
Pupil Support Services	7,150,417	-	643,437	9,056	(6,497,924)	(6,676,658)
Sites and Buildings	9,276,311	56,771	4,484,538	374,817	(4,360,185)	(9,427,738)
Fiscal and Other Fixed Cost Programs	322,495	-	-	-	(322,495)	(304,200)
Food Service	3,499,133	1,337,301	2,162,881	-	1,049	107,722
Community Service	3,069,624	1,742,586	711,457	-	(615,581)	(1,240,837)
Interest and Fiscal Charges on Long-Term Liabilities	8,988,202	-	193,247	-	(8,794,955)	(1,553,502)
Total School District	<u>\$ 83,446,733</u>	<u>\$ 4,784,162</u>	<u>\$ 26,544,882</u>	<u>\$ 1,095,609</u>	<u>(51,022,080)</u>	<u>(82,815,556)</u>
General Revenues						
Property Taxes Levied for:						
General Purposes					10,591,019	9,878,203
Community Service					568,042	573,735
Debt Service					8,667,277	9,079,933
State Aid Not Restricted to Specific Purposes					48,249,115	47,595,311
Earnings on Investments					560,939	297,778
Miscellaneous					984,186	1,071,866
Total General Revenues					<u>69,620,578</u>	<u>68,496,826</u>
CHANGE IN NET POSITION					<u>18,598,498</u>	<u>(14,318,730)</u>
Net Position - Beginning of Year					<u>(43,944,819)</u>	<u>(29,626,089)</u>
NET POSITION - END OF YEAR					<u>\$ (25,346,321)</u>	<u>\$ (43,944,819)</u>

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Major Funds		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 10,714,800	\$ 572,402	\$ 1,929,466
Cash Held by Fiscal Agent	152,128	-	-
Receivables			
Current Property Taxes	4,311,504	-	257,595
Delinquent Property Taxes	230,029	-	13,650
Due from Other Minnesota School Districts	183,737	-	-
Due from Minnesota Department of Education	7,225,912	-	80,907
Due from Federal through Minnesota Department of Education	1,737,127	-	8,846
Due from Other Governmental Units	113,266	-	35,000
Other Receivables	317,275	-	835
Due from Other Funds	994,744	-	-
Prepaid Items	346,603	-	121,977
Inventory	41,350	81,165	-
Total Assets	<u>\$ 26,368,475</u>	<u>\$ 653,567</u>	<u>\$ 2,448,276</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Salary and Benefits Payable	\$ 2,602,373	\$ 93,592	\$ 145,521
Accounts and Contracts Payable	286,960	5,912	6,934
Due to Other Minnesota School Districts	155,624	-	-
Due to Other Governmental Units	420,460	-	1,578
Unearned Revenue - Charges for Services	174,670	12,153	91,991
Total Liabilities	<u>3,640,087</u>	<u>111,657</u>	<u>246,024</u>
Deferred Inflows of Resources			
Property Taxes Levied for Subsequent Year	8,766,242	-	561,966
Unavailable Revenue - Delinquent Taxes	90,858	-	13,650
Total Deferred Inflows of Resources	<u>8,857,100</u>	<u>-</u>	<u>575,616</u>
Fund Balance			
Nonspendable:			
Prepaid Items	346,603	-	121,977
Inventory	41,350	81,165	-
Restricted:			
Operating Capital	1,121,870	-	-
Learning and Development	550,205	-	-
Safe Schools - Crime	229,178	-	-
Community Education Programs	-	-	516,012
Early Childhood and Family Educations Programs	-	-	711,473
School Readiness	-	-	258,821
Adult Basic Education	-	-	12,089
Staff Development	801,245	-	-
Long-Term Facilities Maintenance (LTFM)	2,370,948	-	-
Projects Funded by Certificates of Lease Purchase	-	-	-
Other Restricted	152,128	460,745	6,264
Assigned:			
Q Comp	631,015	-	-
Other	120,606	-	-
Unassigned	7,506,140	-	-
Total Fund Balances	<u>13,871,288</u>	<u>541,910</u>	<u>1,626,636</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 26,368,475</u>	<u>\$ 653,567</u>	<u>\$ 2,448,276</u>

See accompanying Notes to Financial Statements.

Capital Projects	Debt Service	Total Governmental Funds	
		2019	2018
\$ 171,330,580	\$ 9,959,458	\$ 194,506,706	\$ 169,148,486
10,008,580	-	10,160,708	151,508
-	6,205,642	10,774,741	8,630,056
-	212,863	456,542	438,507
-	-	183,737	205,080
-	16,333	7,323,152	7,036,183
-	-	1,745,973	913,591
-	-	148,266	996,046
-	-	318,110	333,582
-	-	994,744	71,789
58,526	-	527,106	252,257
-	-	122,515	104,090
<u>\$ 181,397,686</u>	<u>\$ 16,394,296</u>	<u>\$ 227,262,300</u>	<u>\$ 188,281,175</u>
\$ -	\$ -	\$ 2,841,486	\$ 2,852,091
7,381,352	-	7,681,158	1,081,691
-	-	155,624	225,353
332	-	422,370	388,390
-	-	278,814	106,906
<u>7,381,684</u>	<u>-</u>	<u>11,379,452</u>	<u>4,654,431</u>
-	13,326,092	22,654,300	18,853,141
-	212,863	317,371	297,038
-	<u>13,538,955</u>	<u>22,971,671</u>	<u>19,150,179</u>
58,526	-	527,106	252,257
-	-	122,515	104,090
-	-	1,121,870	914,100
-	-	550,205	543,580
-	-	229,178	355,554
-	-	516,012	861,945
-	-	711,473	645,737
-	-	258,821	324,226
-	-	12,089	9,209
-	-	801,245	887,884
28,765,853	-	31,136,801	539,636
8,584,424	-	8,584,424	-
136,607,199	2,855,341	140,081,677	150,996,751
-	-	631,015	522,780
-	-	120,606	113,826
-	-	7,506,140	7,404,990
<u>174,016,002</u>	<u>2,855,341</u>	<u>192,911,177</u>	<u>164,476,565</u>
<u>\$ 181,397,686</u>	<u>\$ 16,394,296</u>	<u>\$ 227,262,300</u>	<u>\$ 188,281,175</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
RECONCILIATION OF THE BALANCE SHEET — GOVERNMENTAL FUNDS TO THE STATEMENT
OF NET POSITION — GOVERNMENTAL ACTIVITIES
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019	2018
Total Fund Balance for Governmental Funds	\$ 192,911,177	\$ 164,476,565
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	4,565,005	2,533,546
Construction-in-Progress	19,292,540	835,500
Land Improvements, Net of Accumulated Depreciation	4,746,138	5,252,690
Buildings and Improvements, Net of Accumulated Depreciation	49,905,521	52,749,655
Equipment, Net of Accumulated Depreciation	3,742,654	3,789,860
OPEB trust assets net of the OPEB liability recognized to date, are not current financial resources and, therefore, are not reported at fund level.	2,678,894	4,989,137
OPEB deferred inflows are reported only on the statement of net position.	(274,018)	(221,120)
OPEB deferred outflows are reported only on the statement of net position.	1,678,435	15,065
The Net Supplemental Pension Liability and deferred inflow of resources are not a current financial resource and, therefore, are not reported at fund level.	(115,268)	(125,156)
The District's Net Pension Liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:		
Net Pension Liability	(50,720,887)	(139,861,168)
Deferred Inflows of Resources - Pension Related	(75,574,158)	(23,260,191)
Deferred Outflows of Resources - Pension Related	58,705,747	77,587,417
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as deferred inflows of resources in the funds.	317,371	297,038
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(3,687,560)	(761,942)
Internal service fund is used by management to charge the costs of health and dental insurance services to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net position. Internal service fund net position at year-end is:	6,049,910	6,489,768
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:		
Bonds Payable	(209,940,000)	(185,160,000)
Unamortized Premiums	(11,661,800)	(7,370,860)
Unamortized Discounts	1,998	2,794
Gain on Refunding Bond	(2,073,260)	(98,011)
Loss on Refunding Bond	-	57,004
Obligations Under Capital Leases	(2,521,108)	(2,027,213)
Lease Purchase Payable	(3,596,392)	(3,880,012)
Certificate of Participation	(9,485,000)	-
Compensated Absences Payable	(292,260)	(255,185)
Total Net Position of Governmental Activities	\$ (25,346,321)	\$ (43,944,819)

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES —
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)**

	<u>Major Funds</u>		
	<u>General</u>	<u>Food Service</u>	<u>Community Service</u>
REVENUES			
Local			
Property Taxes	\$ 10,377,299	\$ -	\$ 568,845
Earnings on Investments	267,069	14,936	55,692
Other	2,782,663	1,337,301	1,806,424
State Sources	68,852,909	196,559	769,198
Federal Sources	<u>2,150,513</u>	<u>1,978,381</u>	<u>8,846</u>
Total Revenues	84,430,453	3,527,177	3,209,005
EXPENDITURES			
Current			
Administration	3,259,447	-	-
District Support Services	1,847,323	-	-
Regular Instruction	33,634,806	-	-
Vocational Education Instruction	1,101,965	-	-
Special Education Instruction	20,941,686	-	-
Instructional Support Services	4,395,562	-	-
Pupil Support Services	7,052,106	-	-
Sites and Buildings	7,909,368	-	-
Fiscal and Other Fixed Cost Programs	322,495	-	-
Food Service	-	3,613,187	-
Community Service	-	-	3,449,390
Capital Outlay	1,909,696	-	6,300
Debt Service			
Principal	889,256	-	-
Interest and Fiscal Charges	<u>190,266</u>	<u>-</u>	<u>-</u>
Total Expenditures	83,453,976	3,613,187	3,455,690
Excess (Deficiency) of Revenues Over (Under) Expenditures	976,477	(86,010)	(246,685)
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	25,940
Transfers Out	(25,940)	-	-
Bond Refunding Payment	-	-	-
Proceeds from Sale of Bonds and COPs	-	-	-
Proceeds from Capital Leases	1,099,531	-	-
Refunding Bond Premium	-	-	-
Premium on Sale of Bonds	-	-	-
Sale of Capital Assets	700	-	-
Total Other Financing Sources (Uses)	<u>1,074,291</u>	<u>-</u>	<u>25,940</u>
NET CHANGE IN FUND BALANCE	2,050,768	(86,010)	(220,745)
Fund Balance - Beginning of Year	<u>11,820,520</u>	<u>627,920</u>	<u>1,847,381</u>
FUND BALANCE - END OF YEAR	<u>\$ 13,871,288</u>	<u>\$ 541,910</u>	<u>\$ 1,626,636</u>

See accompanying Notes to Financial Statements.

Capital Projects - Building Construction	Debt Service	Total Governmental Funds	
		2019	2018
\$ -	\$ 8,677,361	\$ 19,623,505	\$ 19,310,725
4,506,492	247,562	5,091,751	240,231
-	-	5,926,388	6,612,206
-	163,384	69,982,050	68,333,314
-	-	4,137,740	3,988,892
<u>4,506,492</u>	<u>9,088,307</u>	<u>104,761,434</u>	<u>98,485,368</u>
-	-	3,259,447	3,219,892
-	-	1,847,323	1,966,406
-	-	33,634,806	32,889,198
-	-	1,101,965	1,175,540
-	-	20,941,686	20,282,134
-	-	4,395,562	4,710,682
-	-	7,052,106	6,684,405
16,946,185	-	24,855,553	9,902,791
-	-	322,495	304,200
-	-	3,613,187	3,482,200
-	-	3,449,390	3,131,626
4,495,360	-	6,411,356	2,291,397
-	7,330,000	8,219,256	7,909,625
-	5,265,760	5,456,026	2,195,035
<u>21,441,545</u>	<u>12,595,760</u>	<u>124,560,158</u>	<u>100,145,131</u>
(16,935,053)	(3,507,453)	(19,798,724)	(1,659,763)
-	-	25,940	24,578
-	-	(25,940)	(24,578)
-	(31,960,000)	(31,960,000)	-
43,405,068	30,149,932	73,555,000	143,110,000
-	-	1,099,531	153,109
-	2,517,501	2,517,501	-
3,020,604	-	3,020,604	6,746,709
-	-	700	19,255
<u>46,425,672</u>	<u>707,433</u>	<u>48,233,336</u>	<u>150,029,073</u>
29,490,619	(2,800,020)	28,434,612	148,369,310
<u>144,525,383</u>	<u>5,655,361</u>	<u>164,476,565</u>	<u>16,107,255</u>
<u>\$ 174,016,002</u>	<u>\$ 2,855,341</u>	<u>\$ 192,911,177</u>	<u>\$ 164,476,565</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES — GOVERNMENTAL FUNDS TO
STATEMENT OF ACTIVITIES — GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2018)**

	2019	2018
Net Change in Fund Balance-Total Governmental Funds	\$ 28,434,612	\$ 148,369,310
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.		
Capital Outlays	21,397,742	2,702,585
Net Depreciated Value of Disposed Assets	(2,917)	(54,850)
Depreciation Expense	(4,304,218)	(4,310,995)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.		
Proceeds from Capital Lease	(1,099,531)	(153,109)
Change in Accrued Interest Expense - Capital Leases	(9,699)	(712)
Principal Payments - Capital Leases	605,636	575,645
Payment of OPEB benefits are recognized as expenditures at the fund level while the change in the net OPEB asset is recognized in the statement of net position.		
	(699,771)	(235,161)
Pension expenditures on the governmental funds are measured by current year employee contributions. Pension expenses on the statement of activities are measured by the change in Net Pension Liability and the related deferred inflows and outflows of resources.		
	17,944,644	(19,955,734)
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In the statement of activities, however, interest expense is recognized as it accrues, regardless of when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
Net Bond (Premium) Discount	(5,538,105)	(6,746,709)
Gain on Refunding Bond	(2,073,260)	-
Proceeds From Sale of Bonds	(73,555,000)	(143,110,000)
Payment on Lease Purchase Agreement	283,620	273,980
Repayment of Bond Principal	7,330,000	7,060,000
Repayment of Refunding Bonds	31,960,000	-
Change in Accrued Interest Expense - General Obligation Bonds	(2,915,919)	124,339
Amortization of Loss on Refunding	(57,004)	(14,251)
Amortization of Gain on Refunding	98,011	40,866
Amortization of Bond Premium	1,247,165	255,903
Amortization of Bond Discount	(796)	(877)
Delinquent property taxes receivable will be collected next year, but are not available soon enough to pay for the current-period's expenditures and, therefore, are unavailable in the funds.		
	20,333	6,220
In the statement of activities, severance benefits and compensated absences are measured on the accrual basis. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).		
	(27,187)	(8,780)
Internal service fund is used by the District to charge the costs of the employee health and dental benefits to individual funds. The net gain (loss) of the internal service fund is reported with governmental activities.		
	(439,858)	863,600
Change in Net Position of Governmental Activities	\$ 18,598,498	\$ (14,318,730)

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources				
Property Taxes	\$ 10,152,422	\$ 10,152,422	\$ 10,377,299	\$ 224,877
Earnings on Investments	100,000	150,000	267,069	117,069
Other	2,588,439	2,697,666	2,782,663	84,997
State Sources	68,132,732	68,882,783	68,852,909	(29,874)
Federal Sources	1,857,600	2,158,520	2,150,513	(8,007)
Total Revenues	<u>82,831,193</u>	<u>84,041,391</u>	<u>84,430,453</u>	<u>389,062</u>
EXPENDITURES				
Current				
Administration	3,066,575	3,193,004	3,259,447	66,443
District Support Services	1,674,275	1,789,997	1,847,323	57,326
Elementary and Secondary Regular Instruction	33,184,175	33,862,708	33,634,806	(227,902)
Vocational Education Instruction	1,135,316	1,170,312	1,101,965	(68,347)
Special Education Instruction	19,940,628	20,905,210	20,941,686	36,476
Instructional Support Services	4,967,672	4,838,226	4,395,562	(442,664)
Pupil Support Services	7,894,417	7,211,301	7,052,106	(159,195)
Sites and Buildings	8,370,292	8,527,447	7,909,368	(618,079)
Fiscal and Other Fixed Cost Programs	305,000	305,000	322,495	17,495
Capital Outlay	2,120,180	1,022,441	1,909,696	887,255
Debt Service				
Principal	643,260	844,224	889,256	45,032
Interest and Fiscal Charges	174,156	181,110	190,266	9,156
Total Expenditures	<u>83,475,946</u>	<u>83,850,980</u>	<u>83,453,976</u>	<u>(397,004)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(644,753)	190,411	976,477	786,066
OTHER FINANCING SOURCES (USES)				
Transfers Out	(23,695)	(23,695)	(25,940)	(2,245)
Capital Lease Proceeds	-	-	1,099,531	1,099,531
Sale of Capital Assets	-	-	700	700
Total Other Financing Sources (Uses)	<u>(23,695)</u>	<u>(23,695)</u>	<u>1,074,291</u>	<u>1,097,986</u>
NET CHANGE IN FUND BALANCE	<u>\$ (668,448)</u>	<u>\$ 166,716</u>	2,050,768	<u>\$ 1,884,052</u>
FUND BALANCE				
Beginning of Year			<u>11,820,520</u>	
END OF YEAR			<u>\$ 13,871,288</u>	

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources				
Earnings on Investments	\$ 1,500	\$ 6,000	\$ 14,936	\$ 8,936
Other - Primarily Meal Sales	1,419,000	1,494,000	1,337,301	(156,699)
State Sources	209,000	209,000	196,559	(12,441)
Federal Sources	<u>2,010,000</u>	<u>1,980,000</u>	<u>1,978,381</u>	<u>(1,619)</u>
Total Revenues	3,639,500	3,689,000	3,527,177	(161,823)
EXPENDITURES				
Current				
Food Service	<u>3,592,754</u>	<u>3,517,498</u>	<u>3,613,187</u>	<u>95,689</u>
NET CHANGE IN FUND BALANCE	<u>\$ 46,746</u>	<u>\$ 171,502</u>	(86,010)	<u>\$ (257,512)</u>
FUND BALANCE				
Beginning of Year			<u>627,920</u>	
END OF YEAR			<u>\$ 541,910</u>	

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources				
Property Taxes	\$ 569,568	\$ 569,568	\$ 568,845	\$ (723)
Earnings on Investments	3,500	30,000	55,692	25,692
Other - Primarily Tuition and Fees	1,672,279	1,777,279	1,806,424	29,145
State Sources	751,931	788,056	769,198	(18,858)
Federal Sources	5,435	8,886	8,846	(40)
Total Revenues	<u>3,002,713</u>	<u>3,173,789</u>	<u>3,209,005</u>	<u>35,216</u>
EXPENDITURES				
Current				
Community Service	3,282,920	3,345,066	3,449,390	104,324
Capital Outlay	20,500	20,500	6,300	(14,200)
Total Expenditures	<u>3,303,420</u>	<u>3,365,566</u>	<u>3,455,690</u>	<u>90,124</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(300,707)	(191,777)	(246,685)	(54,908)
OTHER FINANCING SOURCES				
Transfers In	<u>23,695</u>	<u>23,695</u>	<u>25,940</u>	<u>2,245</u>
NET CHANGE IN FUND BALANCE	<u>\$ (277,012)</u>	<u>\$ (168,082)</u>	<u>(220,745)</u>	<u>\$ (52,663)</u>
FUND BALANCE				
Beginning of Year			<u>1,847,381</u>	
END OF YEAR			<u>\$ 1,626,636</u>	

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF NET POSITION
INTERNAL SERVICE FUND
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019	2018
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 7,065,442	\$ 7,551,508
LIABILITIES		
Current Liabilities		
Claims Payable	1,015,532	1,061,740
NET POSITION		
Unrestricted Net Position	\$ 6,049,910	\$ 6,489,768

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
INTERNAL SERVICE FUND
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDING JUNE 30, 2018)**

	2019	2018
OPERATING REVENUES		
Contributions from District and Employees	\$ 15,250,938	\$ 15,036,432
OPERATING EXPENSES		
Insurance Claims and Administration	15,859,204	14,268,563
Wellness Expenses from Insurance Administrator	25,519	20,000
Total Operating Expenses	15,884,723	14,288,563
Operating Income (Loss)	(633,785)	747,869
NONOPERATING INCOME (EXPENSES)		
Earnings on Investments	168,927	90,731
Wellness Funding from Insurance Administrator	25,000	25,000
Total Nonoperating Income (Expenses)	193,927	115,731
CHANGE IN NET POSITION	(439,858)	863,600
Net Position - Beginning of Year	6,489,768	5,626,168
NET POSITION - END OF YEAR	\$ 6,049,910	\$ 6,489,768

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUND
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	Governmental Activities - Internal Service Funds	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from District and Employees	\$ 15,250,938	\$ 15,036,432
Cash Payments for Insurance and Other Operating Expenses	<u>(15,930,931)</u>	<u>(14,087,311)</u>
Net Cash Provided (Used) by Operating Activities	(679,993)	949,121
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	168,927	90,731
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Wellness Funding Received from Insurance Administrator	<u>25,000</u>	<u>25,000</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(486,066)	1,064,852
Cash and Cash Equivalents - Beginning of Year	<u>7,551,508</u>	<u>6,486,656</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 7,065,442</u></u>	<u><u>\$ 7,551,508</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (633,785)	\$ 747,869
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Increase (Decrease) in Claims Payable	<u>(46,208)</u>	<u>201,252</u>
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (679,993)</u></u>	<u><u>\$ 949,121</u></u>

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019**

	Postemployment Benefits Irrevocable Trust Fund	Agency
ASSETS		
Cash and Deposits	\$ 271,358	\$ -
Investments:		
Fixed Income	13,172,713	-
Equities	9,152,258	-
Receivables		
Due from Other Minnesota School Districts	-	1,338,361
Interest	49,694	-
Prepaid Items	194	29,826
Total Assets	\$ 22,646,217	\$ 1,368,187
LIABILITIES		
Accounts Payable	\$ -	\$ 7,768
Salary and Benefits Payable	-	30,143
Due to Other Minnesota School Districts	-	268,219
Due to Other Funds	-	994,744
Unearned Revenue	-	67,313
Total Liabilities	-	\$ 1,368,187
NET POSITION		
Restricted for Postemployment Benefits other than Pensions	\$ 22,646,217	

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
POSTEMPLOYMENT BENEFITS IRREVOCABLE TRUST FUND
YEAR ENDED JUNE 30, 2019**

ADDITIONS

Investment Income:	
Net Increase (Decrease) in Fair Value of Investments	\$ 715,962
Interest and Dividends	731,605
Less Investment Expense	<u>(131,160)</u>
Net Investment Income	<u>1,316,407</u>
Total Additions	<u>1,316,407</u>

DEDUCTIONS

OPEB Health Insurance Payments	<u>1,924,004</u>
Total Deductions	<u>1,924,004</u>

CHANGE IN NET POSITION (607,597)

Net Position - Beginning of Year 23,253,814

NET POSITION - END OF YEAR \$ 22,646,217

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 181 (the District) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) 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. Financial Reporting Entity

The District is an instrumentality of the state of Minnesota established to function as an educational institution. The elected Board of Education (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the District.

U.S. Generally Accepted Accounting Principles (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

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

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation

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

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

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

Separate Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type. The District has one agency fund and one trust fund.

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

Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal source of operating revenue of the District's internal service fund is the District's operating funds for health insurance premiums related to District employees. Operating expenses for the internal service fund include the cost of medical benefits, re-insurance premiums, and third-party administration fees. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Basic Financial Statement Presentation (Continued)

The Fiduciary Funds are presented in the fiduciary fund financial statements by type (agency and trust). Since by definition these assets are being held for the benefit of a third-party (other local governments, private parties, pension participants, etc.) and cannot be used to address activities or obligations of the District, these funds are not incorporated into the District-wide statements.

D. Measurement Focus and Basis of Accounting

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

Agency funds have no measurement focus but are accounted for on the accrual basis of accounting.

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

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and U.S. generally accepted accounting principles. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is used for revenues other than property taxes.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds

The existence of the various District funds has been established by the state of Minnesota, Department of Education. The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. A description of 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. It includes the general operations and pupil transportation activities of the District, as well as the capital related activities such as maintenance of facilities equipment purchases, health and safety projects, and disabled accessibility projects.

Food Service Special Revenue Fund

The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Fund are generated from user fees, federal reimbursements and state aids.

Community Service Special Revenue Fund

The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, K-6 extended day programs or other similar services. Revenues for the Community Service Fund are generated primarily from user fees, local property taxes and state credits.

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. The Fund was established for building construction activity authorized by specific voter-approved bond issues.

Debt Service Fund

The Debt Service Fund is used to account for the accumulation of resources for, and payment of, general long-term obligation bond principal, interest, and related costs.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued)

Proprietary Fund

Internal Service Fund

The Internal Service Fund accounts for financing of goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The Internal Service Fund accounts for the financing of services provided by one department to other departments of the District on a cost reimbursement basis. The District's Internal Service Fund reflects the activities of its self-insured health insurance plan for its employees.

Fiduciary Funds

Agency Fund

The Agency Fund was established to account for cash and other assets held by the District as the agent for others. This fund is used to account for transactions relating to the special education cooperative in which the District has a custodial relationship.

Postemployment Benefits Irrevocable Trust Fund

This Trust Fund is used for reporting resources set aside and held in an irrevocable trust arrangement for postemployment benefits. District contributions to this fund must be expensed to an operating fund.

E. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with U.S. generally accepted accounting principles. Each June, the Board of Education adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, and Debt Service Funds. An annual budget is not adopted for the Capital Projects – Building Construction Fund because project length financial plans are adopted in accordance with bond issue authorization. The approved budget is published in summary form in the District's legal newspaper by November 30 of each year. Reported budgeted amounts represent the amended budget as adopted by the Board of Education. Legal budgetary control is at the fund level.

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Budgeting (Continued)

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

Budgeted amounts include interim budget amendments that increased and decreased revenue and expenditure budgets as follows:

<u>Revenues and Transfers In</u>	Original Budget	Amendments	Amended Budget
General Fund	\$ 82,831,193	\$ 1,210,198	\$ 84,041,391
Special Revenue Funds			
Food Service Fund	3,639,500	49,500	3,689,000
Community Service Fund	3,026,408	171,076	3,197,484
 <u>Expenditures and Transfers Out</u>			
General Fund	83,499,641	375,034	83,874,675
Special Revenue Funds			
Food Service Fund	3,592,754	(75,256)	3,517,498
Community Service Fund	3,303,420	62,146	3,365,566

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

At the end of each fiscal year, if the General Fund has a net unreserved deficit fund balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota school districts which excludes certain reserves specified in Minnesota Statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through 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 balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. The Trust Fund, Internal Service Funds, and the escrowed assets are not included in this pool.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accounts Receivable

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

H. Inventories

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

I. Prepaid Items

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

J. Property Taxes

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

Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as deferred inflow of resources (property taxes levied for subsequent year).

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Property Taxes (Continued)

The majority of District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between taxes and state aids by the legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as the "tax shift." In the Debt Service Fund, all property taxes collected in a calendar year are recorded as revenue in the fiscal year which begins July 1 of that calendar year.

In accordance with state law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy (frozen at \$381,871) advance recognized as revenue each year with no corresponding state aid adjustment. Certain other portions of the District's 2018 Pay 2019 levy, normally revenue for the 2019-20 fiscal year, are also advance recognized as June 30, 2019, as required by state statute to match revenue with the same fiscal year as the related expenditures.

Taxes that remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is unavailable because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes has been provided as such amounts are not expected to be material.

Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the state which will be recognized as revenue in the next fiscal year beginning July 1, 2019, 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.

K. Capital Assets

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

Capital assets are recorded in the District-wide financial statement, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are generally 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.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets (Continued)

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

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

L. Deferred Outflows of Resources

In addition to assets, the statement of financial position reports 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. The District will not recognize the related outflow until a future event occurs.

M. Long-Term Obligations

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

N. Accrued Employee Benefits

Sick Pay

Substantially, all District employees are entitled to sick leave at various rates. No sick leave is paid out at termination.

Vacation Pay

The secretarial, custodial, superintendent and the nonunion employees are the only groups to accrue vacation. Secretarial, custodial and the superintendent have to be down to one year's accumulation by a specified date according to their contract or they lose it. Any unused vacation at termination is paid out. The nonunion employees all vary from contract to contract, but most contracts state that there is no limit on the amount of carryover of vacation and any unused vacation at termination is paid out.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Accrued Employee Benefits (Continued)

Severance and Other Postretirement Benefits

Severance and other postretirement benefit liabilities are paid by the General and Special Revenue Funds. Annual payments to retire the severance benefits liability have not been determined and will depend on actual employee turnover.

Severance benefits consist of lump sum retirement payments, and postemployment health care benefits. Accounting policies for severance and health benefits are described below:

1. Severance Payments at Retirement

The District maintains various retirement payment plans for its employee groups. Each employee group plan contains benefit formulas based on years of service and/or minimum age requirements. Generally, the District makes payments to an independent trustee who administers a health savings account for each retiree, thus this liability is considered to be related to postemployment benefits and is included in the OPEB liability.

2. Postemployment Health Care Benefits

The District provides postemployment retirement benefits to pay health insurance premiums for certain retired District personnel. Eligible administrative personnel hired prior to January 1, 2009 receive health insurance benefits to age 70. Eligible administrative personnel hired after January 1, 2009 receive health insurance benefits to age 65. Eligible teaching staff hired prior to January 1, 2009, receive health insurance benefits to Medicare eligible age. Teaching staff hired after January 1, 2009 do not receive postemployment health insurance benefits. Other qualified staff hired prior to March 1, 2010, also receive health insurance benefits to Medicare eligible age. Other staff hired after March 1, 2010 do not receive postemployment health insurance benefits.

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

O. Deferred Inflows of Resources

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Pensions

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

Q. Unearned Revenue

Unearned revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported unearned revenues for the unearned grant revenue, donations, charges for services, and school lunch deposits.

R. Statement of Cash Flows

For purposes of the statement of cash flows, the District considers all highly liquid debt instruments with an original maturity from the time of purchase by the District of three months or less to be cash equivalents.

S. Cash and Investments Held by Fiscal Agent

Cash and Investments held with fiscal agent are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture.

T. Fund Balance

In the fund financial statements, governmental funds report nonspendable, restricted, committed, assigned, and unassigned fund balances. Nonspendable portions of fund balance are related to prepaid items and inventories. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The Board of Education passed a resolution authorizing the Director of Business Services to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts. Positive unassigned fund balance can only be reported in the General Fund, and all other funds only report negative unassigned amounts. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance. When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned fund balance.

It is also the District's policy to strive to maintain a minimum unassigned General Fund balance of five percent of the annual budgeted expenditures and an optimal operating range of 5 to 7%.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Net Position

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

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following fund:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
Special Revenue Funds			
Food Service Fund	\$ 3,517,498	\$ 3,613,187	\$ 95,689
Community Service Fund	3,365,566	3,455,690	90,124

All related expenditures were approved by the District's Board.

B. Interfund Transfers

The District had the following interfund transfers at June 30, 2019:

	<u>Transfers In:</u>
	Community
	Service Fund
<u>Transfers Out:</u>	
General Fund	\$ 25,940

The purpose of the transfer from the General Fund to the Community Service Fund was to pay the costs of current and prior year preschool screening costs which were paid from the Community Service Fund.

C. Interfund Balances

The General Fund showed a due from other funds of \$994,744 which was due from the Agency Fund. This balance was to cover negative cash as of the end of the year.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

The District maintains a cash and investment pool that is available for use by all funds. Each fund type's portion of this pool is displayed on the statement of net position and balance sheet as "Cash and Investments." In accordance with Minnesota Statutes the District maintains deposits at financial institutions which are authorized by the School District's Board.

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

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the School District's deposits may not be returned to it. The School District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits. Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds. Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the depository.

The District's deposits in banks at June 30, 2019 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

B. Investments

With the exception of the fiduciary funds held in the District's Other Postemployment Benefit Trust account discussed in Note 3, C, the District may invest idle funds as authorized by Minnesota Statutes Chapter 118A as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies;
- Shares of investment companies registered under the Investment Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less;

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

- General obligations rated “A” or better; revenue obligations rated “AA” or better;
- General obligations of the Minnesota Housing Finance Agency rate “A” or better;
- Bankers’ acceptances of United States banks eligible for purchase by the Federal Reserve System;
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less;
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories and repurchase or reverse purchase agreement and securities lending agreements financial institutions qualified as a “depository” by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

At June 30, 2019, the District, excluding its Postemployment Benefits Irrevocable Trust Fund, had the following investments. (See separate investment disclosures for the Benefits Trust Fund at Note 3, C):

	Amount
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	\$ 19,715,099
US Treasury	108,806,784
Money Market	29,772,000
US Agency	30,304,719
Corporate Note	1,554,945
Total Investments	\$ 190,153,547

The MSDLAF+ is an external investment pool (Pool) that is managed to maintain a dollar-weighted average portfolio maturity of no greater than 60 days and seeks to maintain a constant net asset value per share of \$1.00. The Pool elects to measure its investments at amortized cost in accordance with accounting statements issued by the Government Accounting Standards Board. The Pool has no restrictions on cash withdrawals or deposits.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Credit Risk – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's policy is that the obligations at the time of purchase must be rated at the highest classification by at least two of the four standard rating services. The following chart summarizes year-end ratings for the District's investments as rated by Moody's Investors Service:

Type	Credit Quality Rating	Amount
MSDLAF+	AA+ - A-1	\$ 19,715,099
US Treasury	AAA	108,806,784
Money Market	AAA	29,772,000
US Agency	AA+	30,304,719
Corporate Note	AAA	1,554,945
Total		<u>\$ 190,153,547</u>

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months
US Treasury	\$ 108,806,784	\$ 59,255,365	\$ 27,743,880	\$ 21,807,539
MSDLAF	19,715,099	19,715,099	-	-
Money Market	29,772,000	29,772,000	-	-
US Agency	30,304,719	9,063,305	19,741,384	1,500,030
Corporate Note	1,554,945	-	1,554,945	-
Total	<u>\$ 190,153,547</u>	<u>\$ 117,805,769</u>	<u>\$ 49,040,209</u>	<u>\$ 23,307,569</u>

Concentration of Credit Risk – The investment policy of the District contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by Minnesota Statutes.

The District's deposits (\$21,850,667), investments (\$190,153,547), irrevocable OPEB trust investments (\$22,324,971) are presented in the financial statements as follows:

Cash and Investments - Statement of Net Position	\$ 211,732,856
Cash and Investments - OPEB Trust	22,596,329
Total Cash and Investments	<u>\$ 234,329,185</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Other Postemployment Benefit Trust Account

Fiduciary Funds held in the District's Other Postemployment Benefit Trust account may be invested as authorized by Minnesota Statutes Chapter 356A. The District has further restricted and defined its authorized statute investment parameters within an OPEB Trust investment policy statement as follows:

Following is a list of the permissible assets for the OPEB Trust portfolio:

- Securities of the U.S. Government, its Agencies and/or Instrumentality
- Commercial Paper; Domestic and Eurodollar
- Corporate Notes/Bonds; Domestic and International
- Asset-Backed Securities
- Certificates of Deposit
- Tax-Exempt and Taxable Municipal bonds
- Mortgage-backed securities (U.S. Government-backed)
- Domestic Equities traded on a major exchange
- International Equities traded on a U.S. exchange (ADRs)
- Open-ended mutual funds that invest substantially all their assets in the asset classes listed above, such as: money market funds, domestic and foreign equity and fixed income funds
- Alternative funds that employ nontraditional strategies

Asset Allocation

The long-term financial requirements and prudent diversification implies a balanced investment approach. The target asset class allocation and ranges are as follows:

	Long-Term Target	Allowable Ranges	Actual Allocation as of 6/30/2019	
Money Market/Cash Equivalent	N/A	N/A	\$ 271,358	2%
Domestic Fixed Income	55%	50-70%	13,172,713	58%
Foreign Fixed Income	5%	0-10%	-	0%
Total Fixed Income	60%	50-70%	13,172,713	58%
U.S. Stocks	30%	20-35%	5,701,253	25%
Foreign Stocks	5%	0-10%	3,451,005	15%
Total Equity	35%	20-40%	9,152,258	40%
Alternative Investments	5%	0-10%	-	0%
Accrued Interest			49,694	
Total Investments and Accrued Interest			<u>\$ 22,646,023</u>	100%

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Other Postemployment Benefit Trust Account (Continued)

Approximate breakdown of fixed income securities is as follows:

<u>Sector Distribution</u>		
Treasury	\$ 1,110,021	8%
Federal Agency	4,397,603	33%
Bond Mutual Funds	2,943,075	22%
Corporate Bonds	3,980,250	30%
Municipal Bonds	741,764	6%
Total	<u>\$ 13,172,713</u>	<u>100%</u>

Credit Quality Standards

Any individual fixed income security purchased or retained in an account must have a rating of at least BBB-/ Baa3 (i.e., investment grade or above) as determined by at least one Nationally Recognized Statistical Rating Organization (NRSRO). Non-U.S. dollar denominated and below-investment grade obligations may be purchased only if held in a mutual fund.

Industry concentrations within the corporate, municipal revenue and asset-backed sectors should generally be limited to no more than 25% of an account's fixed income portfolio. In general, fixed income portfolios of individual securities will be well diversified and constructed to reflect the District's risk and return requirements, and will be comprised of investment grade securities.

Bond Mutual Funds are not rated and therefore are not included in the table listed below.

<u>Quality Distribution Ratings</u>		
Govt/AAA	\$ 3,767,633	37%
AA	213,619	2%
A	2,619,661	26%
BBB	1,360,589	13%
NR	2,268,136	22%
Total	<u>\$ 10,229,638</u>	<u>100%</u>

Fixed Income – Maturity Restrictions

Duration of the portfolio will generally be within +/- 20% of the Barclays Aggregate Bond Index, or the duration of the OPEB obligation, whichever is greater.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Other Postemployment Benefit Trust Account (Continued)

Approximate maturities of fixed income securities are as follows:

<u>Duration Distribution</u>		
0-2 Years	\$ 6,114,556	46%
2-4 Years	2,981,594	23%
4-6 Years	2,051,563	16%
6-8 Years	1,925,000	15%
>10 Years	100,000	1%
Total	<u>\$ 13,172,713</u>	<u>100%</u>

Issuer Concentration Policy

No single security, with the exception of a security issued by the U.S. Government, its Agencies and/or Instrumentalities, shall at the time of purchase constitute more than 5% of the value of the portfolio.

D. Fair Value Measurements

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

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

D. Fair Value Measurements (Continued)

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

- *Level 1* – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.
- *Level 2* – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data. 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 and recently published security specific trading levels.
- *Level 3* – Financial asset 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 a pricing the asset.

Assets measured at fair value on a recurring basis:

Type	Level 1	Level 2	Level 3	Total
US Agency	\$ -	\$ 30,304,720	\$ -	\$ 30,304,720
Money Market	29,772,000	-	-	29,772,000
Corporate Note	-	1,554,945	-	1,554,945
US Treasury	-	108,806,784	-	108,806,784
OPEB Trust				
Mortgage Backed Securities (MBS)	-	5,507,623	-	5,507,623
Corporate Bonds	-	3,980,250	-	3,980,250
Municipal Obligations	-	741,764	-	741,764
Equity Securities	9,152,258	-	-	9,152,258
Mutual Funds/ETFs	2,943,075	-	-	2,943,075
Total	\$ 41,867,333	\$ 150,896,086	\$ -	192,763,419
OPEB Trust - Investments at Amortized Costs				385,302
Total Investments				\$ 193,148,721

**BRAINERD PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 2,533,546	\$ 2,031,459	\$ -	\$ 4,565,005
Construction-in-Progress	835,500	18,457,040	-	19,292,540
Total Capital Assets, Not Being Depreciated	<u>3,369,046</u>	<u>20,488,499</u>	<u>-</u>	<u>23,857,545</u>
Capital Assets, Being Depreciated				
Land Improvements	12,531,800	18,560	(3,483)	12,546,877
Buildings and Improvements	104,501,569	209,977	-	104,711,546
Equipment	15,300,301	680,706	(85,855)	15,895,152
Total Capital Assets, Being Depreciated	<u>132,333,670</u>	<u>909,243</u>	<u>(89,338)</u>	<u>133,153,575</u>
Accumulated Depreciation for				
Land Improvements	(7,279,110)	(522,195)	566	(7,800,739)
Buildings and Improvements	(51,751,914)	(3,054,111)	-	(54,806,025)
Equipment	(11,510,441)	(727,912)	85,855	(12,152,498)
Total Accumulated Depreciation	<u>(70,541,465)</u>	<u>(4,304,218)</u>	<u>86,421</u>	<u>(74,759,262)</u>
Total Capital Assets, Being Depreciated, Net	<u>61,792,205</u>	<u>(3,394,975)</u>	<u>(2,917)</u>	<u>58,394,313</u>
Governmental Activities Capital Assets, Net	<u>\$ 65,161,251</u>	<u>\$ 17,093,524</u>	<u>\$ (2,917)</u>	<u>\$ 82,251,858</u>

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

Governmental Activities:	
Administration	\$ 161,386
District Support Services	56,283
Regular Instruction	1,525,911
Vocational Education Instruction	81,416
Special Education Instruction	1,345,564
Instructional Support Services	132,820
Pupil Support Services	384,812
Sites and Buildings	402,702
Community Service	213,324
Total Depreciation Expense, Governmental Activities	<u>\$ 4,304,218</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 LONG-TERM LIABILITIES

A. Components of General Long-Term Debt

Description of Issue	Issue Date	Interest Rate	Original Issue	Final Maturity	Outstanding
School Building Bonds					
Series 2013A	3/19/2013	0.40 - 1.95%	1,240,000	2/1/2024	\$ 640,000
Series 2013B	6/11/2013	2.00%	2,120,000	2/1/2024	2,120,000
Series 2018A	6/27/2018	2.00%	143,110,000	2/1/2044	143,110,000
Series 2018C Refunding	12/6/2018	5.00%	20,325,000	2/1/2028	20,325,000
Series 2018D	12/6/2018	3.25-5%	14,200,000	2/1/2039	14,200,000
Series 2019A	5/16/2019	3-5%	20,255,000	2/1/2035	20,255,000
OPEB Bonds					
Series 2018B Refunding	12/6/2018	2.9-4%	9,290,000	2/1/2023	9,290,000
Total General Obligation Bonds					<u>209,940,000</u>
Certificates of Participation	5/22/2019	3-5%	9,485,000	4/1/2034	9,485,000
Capital Lease Payable					
Buildings - Refunded	05/28/14	1.00 - 2.35%	2,175,000	02/01/22	800,000
Franklin Building	02/15/08	5.15%	718,553	02/21/28	260,874
Staff Computers	05/05/16	2.17%	522,243	05/15/20	102,295
Lowell LULA Elevator	07/13/15	2.88%	400,000	02/01/22	179,001
Mowing Equipment	07/05/17	4.88%	153,109	07/05/22	101,867
Custodial Equipment	09/27/18	5.01%	93,856	09/01/21	71,396
Student I-Pads	05/09/19	N/A	145,980	07/01/22	145,980
Student Chromebooks	06/20/19	0.53%	617,110	07/01/22	617,110
Planetarium Equipment	09/05/18	10.82%	242,585	08/01/20	242,585
Total Capital Leases					<u>2,521,108</u>
Lease Purchase Payable					
Lease Purchase Series 2014	03/13/14	3.87%	3,020,702	02/01/29	2,188,623
Lease Purchase Series 2015	05/19/15	2.87%	1,835,000	02/01/30	1,407,769
Total Lease Purchases					<u>3,596,392</u>
Compensated Absences Payable					<u>292,260</u>
Total Long-Term Liabilities					<u>\$ 225,834,760</u>

B. Minimum Debt Payments

Minimum annual principal and interest payments required to retire long-term debt, not including compensated absences payable are as follows:

Year Ending June 30	General Obligation Bonds Payable		Capital Leases Payable		Lease Purchases		Certificate of Participation	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 5,220,000	\$ 8,486,835	\$ 829,314	\$ 59,496	\$ 293,611	\$ 122,561	\$ 290,000	\$ 326,467
2021	4,910,000	8,199,185	746,642	43,753	303,960	112,212	315,000	365,850
2022	4,985,000	8,001,570	543,289	21,241	314,680	101,492	515,000	350,100
2023	5,270,000	7,800,640	247,095	10,925	325,786	90,386	535,000	324,350
2024	5,525,000	7,565,635	30,114	7,266	337,292	78,880	565,000	297,600
2025-2029	31,115,000	33,829,250	124,654	12,407	1,874,082	206,776	3,295,000	1,034,000
2030-2034	40,115,000	26,442,000	-	-	146,981	3,171	3,970,000	364,500
2035-2039	53,115,000	18,069,950	-	-	-	-	-	-
2040-2044	59,685,000	7,026,950	-	-	-	-	-	-
Total	<u>\$ 209,940,000</u>	<u>\$ 125,422,015</u>	<u>\$ 2,521,108</u>	<u>\$ 155,088</u>	<u>\$ 3,596,392</u>	<u>\$ 715,478</u>	<u>\$ 9,485,000</u>	<u>\$ 3,062,867</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt

1. General Obligation School Building Bonds

These bonds were issued to finance acquisition and/or construction/improvement of capital facilities. Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies are dedicated for the retirement of these bonds. Deferred future years' tax levies available to retire bond principal and interest payable at June 30, 2019 are approximately \$365,305,376. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota Statutes.

2. General Obligation School Building Refunding Bonds

On December 6, 2018, the District issued \$20,325,000 General Obligation Refunding Bonds, Series 2018C to refund (in 2018) the 2010A General Obligation School Building Bonds, dated March 10, 2010. The refunding was undertaken to reduce total debt service payments in the amount of \$302,458 over the next four years, and resulted in economic gain of \$306,874.

3. General Obligation Taxable OPEB Refunding Bonds

On December 6, 2018, the District issued \$9,290,000 General Obligation Taxable OPEB Refunding Bonds, Series 2018B. The proceeds are to refinance the 2009A General Obligation OPEB Bonds. The refunding was undertaken to reduce total debt service payment in the amounts of \$348,374 over the next four years, and resulted in economic gain of \$323,085.

4. General Obligation Facilities Maintenance Bonds

On December 3, 2018, the District issued \$14,200,000 General Obligation Facilities Maintenance Bonds, Series 2018D. The proceeds are to be used to provide funds for facility maintenance projects included in the ten-year facility plan of the District. Repayment of the principal will be in one annual installment, plus 40 semi-annual fixed interest payments at 3.25% to 5.00%, commencing February 1, 2039.

5. General Obligation Facilities Maintenance and Tax Abatement Bonds

On May 16, 2019, the District issued \$20,255,000 General Obligation Facilities Maintenance and Tax Abatement Bonds, Series 2019A. The proceeds are to be used to provide funds for facility maintenance projects included in the ten-year facility plan of the District and parking lot construction and improvements. Repayment of the principal will be in one annual installment, plus 31 semi-annual fixed interest payments at 3% to 5%, commencing February 1, 2035.

6. Certificates of Participation

On May 22, 2019, the District issued \$9,485,000 Certificates of Participation, Series 2019B. The proceeds are to be used to finance building additions at district sites and facilities.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt (Continued)

7. Other Long-Term Debt (Continued)

On March 13, 2014, the District entered into a lease-purchase agreement with Capital One Funding, LLC in the amount of \$3,020,702, bearing interest at 3.87% to finance capital projects. Repayment of the lease will occur in 30 semi-annual installments of \$133,011 commencing August 8, 2014. The proceeds were used to finance improvements made to the lower-site activity fields.

On May 19, 2015, the District entered into a fifteen-year lease agreement Kinetic Leasing in the amount of \$1,835,000, bearing interest at 2.87% to finance the Riverside addition. Repayment of the lease will occur with \$75,075 payments occurring twice a year starting August 1, 2015. The proceeds were used to finance the addition to the Riverside School Building.

8. Capital Lease Obligations

Buildings-

On July 2, 2014, the District refunded its 2002A Lease Revenue Bonds with a remaining balance of \$2,265,000 by issuing Lease Revenue Refunding Bonds, Series 2014A for \$2,175,000 bearing interest at 1.00% to 2.35%. Repayment will be in one annual installment, plus 15 semi-annual interest payments commencing February 1, 2015. The original proceeds were used for the purchase of and improvements to the Area Education Center facility.

On February 15, 2008, the District entered into a twenty-year lease with Artspace Brainerd Limited Partnership in the amount of \$718,553, bearing interest at 5.15% to finance the acquisition of additional gymnasium space. Lease terms call for a \$250,000 down payment and monthly lease payments of \$3,115 commencing April 1, 2008.

On July 13, 2015, the District entered into a seven-year lease with Kinetic Leasing, Inc. in the amount of \$400,000, bearing interest at 2.88% for an elevator in the Lowell Elementary School. Monthly lease payments of \$31,350 commenced on August 1, 2015.

Equipment-

On May 5, 2016, the District entered into a four-year lease-purchase agreement with Vantage Financial, LLC, in the amount of \$522,243, bearing interest at 2.17% to finance computers across the District. Repayment of the lease will occur in monthly payments of \$11,338, commencing May 27, 2016.

On July 5, 2017, the District entered into a six-year lease agreement with TCF Equipment Finance in the amount of \$153,109; bearing interest at 4.876% to finance mowing equipment. Repayment of the lease will occur with a \$28,665 down payment and annual lease payments of \$28,665 commencing July 5, 2018.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt (Continued)

8. Capital Lease Obligations (Continued)

Equipment (Continued)-

On November 18, 2018, the District entered into a three-year lease-purchase agreement with All-Lines Leasing, in the amount of \$93,856, bearing interest at 5.01% to finance various custodial equipment across the District. Repayment of the lease will occur in monthly payments of \$2,802.

On May 9, 2019, the District entered into a four-year lease-purchase agreement with Apple Financial Services, in the amount of \$145,980, with no interest, to finance I-Pads for the District. Since the equipment is under the capitalization threshold of the District, these items were not added as capital assets.

On June 20, 2019, the District entered into a four-year lease-purchase agreement with Vantage Financial, LLC, in the amount of \$617,110, bearing interest at 0.53% to finance chrome-books for the District. Since the equipment is under the capitalization threshold of the District, these items were not added as capital assets.

On September 5, 2018, the District entered into a two-year lease-purchase agreement with National Cooperative Leasing, in the amount of \$242,585, bearing interest at 12.1% to finance various planetarium equipment for the District.

Assets acquired through capital leases, are summarized as follows:

Land	\$	148,509
Buildings and Improvements		4,930,592
Equipment		1,751,234
Less: Accumulated Depreciation		(4,183,571)
Total		\$ 2,646,764

D. Changes in Long-Term Debt

	June 30, 2018	Net Additions	Retirements	June 30, 2019	Due Within One Year
General Obligation Bonds	\$ 185,160,000	\$ 64,070,000	\$ 39,290,000	\$ 209,940,000	\$ 5,220,000
Net Bond Premiums (Discount)	7,368,066	5,538,105	1,246,369	11,659,802	-
Capital Leases	2,027,213	1,099,531	605,636	2,521,108	829,314
Certificates of Participation	-	9,485,000	-	9,485,000	290,000
Lease Purchases	3,880,012	-	283,620	3,596,392	293,611
Subtotal	198,435,291	80,192,636	41,425,625	237,202,302	6,632,925
Compensated Absences	255,185	357,367	320,292	292,260	292,260
Total	\$ 198,690,476	\$ 80,550,003	\$ 41,745,917	\$ 237,494,562	\$ 6,925,185

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 RESTRICTED FUND BALANCES

A. Restricted for Operating Capital

Represents tax levies and state aid in the General Fund to be used for purchase of equipment and facilities.

B. Restricted for Learning and Development

Represents the available general education revenues for learning and development, which is mainly for reducing the pupil-to-staff ratio.

C. Restricted for Safe Schools – Crime Levy

Represents the unspent resources from the crime levy to be used for crime prevention, student and staff safety and violence prevention measures.

D. Restricted for Community Education

Represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood family education, and extended day programs.

E. Restricted for Early Childhood and Family Education

Represents the resources available to provide for services for Early Childhood Family Education programming.

F. Restricted for School Readiness

Represents the resources available to provide for School Readiness Program.

G. Restricted for Adult Basic Education

Represents the balance of carryover monies for all activity involving Adult Basic Education.

H. Restricted for Staff Development

Represents cumulative unspent staff development dollars.

I. Restricted for Long-term Facilities Maintenance (LTFM)

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

J. Restricted for Certificates of Lease Purchase Agreements

Represents the June 30 balance in the building construction fund for projects funded by certificates of lease purchase agreements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 6 RESTRICTED FUND BALANCES (CONTINUED)

K. Restricted for Other Purposes

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

Other Restricted:

Cash Held by Fiscal Agent	\$ 152,128
Food Service	460,745
Community Service	6,264
Capital Projects	136,607,199
Debt Service	2,855,341
Total Other Restricted	<u><u>\$ 140,081,677</u></u>

NOTE 7 ASSIGNED FUND BALANCES

Assigned for Q Comp

Represents amount set aside for Q Comp expenditures.

Other assigned fund balances are listed below:

Other Assigned:

FMS School Store	\$ 45,465
Reading Recovery	4,057
Robotics	4,278
Fiber Partner	48,370
FMS Book Fair	109
Literacy Training	4,695
FMS Yearbook	13,632
Total Other Assigned	<u><u>\$ 120,606</u></u>

NOTE 8 PENSION PLANS

A. Plan Description

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

1. General Employees Retirement Plan (General Employees Plan)

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

2. Teachers Retirement Fund (TRA)

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

Educators employed in Minnesota's public elementary and secondary schools, charter schools, and certain other TRA-covered educational institutions maintained by the state are required to be TRA members (except those employed by St. Paul schools or University of Minnesota System).

B. Benefits Provided

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

1. General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated Plan members. Members hired prior to July 1, 1989, receive the higher of Method 1 or Method 2 formulas. Only Method 2 is used for members hired after June 30, 1989. Under Method 1, the accrual rate for Coordinated members is 1.2% of average salary for each of the first 10 years of service and 1.7% of average salary for each additional year. Under Method 2, the accrual rate for Coordinated members is 1.7% of average salary for all years 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.

Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. If the General Employees Plan is at least 90% funded for two consecutive years, benefit recipients are given a 2.5% increase. If the plan has not exceeded 90% funded, or have fallen below 80%, benefit recipients are given a one percent increase. A benefit recipient who has been receiving a benefit for at least 12 full months as of June 30, will receive a full increase. Members receiving benefits for at least one month but less than 12 full months as of June 30, will receive a pro rata increase.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits

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

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

Tier 1 Benefits

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

With these provisions:

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

or

Tier II Benefits

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier II Benefits (Continued)

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

1. General Employees Plan Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state Legislature. Coordinated Plan members were required to contribute 6.50% of their annual covered salary in fiscal year 2019 and the District was required to contribute 7.50% for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2019, were \$986,526. The District's contributions were equal to the required contributions as set by state statute.

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 rates for the fiscal year for coordinated were 7.5% for the employee and 7.71% for the employer. Basic rates were 11.00% for the employee and 11.71% for the employer. The District's contributions to TRA for the plan's fiscal year ended June 30, 2019 were \$2,905,563. The District's contributions were equal to the required contributions for each year as set by state statute.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs

1. General Employees Plan Pension Costs

At June 30, 2019, the District reported a liability of \$10,429,469 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$16 million to the fund in 2018. The State of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$342,164, for a total net pension liability of \$10,771,633 associated with the District. The net pension liability was measured as of June 30, 2018, 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 proportionate share of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2017 through June 30, 2018, relative to the total employer contributions received from all of PERA's participating employers.

At June 30, 2018, the District's proportionate share was .188% which was a decrease of .001% from its proportionate share measured as of June 30, 2017

For the year ended June 30, 2019, the District recognized pension expense of \$302,441 for its proportionate share of the General Employees Plan's pension expense. In addition, the District recognized an additional \$79,792 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$16 million to the General Employees Fund.

At June 30, 2019, the District reported its proportionate share of the General Employees Plan's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 276,051	\$ 304,183
Changes in Actuarial Assumptions	996,279	1,171,862
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	-	1,065,727
Changes in Proportion	118,899	87,044
District Contributions Subsequent to the Measurement Date	986,526	-
Total	<u>\$ 2,377,755</u>	<u>\$ 2,628,816</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Plan Pension Costs (Continued)

\$986,526 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Pension Expenses Amount</u>
2020	\$ 363,200
2021	(520,740)
2022	(862,364)
2023	(217,683)

2. TRA Pension Costs

At June 30, 2019 the District reported a liability of \$40,291,418 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2018, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was .6415% at the end of the measurement period and .6402% at the beginning of the period.

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

<u>Description</u>	<u>Amount</u>
District's Proportionate Share of the TRA Net Pension Liability	\$ 40,291,418
State's Proportionate Share of TRA's Net Pension Liability Associated with the District	3,785,490
Total	<u>\$ 44,076,908</u>

For the year ended June 30, 2019, the District recognized negative pension expense of \$14,226,715. It also recognized \$2,642,027 as a decrease to pension expense and negative grant revenue for the support provided by direct aid.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

At June 30, 2019, the District reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 429,756	\$ 812,533
Changes in Actuarial Assumptions	52,023,678	68,701,864
Net Difference Between Projected and Actual		
Investment Earnings	-	3,124,594
Changes in Proportion	968,995	306,351
District Contributions Subsequent to the Measurement Date	2,905,563	-
Total	<u>\$ 56,327,992</u>	<u>\$ 72,945,342</u>

\$2,905,563 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Pension Expenses Amount</u>
2020	\$ 3,896,348
2021	2,626,723
2022	71,425
2023	(15,254,349)
2024	(10,863,060)

The District's total pension expense for all plans for the year ended June 30, 2019 was (\$16,486,509).

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JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

The total pension liability in the June 30, 2018, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	General Employees Plan	TRA
Inflation	2.50% per Year 11.25% after 1 year of service decreasing to 3.25% per year after 26 years	2.50% 2.85% for 10 years and 3.25%, thereafter
Active Member Payroll Growth	7.50%	7.50%
Investment Rate of Return		

PERA Salary increases were based on a service-related table. PERA mortality rates for active members, retirees, survivors, and disabilitants for all plans were based on RP 2014 tables for males or females, as appropriate, with slight adjustments to fit PERA's experience. PERA cost of living benefit increases after retirement for retirees are assumed to be 1.25% per year for the General Employees Plan.

Actuarial assumptions used in the PERA June 30, 2018 valuation were based on the results of actuarial experience studies. The most recent six-year experience study in the General Employees Plan was completed in 2015. Economic assumptions were updated in 2017 based on a review of inflation and investment return assumptions.

TRA pre-retirement mortality rates were based on the RP-2014 white collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP-2015 scale. Post-retirement mortality rates were based on the RP-2014 white collar annuitant table, male rates set back 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP-2015 scale. Post-disability mortality rates were based on the RP-2014 disabled retiree mortality table, without adjustment. TRA cost of living benefit increases 1.0% for January 2019 through January 2023, then increasing by 0.1% each year up to 1.5% annually.

TRA assumptions are based on the full experience study dated June 2015 and the study of the economic assumptions presented to the Board in November 2017.

TRA assumptions are based on the full experience study dated June 2015 and the study of the economic assumptions presented to the Board in November 2017.

**BRAINERD PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions for PERA occurred in 2018:

- The morality projection scale was changed from MP-2015 to MP-2017.
- The assumed post-retirement benefit increase was changed from 1.0% per year through 2044 and 2.50% per year thereafter to 1.25% per year.

The following changes in actuarial assumptions for TRA occurred in 2018:

- The COLA was reduced from 2.0% each January 1 to 1.0%, effective January 1, 2019. Beginning January 1, 2024, the COLA will increase 0.1% each year until reaching the ultimate rate of 1.5% in January 1, 2028.
- Beginning July 1, 2024, eligibility for the first COLA changes to normal retirement age (age 65 to 66, depending on date of birth). However, members who retire under Rule of 90 and members who are at least age 62 with 30 years of service credit are exempt.
- The COLA trigger provision, which would have increased the COLA to 2.5% if the funded ratio was at least 90% for two consecutive years, was eliminated.
- Augmentation in the early retirement reduction factors is phased out over a five-year period beginning July 1, 2019 and ending June 30, 2024 (this reduces early retirement benefits). Members who retire and are at least age 62 with 30 years of service are exempt.
- Augmentation on deferred benefits will be reduced to 0% beginning July 1, 2019. Interest payable on refunds to members was reduced from 4.0% to 3.0%, effective July 1, 2018. Interest due on payments and purchases from members, employers is reduced from 8.5% to 7.5%, effective July 1, 2018.
- The employer contribution rate is increased each July 1 over the next 4 years, (7.92% in 2019, 8.13% in 2021, 8.55% in 2022, and 8.75% in 2023). In addition, the employee contribution rate will increase from 7.50% to 7.75% on July 1, 2023. The state provides funding for the higher employer contribution rate through an adjustment in the school aid formula.
- The single discount rate was changed from 5.12% to 7.5%.

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NOTE 8 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	36.0 %	5.10 %
International Equity	17.0	5.30
Bonds	20.0	0.75
Alternative Assets	25.0	5.90
Cash	2.0	-
Totals	<u>100.0 %</u>	

F. Discount Rate

The discount rate used to measure the PERA General Employees Plan liability in 2018 was 7.50%. 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 positions of the General Employees Fund were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The discount rate used to measure the TRA pension liability was 7.50%. This is an increase from the discount rate at the prior measurement date of 5.12%. The projection of cash flows used to determine the discount rate assumed that employee contribution will be made at the fiscal year 2018 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was not projected to be depleted and, as a result, the Municipal Bond Index Rate was not used in the determination of the Single Equivalent Interest Rate (SEIR).

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JUNE 30, 2019**

NOTE 8 PENSION PLANS (CONTINUED)

G. Pension Liability Sensitivity

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

Description	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
<u>General Employees Plan Discount Rate</u>	6.50%	7.50%	8.50%
District's Proportionate Share of the General Employees Plan Net Pension Liability	\$ 16,949,223	\$ 10,429,469	\$ 5,047,599
 <u>TRA Discount Rate</u>	 6.50%	 7.50%	 8.50%
District's Proportionate Share of the TRA Net Pension Liability	\$ 63,942,317	\$ 40,291,418	\$ 20,779,582

H. Pension Plan Fiduciary Net Position

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

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

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree benefit plan "the Plan" that provides health and dental insurance to eligible employees and their spouses through the District's health insurance plan. There are 931 active participants and 102 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

**BRAINERD PUBLIC SCHOOLS
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JUNE 30, 2019**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

B. Funding Policy

The District has assets designated for OPEB. These assets are in a qualified irrevocable trust which is included as a fiduciary fund in these financial statements. The District's investment policy is to follow state statutes as listed in Note 3. The District is assumed to make no future contributions to the trust. Benefit payments equal to the annual direct subsidy plus implicit subsidy are assumed to be made from the trust. Contribution requirements are negotiated between the District and union representatives. For fiscal year 2019, the District did not make contributions to the plan; all current year benefits were paid from the District's OPEB Trust Fund.

C. Net OPEB Liability (Asset) of the District

The components of the net OPEB liability (asset) of the District at June 30, 2019, were as follows:

Total OPEB Liability	\$	19,967,323
Plan Fiduciary Net Position		<u>22,646,217</u>
District's net OPEB Liability (Asset)	\$	<u>(2,678,894)</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)		113%

D. Actuarial Methods and Assumptions

The discount rate is based on the long-term expected rate of return on OPEB plan investments that are expected to be used to finance the payment of benefits, to the extent that (1) the OPEB plan's fiduciary net position is projected to be sufficient to make projected benefit payments and (2) OPEB plan assets are expected to be invested using a strategy to achieve that return. To the extent fiduciary net position is insufficient to finance the payment of benefits, the rate must be blended with a yield or index rate for 20 year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher (or equivalent quality on another rating scale).

The District's net OPEB liability (asset) was measured as of June 30, 2019, and the total OPEB liability (asset) used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2018. Liabilities in this report were calculated as of the valuation date and rolled forward to the measurement date using standard actuarial roll-forward techniques.

The total OPEB liability was determined by an actuarial valuation as of July 1, 2018, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	3.00%
Investment Rate of Return	5.00%
	6.50% Decreasing to
Medical Trend Rates	5.00% over 6 Years
Dental Trend Rates	4.00%

**BRAINERD PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Actuarial Methods and Assumptions (Continued)

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

The actuarial assumptions used in the July 1, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2017 to June 30, 2018.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These asset class estimates are combined to produce the portfolio long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (or target allocation, if available) and by adding expected inflation (2.50%). Best estimates of geometric real and nominal rates of return for each major asset class included in the OPEB plan's asset allocation as of the measurement date are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Expected Class Return</u>
Domestic Equity	30.00%	
International Equity	5.00%	
Domestic Fixed Income	55.00%	
Foreign Fixed Income	5.00%	
Alternative Investments	5.00%	
Net Assumed Investment Return (Weighted Avg, Rounded to 1/4%)		5.00%

The discount rate used to measure the total OPEB liability was 4.90%. The projection of cash flows and OPEB trust assets used to determine the discount rate were based on recent employer contribution history and their stated funding policy. The OPEB trust's long-term assumed investment return was used to discount projected benefit payments for as long as projected trust assets are available to fund OPEB payments. Once projected trust assets are exhausted, the municipal bond index rate of 3.50% was applied to the remaining expected benefit payments.

The expected employer asset return is based on the long-term expected return on short-term/cash-equivalent assets using our capital market assumption model.

Since the most recent GASB 74/75 valuation, the following changes have been made:

- The health care trend rates were change to better anticipate short term and long term medical increases.
- The mortality tables were updated from the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale to the RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale.
- The trend on board contributions was changed from the same as the health care trend rates to 7.3% for two years and then the same as the remaining health care trend rates.

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NOTES TO FINANCIAL STATEMENTS
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NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. Changes in the Net OPEB Liability (Asset)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2018	\$ 18,264,677	\$ 23,253,814	\$ (4,989,137)
Changes for the Year:			
Service Cost	728,439	-	728,439
Interest	884,088	-	884,088
Assumption Changes	815,371	1,162,691	(347,320)
Differences between Expected and Actual Experience	1,198,752	153,716	1,045,036
Benefit Payments	(1,924,004)	(1,924,004)	-
Net Changes	<u>1,702,646</u>	<u>(607,597)</u>	<u>2,310,243</u>
Balances at June 30, 2019	<u>\$ 19,967,323</u>	<u>\$ 22,646,217</u>	<u>\$ (2,678,894)</u>

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

	1% Decrease (3.40%)	Discount Rate (4.40%)	1% Increase (5.40%)
Net OPEB Liability (Asset)	\$ (1,607,972)	\$ (2,678,894)	\$ (3,719,627)

The following presents the net OPEB liability (asset) of the District, as well as what the District's net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are 1% point lower (5.50% decreasing to 4.00%) or 1% point higher (7.50% decreasing to 6.00%) and dental cost trend rates that are 1% point lower (3.00%) or 1% point higher (5.00%) than the current healthcare and dental cost trend rates:

	1% Decrease (Medical 5.5% decreasing to 4.00%, Dental 3.00%)	Current Trend Rates (6.5% decreasing to 5.00%, Dental 4.00%)	1% Increase (7.50% decreasing to 6.00%, Dental 5.00%)
Net OPEB Liability (Asset)	\$ (4,148,901)	\$ (2,678,894)	\$ (1,015,016)

**BRAINERD PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. Changes in the Net OPEB Liability (Asset) (Continued)

For the year ended June 30, 2019, the District recognized OPEB expense of \$699,771. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources
Difference Between Expected and Actual Liability	\$ 998,960
Change of Assumptions	679,475
Net Difference Between Projected and Actual Investment Earnings	-
Total	\$ 1,678,435

Amounts

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

<u>Year Ended June 30,</u>
2020
2021
2022
2023
2024
Total

At June 30, 2019, the District had no outstanding receivable or payable amounts from the Trust.

NOTE 10 SUPPLEMENTAL BENEFIT PLAN

A. Plan Description

The District provides a defined benefit supplemental pension benefit to certain eligible employees. All of the pension benefits are based on contractual agreements with employee groups. These contractual agreements do not include any specific contribution or funding requirements.

Currently, there are 29 active employees who are eligible to receive benefits under the plan as of July 1, 2018. The pension benefit minimum is 12 days per year of service times the daily rate. Payments are made as lump sum payments. Some contracts also reduce the pension benefits by the total matching contribution made by the District to the employee's qualified retirement account over the course of that individual's employment with the District.

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JUNE 30, 2019**

NOTE 10 SUPPLEMENTAL BENEFIT PLAN (CONTINUED)

B. Funding Policy

Payments under the plan are made on a pay-as-you go basis. There are no invested plan assets accumulated for payment of future benefits. The General Fund is used for funding of all pension/retirement benefits. The employer makes all contributions.

C. Total Pension Liability

The District recognizes its total pension liability, rather than a net pension liability. In order for the District to recognize a net pension liability, assets must be accumulated in a trust that meets the following criteria:

- Contributions from the employer and nonemployer contributing entities, and the earnings thereon, must be irrevocable.
- Pension plan assets must be dedicated to providing pensions to Plan members in accordance with benefit terms.
- Pension plan assets must be legally protected from the creditors of employer, nonemployer contributing entities, the Plan administrator, and the Plan members.

No assets are accumulated in a trust that meets all of the above criteria. Accordingly, the District's total pension liability is not reduced by any assets accumulated in a trust that meets the criteria, and the District must report its total pension liability.

Total Pension Liability - June 30, 2018	\$	123,659
Changes for the Year:		
Service Cost		8,291
Interest		4,190
Assumption Changes		1,519
Plan Changes		18
Differences between Expected and Actual Experience		25,557
Benefit Payments		<u>(24,700)</u>
Net Changes		<u>14,875</u>
Total Pension Liability - June 30, 2019	\$	<u><u>138,534</u></u>

D. Pension Costs

For the year ended June 30, 2019, the District recognized pension expense of \$14,812. At June 30, 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of Assumptions or Other Inputs	\$ 24,613	\$ 1,347

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 10 SUPPLEMENTAL BENEFIT PLAN (CONTINUED)

D. Pension Costs (Continued)

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

<u>Year Ending June 30,</u>	<u>Pension Expense</u>
2020	\$ 2,313
2021	2,313
2022	2,313
2023	2,313
2024	2,313
Thereafter	11,701
Total	<u><u>23,266</u></u>

E. Actuarial Methods and Assumptions

The actuarial total pension liability was determined as of June 30, 2019, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date:	July 1, 2018
Measurement Date:	June 30, 2019
Actuarial Cost Method:	Entry Age, Level Percentage of Pay
Discount Rate:	3.10%
Inflation:	2.50%
Salary Increases:	3.00%
Retirement Age:	55
Mortality:	RP-2014 White Collar Mortality Tables with MP-2017 Generational Improvement Scale

F. Discount Rate

The discount rate used to measure the total pension liability was 3.10%. The discount rate is based on the estimated yield of 20-Year AA-rated municipal bonds.

G. Total Pension Liability Sensitivity

The following presents the District's total pension liability, calculated using the discount rate of 3.10%, as well as what the District's total pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.10%) or one percentage point higher (4.10%) than the current rate:

	<u>1% Decrease (2.10%)</u>	<u>Current Discount Rate (3.10%)</u>	<u>1% Increase (4.10%)</u>
Total Pension Liability	<u>\$ 142,630</u>	<u>\$ 138,534</u>	<u>\$ 134,306</u>

**BRAINERD PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 11 SELF INSURANCE

A. Health Insurance

The District provides group health insurance for various employees through a self-insurance program which is funded by District contributions and employee payroll withholding. The funds are deposited into an employee benefit trust account from which all claims plus a processing fee are charged. Stop-loss coverage is in effect for individual claims exceeding \$175,000. The current net aggregate limits claims to approximately \$14,960,506 for the contract period ended August 31, 2019.

Claims payable include provisions for claims reported and claims incurred but not reported. The provision for reported claims is determined by estimating the amount which will ultimately be paid each claimant. The provision for claims incurred but not yet reported is estimated based on District experience since the inception of the program. Changes in the balances of claim liabilities during fiscal year 2019 were as follows:

	Year Ended	
	2019	2018
Beginning of Fiscal Year Liability - Beginning of Year	\$ 1,054,325	\$ 848,457
Current Year Claims and Administration	15,053,350	13,677,932
Payments to Health Care Providers	(15,105,824)	(13,472,064)
Balance at Fiscal Year End - End of Year	\$ 1,001,851	\$ 1,054,325

B. Dental Insurance

The District provides group Dental insurance for various employees through a self-insurance program which is funded by District contributions and employee payroll withholding. The funds are deposited into an employee benefit trust account from which all claims plus a processing fee are charged.

Claims payable include provisions for claims reported and claims incurred but not reported. The provision for reported claims is determined by estimating the amount which will ultimately be paid each claimant. The provision for claims incurred but not yet reported is estimated based on District experience since the inception of the program. Changes in the balances of claim liabilities during fiscal year 2019 were as follows:

	Year Ended	
	2019	2018
Beginning of Fiscal Year Liability - Beginning of Year	\$ 7,415	\$ 12,031
Current Year Claims and Administration	638,878	590,629
Payments to Health Care Providers	(632,612)	(595,245)
Balance at Fiscal Year End - End of Year	\$ 13,681	\$ 7,415

**BRAINERD PUBLIC SCHOOLS
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

NOTE 12 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 except for employee health insurance, which is self-insured by the District.

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

NOTE 10 COMMITMENTS AND CONTINGENCIES

Federal and State Programs

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

REQUIRED SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF CHANGES IN THE DISTRICT'S SUPPLEMENTAL PENSION LIABILITY AND
RELATED RATIOS
JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total Pension Liability - Beginning	\$ 123,659	\$ 152,376	\$ 160,054
Changes for the Year:			
Service Cost	8,291	6,037	6,364
Interest	4,190	4,059	4,558
Assumption Changes	1,519	(1,647)	-
Plan Changes	18	-	-
Differences between Expected and Actual Experience	25,557	-	-
Benefit Payments	<u>(24,700)</u>	<u>(37,166)</u>	<u>(18,600)</u>
Net Changes	<u>14,875</u>	<u>(28,717)</u>	<u>(7,678)</u>
Total Pension Liability - Ending	<u>\$ 138,534</u>	<u>\$ 123,659</u>	<u>\$ 152,376</u>
Covered Employee Payroll	\$ 3,198,162	\$ 2,858,757	\$ 2,694,653
District's Net OPEB Liability as a Percentage of Covered Employee Payroll	4%	4%	6%

The District implemented GASB Statement No. 73 in fiscal year 2017 and the above table will be expanded to 10 years of information as the information becomes available.

**BRAINERD PUBLIC SCHOOLS
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SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY
ASSET) AND RELATED RATIOS
JUNE 30, 2019**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total OPEB Liability			
Service Cost	\$ 728,439	\$ 670,268	\$ 683,508
Interest	884,088	857,960	879,813
Changes of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	1,198,752	-	-
Changes of Assumptions	815,371	(265,345)	-
Benefit Payments	(1,924,004)	(1,936,697)	(2,111,654)
Net Change in Total OPEB Liability	<u>1,702,646</u>	<u>(673,814)</u>	<u>(548,333)</u>
Total OPEB Liability - beginning	18,264,677	18,938,491	19,486,824
Total OPEB Liability - ending (a)	<u>\$ 19,967,323</u>	<u>\$ 18,264,677</u>	<u>\$ 18,938,491</u>
Plan Fiduciary Net Position			
Contributions - Employer	\$ -	\$ -	\$ 242,900
Projected Investment Return	1,316,407	1,210,837	1,228,310
Differences between Expected and Actual Experience	-	(237,073)	290,991
Benefit Payments	(1,924,004)	(1,936,697)	(2,111,654)
Administrative Expense	-	-	-
Net Change in Plan Fiduciary Net Position	<u>(607,597)</u>	<u>(962,933)</u>	<u>(349,453)</u>
Plan Fiduciary Net Position - beginning	23,253,814	24,216,747	24,566,200
Plan Fiduciary Net Position - ending (b)	<u>\$ 22,646,217</u>	<u>\$ 23,253,814</u>	<u>\$ 24,216,747</u>
District's Net OPEB Liability - ending (a) - (b)	\$ (2,678,894)	\$ (4,989,137)	\$ (5,278,256)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	113.42%	127.32%	127.87%
Covered Employee Payroll	\$ 45,700,711	\$ 42,976,691	\$ 40,509,653
District's Net OPEB Liability as a Percentage of Covered Employee Payroll	(5.86)%	(11.61)%	(13.03)%

The District implemented GASB Statement Nos. 74 and 75 in fiscal year 2017, and the above table will be expanded to ten years of information as the information becomes available.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF MONEY WEIGHTED RATE OF RETURN ON PLAN ASSETS
JUNE 30, 2019**

Year	Annual Money-Weighted Rate of Return, Net of Investment Expense
2019	5.70%
2018	4.00%
2017	1.10%

The District implemented GASB Statement Nos. 74 and 75 in fiscal year 2017, and the above table will be expanded to ten years of information as the information becomes available.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2019**

	Measurement Date <u>June 30, 2018</u>	Measurement Date <u>June 30, 2017</u>	Measurement Date <u>June 30, 2016</u>	Measurement Date <u>June 30, 2015</u>	Measurement Date <u>June 30, 2014</u>
PERA					
District's Proportion of the Net Pension Liability	0.1880%	0.1890%	0.1851%	0.1879%	0.2058%
District's Proportionate Share of the Net Pension Liability	\$ 10,429,469	\$ 12,065,635	\$ 15,029,202	\$ 9,737,953	\$ 9,667,453
State's Proportionate Share of the Net Pension Liability Associated with the District	342,164	151,722	196,269	-	-
Total District's Proportionate Share of the Net Pension Liability and State's Proportionate Share of the Net Pension Liability	\$ 10,771,633	\$ 12,217,357	\$ 15,225,471	\$ 9,737,953	\$ 9,667,453
District's Covered Payroll	\$ 12,580,213	\$ 12,147,480	\$ 11,193,133	\$ 11,038,651	\$ 10,796,201
District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	85.62%	100.58%	136.03%	88.22%	89.54%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	79.50%	75.90%	68.91%	78.20%	78.75%
TRA					
District's Proportion of the Net Pension Liability	0.6415%	0.6402%	0.6301%	0.6221%	0.6616%
District's Proportionate Share of the Net Pension Liability	\$ 40,291,418	\$ 127,795,533	\$ 150,293,884	\$ 38,483,038	\$ 30,486,052
State's Proportionate Share of the Net Pension Liability Associated with the District	3,785,490	12,353,829	15,084,592	4,720,268	2,144,524
Total District's Proportionate Share of the Net Pension Liability and State's Proportionate Share of the Net Pension Liability	\$ 44,076,908	\$ 140,149,362	\$ 165,378,476	\$ 43,203,306	\$ 32,630,576
District's Covered Payroll	\$ 33,800,547	\$ 34,465,227	\$ 31,129,173	\$ 31,568,351	\$ 30,197,434
District's Proportionate Share of the Net Pension Liability as a Percentage of Its Covered Payroll	130.40%	406.64%	531.27%	121.90%	100.96%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.07%	51.57%	44.88%	76.80%	81.50%

NOTE: Information prior to 2014 is unavailable.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST FIVE FISCAL YEARS**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
PERA						
Contractually Required Contribution	\$ 986,526	\$ 943,516	\$ 911,061	\$ 839,485	\$ 815,148	\$ 782,726
Contributions in Relation to the Contractually Required Contribution	(986,526)	(943,516)	(911,061)	(839,485)	(815,148)	(782,726)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 13,153,680	\$ 12,580,213	\$ 12,147,480	\$ 11,193,133	\$ 11,038,651	\$ 10,796,201
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%	7.38%	7.25%
TRA						
Contractually Required Contribution	\$ 2,905,563	\$ 2,535,041	\$ 2,584,892	\$ 2,334,688	\$ 2,367,880	\$ 2,113,775
Contributions in Relation to the Contractually Required Contribution	(2,905,563)	(2,535,041)	(2,584,892)	(2,334,688)	(2,367,880)	(2,113,775)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 37,685,642	\$ 33,800,547	\$ 34,465,227	\$ 31,129,173	\$ 31,568,351	\$ 30,197,434
Contributions as a Percentage of Covered Payroll	7.71%	7.50%	7.50%	7.50%	7.50%	7.00%

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

SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
GENERAL FUND
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019	2018
ASSETS		
Cash and Investments	\$ 10,714,800	\$ 10,373,561
Cash Held by Fiscal Agent	152,128	151,508
Receivables		
Current Property Taxes	4,311,504	4,470,279
Delinquent Property Taxes	230,029	201,107
Due from Other Funds	994,744	71,789
Due from Other Minnesota School Districts	183,737	205,080
Due from Minnesota Department of Education	7,225,912	6,943,359
Due from Federal through the Minnesota Department of Education	1,737,127	891,582
Due from Other Governmental Units	113,266	978,073
Accounts and Interest Receivable	317,275	333,582
Prepaid Items	346,603	243,960
Inventories	41,350	27,907
Total Assets	\$ 26,368,475	\$ 24,891,787
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
Liabilities		
Salary and Benefits Payable	\$ 2,602,373	\$ 2,603,892
Accounts and Contracts Payable	286,960	240,477
Due to Other Minnesota School Districts	155,624	225,353
Due to Other Governmental Units	420,460	388,181
Unearned Revenue - Charges for Services	174,670	73,488
Total Liabilities	3,640,087	3,531,391
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year	8,766,242	9,480,238
Unavailable Revenue - Delinquent Taxes	90,858	59,638
Total Deferred Inflows of Resources	8,857,100	9,539,876
Fund Balances (Deficit)		
Nonspendable		
Prepaid Items	346,603	243,960
Inventory	41,350	27,907
Restricted		
Operating Capital	1,121,870	914,100
Learning and Development	550,205	543,580
Safe Schools - Crime	229,178	355,554
Staff Development	801,245	887,884
Long-Term Facilities Maintenance (LTFM)	2,370,948	654,431
Other Restricted	152,128	151,508
Assigned		
Q Comp	631,015	522,780
Other	120,606	113,826
Unassigned	7,506,140	7,404,990
Total Fund Balances	13,871,288	11,820,520
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 26,368,475	\$ 24,891,787

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019		Over (Under) Final Budget	2018
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources				
Property Taxes	\$ 10,152,422	\$ 10,377,299	\$ 224,877	\$ 9,638,318
Earnings on Investments	150,000	267,069	117,069	148,374
Other	2,697,666	2,782,663	84,997	3,284,951
State Sources	68,882,783	68,852,909	(29,874)	67,329,738
Federal Sources	2,158,520	2,150,513	(8,007)	1,976,646
Total Revenues	84,041,391	84,430,453	389,062	82,378,027
EXPENDITURES				
Current				
Administration				
Salaries	2,007,499	2,088,471	80,972	2,120,129
Employee Benefits	1,100,930	1,090,422	(10,508)	1,025,878
Purchased Services	44,000	35,872	(8,128)	31,132
Supplies and Materials	6,050	17,290	11,240	15,567
Capital Expenditures	-	232	232	1,724
Other Expenditures	34,525	27,392	(7,133)	27,186
Total Administration	3,193,004	3,259,679	66,675	3,221,616
District Support Services				
Salaries	770,165	876,207	106,042	852,363
Employee Benefits	375,016	350,152	(24,864)	318,198
Purchased Services	428,336	348,768	(79,568)	528,060
Supplies and Materials	196,150	264,755	68,605	227,028
Capital Expenditures	91,860	6,582	(85,278)	67,781
Other Expenditures	20,330	7,441	(12,889)	40,757
Total District Support Services	1,881,857	1,853,905	(27,952)	2,034,187
Elementary and Secondary Regular Instruction				
Salaries	22,466,261	22,117,090	(349,171)	21,678,096
Employee Benefits	7,993,626	8,034,620	40,994	7,694,581
Purchased Services	2,110,196	2,254,052	143,856	2,070,526
Supplies and Materials	1,285,425	1,215,489	(69,936)	1,431,955
Capital Expenditures	277,222	449,623	172,401	198,533
Other Expenditures	7,200	13,555	6,355	14,040
Total Elementary and Secondary Regular Instruction	34,139,930	34,084,429	(55,501)	33,087,731

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019		2018	
	Final Budget	Actual Amounts	Over (Under) Final Budget	Actual Amounts
EXPENDITURES (Continued)				
Current (Continued)				
Vocational Education Instruction				
Salaries	\$ 757,573	\$ 693,226	\$ (64,347)	\$ 763,338
Employee Benefits	356,091	312,145	(43,946)	359,751
Purchased Services	22,100	9,015	(13,085)	1,940
Supplies and Materials	34,548	87,339	52,791	50,511
Capital Expenditures	-	4,051	4,051	6,527
Other Expenditures	-	240	240	-
Total Vocational Education Instruction	1,170,312	1,106,016	(64,296)	1,182,067
Special Education Instruction				
Salaries	13,638,327	13,751,380	113,053	13,350,122
Employee Benefits	6,344,631	6,316,060	(28,571)	5,971,824
Purchased Services	688,979	674,824	(14,155)	694,991
Supplies and Materials	121,273	118,152	(3,121)	153,625
Capital Expenditures	27,500	10,044	(17,456)	71,447
Other Expenditures	112,000	81,270	(30,730)	111,572
Total Special Education Instruction	20,932,710	20,951,730	19,020	20,353,581
Community Education				
Salaries	-	-	-	27,930
Employee Benefits	-	-	-	4,086
Total Community Education	-	-	-	32,016
Instructional Support Services				
Salaries	2,521,536	2,671,528	149,992	2,691,978
Employee Benefits	973,933	1,032,160	58,227	980,890
Purchased Services	659,622	201,480	(458,142)	235,061
Supplies and Materials	675,635	479,524	(196,111)	789,195
Capital Expenditures	-	805,006	805,006	-
Other Expenditures	7,500	10,870	3,370	13,558
Total Instructional Support Services	4,838,226	5,200,568	362,342	4,710,682
Pupil Support Services				
Salaries	1,686,036	1,511,165	(174,871)	1,477,956
Employee Benefits	653,083	693,784	40,701	636,963
Purchased Services	4,706,875	4,773,087	66,212	4,467,356
Supplies and Materials	165,178	72,960	(92,218)	100,705
Capital Expenditures	90,970	207,024	116,054	119,474
Other Expenditures	129	1,110	981	1,425
Total Pupil Support Services	7,302,271	7,259,130	(43,141)	6,803,879

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (CONTINUED)
GENERAL FUND
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019		Over (Under) Final Budget	2018
	Final Budget	Actual Amounts		Actual Amounts
EXPENDITURES (Continued)				
Current (Continued)				
Sites and Buildings				
Salaries	\$ 2,657,468	\$ 2,800,614	\$ 143,146	\$ 2,632,091
Employee Benefits	1,202,135	1,175,662	(26,473)	1,096,907
Purchased Services	3,590,651	3,212,495	(378,156)	3,125,066
Supplies and Materials	1,077,193	682,918	(394,275)	1,063,092
Capital Expenditures	534,889	427,134	(107,755)	1,505,137
Other Expenditures	-	37,679	37,679	14,233
Total Sites and Buildings	9,062,336	8,336,502	(725,834)	9,436,526
Fiscal and Other Fixed Cost Programs				
Purchased Services	305,000	322,495	17,495	304,200
EXPENDITURES (Continued)				
Debt Service				
Principal Payments	844,224	889,256	45,032	849,625
Interest Payments	181,110	190,266	9,156	203,081
Total Debt Service	1,025,334	1,079,522	54,188	1,052,706
Total Expenditures	83,850,980	83,453,976	(397,004)	82,219,191
Excess (Deficiency) of Revenues Over (Under) Expenditures	190,411	976,477	786,066	158,836
OTHER FINANCING SOURCES (USES)				
Transfers Out	(23,695)	(25,940)	(2,245)	(24,578)
Proceeds from Capital Leases	-	1,099,531	1,099,531	(153,109)
Sale of Capital Assets	-	700	700	19,255
Total Other Financing Sources (Uses)	(23,695)	1,074,291	1,097,986	(158,432)
NET CHANGE IN FUND BALANCE	\$ 166,716	2,050,768	\$ 1,884,052	404
FUND BALANCE				
Beginning of Year		11,820,520		11,820,116
END OF YEAR		\$ 13,871,288		\$ 11,820,520

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
FOOD SERVICE FUND
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019	2018
ASSETS		
Cash and Investments	\$ 572,402	\$ 625,236
Inventory	81,165	76,183
Prepaid Items	-	8,297
Total Assets	\$ 653,567	\$ 709,716
LIABILITIES AND FUND BALANCE		
Liabilities		
Salary and Benefits Payable	\$ 93,592	\$ 79,556
Accounts and Contracts Payable	5,912	1,430
Unearned Revenue - Charges for Services	12,153	810
Total Liabilities	111,657	81,796
Fund Balance		
Nonspendable		
Prepaid Items	-	8,297
Inventory	81,165	76,183
Restricted		
Other Restricted	460,745	543,440
Total Fund Balances	541,910	627,920
Total Liabilities and Fund Balance	\$ 653,567	\$ 709,716

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019		Over (Under) Final Budget	2018
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources				
Earnings on Investments	\$ 6,000	\$ 14,936	\$ 8,936	\$ 5,955
Other - Primarily Meal Sales	1,494,000	1,337,301	(156,699)	1,426,497
State Sources	209,000	196,559	(12,441)	216,896
Federal Sources	1,980,000	1,978,381	(1,619)	2,006,264
Total Revenues	3,689,000	3,527,177	(161,823)	3,655,612
EXPENDITURES				
Current				
Salaries	1,033,089	1,031,178	(1,911)	971,758
Employee Benefits	670,008	644,256	(25,752)	609,711
Purchased Services	79,300	80,187	887	105,603
Supplies and Materials	1,735,101	1,857,356	122,255	1,795,128
Other Expenditures	-	210	210	-
Total Expenditures	3,517,498	3,613,187	95,689	3,482,200
NET CHANGE IN FUND BALANCE	\$ 171,502	(86,010)	\$ (257,512)	173,412
FUND BALANCE (DEFICIT)				
Beginning of Year		627,920		454,508
END OF YEAR		\$ 541,910		\$ 627,920

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
COMMUNITY SERVICE FUND
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019	2018
ASSETS		
Cash and Investments	\$ 1,929,466	\$ 2,250,011
Receivables		
Current Property Taxes	257,595	253,037
Delinquent Property Taxes	13,650	14,453
Due from Minnesota Department of Education	80,907	86,677
Due from Federal Government through the Minnesota Department of Education	8,846	5,982
Due from Other Governmental Units	35,000	34,000
Accounts and Interest Receivable	835	-
Prepaid Items	121,977	-
Total Assets	\$ 2,448,276	\$ 2,644,160
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
Liabilities		
Salary and Benefits Payable	\$ 145,521	\$ 168,643
Accounts and Contracts Payable	6,934	10,762
Due to Other Governmental Units	1,578	163
Unearned Revenue - Charges for Services	91,991	32,608
Total Liabilities	246,024	212,176
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year	561,966	570,150
Unavailable Revenue - Delinquent Taxes	13,650	14,453
Total Deferred Inflows of Resources	575,616	584,603
Fund Balances		
Nonspendable		
Prepaid Items	121,977	-
Restricted		
Community Education Programs	516,012	861,945
Early Childhood and Family Education Programs	711,473	645,737
School Readiness	258,821	324,226
Adult Basic Education	12,089	9,209
Other Restricted	6,264	6,264
Total Fund Balances	1,626,636	1,847,381
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,448,276	\$ 2,644,160

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	<u>2019</u>		<u>Over (Under) Final Budget</u>	<u>2018</u>
	<u>Final Budget</u>	<u>Actual Amounts</u>		<u>Actual Amounts</u>
REVENUES				
Local Sources				
Property Taxes	\$ 569,568	\$ 568,845	\$ (723)	\$ 574,892
Earnings on Investments	30,000	55,692	25,692	28,895
Other - Primarily Tuition and Fees	1,777,279	1,806,424	29,145	1,900,758
State Sources	788,056	769,198	(18,858)	725,325
Federal Sources	8,886	8,846	(40)	5,982
Total Revenues	<u>3,173,789</u>	<u>3,209,005</u>	<u>35,216</u>	<u>3,235,852</u>
EXPENDITURES				
Current				
Salaries	2,105,900	2,283,899	177,999	2,022,860
Employee Benefits	849,649	764,053	(85,596)	627,080
Purchased Services	192,025	161,811	(30,214)	153,138
Supplies and Materials	193,712	237,234	43,522	293,820
Other Expenditures	3,780	2,393	(1,387)	2,712
Capital Outlay	20,500	6,300	(14,200)	14,556
Total Expenditures	<u>3,365,566</u>	<u>3,455,690</u>	<u>90,124</u>	<u>3,114,166</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(191,777)	(246,685)	(54,908)	121,686
OTHER FINANCING SOURCES				
Transfer In	<u>23,695</u>	<u>25,940</u>	<u>2,245</u>	<u>24,578</u>
NET CHANGE IN FUND BALANCE	<u>\$ (168,082)</u>	<u>(220,745)</u>	<u>\$ (52,663)</u>	<u>146,264</u>
FUND BALANCE				
Beginning of Year		<u>1,847,381</u>		<u>1,701,117</u>
END OF YEAR		<u>\$ 1,626,636</u>		<u>\$ 1,847,381</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
BUILDING CONSTRUCTION FUND
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019	2018
ASSETS		
Cash and Investments	\$ 171,330,580	\$ 145,354,451
Cash Held by Fiscal Agent	10,008,580	-
Prepaid Items	58,526	-
Total Assets	\$ 181,397,686	\$ 145,354,451
FUND BALANCES		
Liabilities		
Accounts and Contracts Payable	\$ 7,381,352	\$ 829,022
Due to Other Governmental Units	332	46
Total Liabilities	7,381,684	829,068
Fund Balances		
Nonspendable		
Prepaid Items	58,526	-
Restricted		
LTFM	28,765,853	(114,795)
Projects Funded by Certificates of Lease Purchase	8,584,424	-
Construction	136,607,199	144,640,178
Total Fund Balances	174,016,002	144,525,383
Total Liabilities and Fund Balances	\$ 181,397,686	\$ 145,354,451

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUILDING CONSTRUCTION FUND
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	<u>2019</u>	<u>2018</u>
REVENUES		
Local Sources		
Earnings on Investments	\$ 4,506,492	\$ 4,175
EXPENDITURES		
Current		
Sites and Buildings	16,946,185	1,971,402
Capital Outlay	4,495,360	-
Total Expenditures	<u>21,441,545</u>	<u>1,971,402</u>
DEFICIENCY OF REVENUES OVER EXPENDITURES	(16,935,053)	(1,967,227)
OTHER FINANCING SOURCES		
Proceeds from Sale of Bonds and COPs	43,405,068	139,745,901
Premium on Sale of Bonds	3,020,604	6,746,709
Total Other Financing Sources (Uses)	<u>46,425,672</u>	<u>146,492,610</u>
NET CHANGE IN FUND BALANCE	29,490,619	144,525,383
Fund Balance - Beginning of Year	<u>144,525,383</u>	<u>-</u>
FUND BALANCE - END OF YEAR	<u><u>\$ 174,016,002</u></u>	<u><u>\$ 144,525,383</u></u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
DEBT SERVICE FUNDS
JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019	2018
ASSETS		
Cash and Investments	\$ 9,959,458	\$ 10,545,227
Receivables		
Current Property Taxes	6,205,642	3,906,740
Delinquent Property Taxes	212,863	222,947
Due from Minnesota Department of Education	16,333	6,147
Total Assets	\$ 16,394,296	\$ 14,681,061
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Years	\$ 13,326,092	\$ 8,802,753
Deferred Revenue - Delinquent Taxes	212,863	222,947
Total Deferred Inflows of Resources	13,538,955	9,025,700
Fund Balances		
Restricted		
Restricted for Debt Service	2,855,341	5,655,361
Total Deferred Inflows of Resources and Fund Balances	\$ 16,394,296	\$ 14,681,061

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUNDS
YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2018)**

	2019		Over (Under) Final Budget	2018
	Final Budgeted Amounts	Actual Amounts		Actual Amounts
REVENUES				
Local Sources				
Property Tax	\$ 8,789,344	\$ 8,677,361	\$ (111,983)	\$ 9,097,515
Earnings on Investments	70,000	247,562	177,562	52,832
State Sources	163,333	163,384	51	61,355
Total Revenues	9,022,677	9,088,307	65,630	9,211,702
EXPENDITURES				
Debt Service				
Bond Principal	7,330,000	7,330,000	-	7,060,000
Bond Interest	5,246,804	5,265,760	18,956	1,991,954
Total Expenditures	12,576,804	12,595,760	18,956	9,051,954
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(3,554,127)	(3,507,453)	46,674	159,748
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Bond Refunding Payments	(31,960,000)	(31,960,000)	-	-
Proceeds from Sale of Bonds	32,132,679	30,149,932	(1,982,747)	3,364,099
Premium on Refunding Bonds	-	2,517,501	2,517,501	-
Bond Refunding Payments	-	-	-	-
Total Other Financing Sources (Uses)	172,679	707,433	534,754	3,364,099
NET CHANGE IN FUND BALANCE	\$ (3,381,448)	(2,800,020)	\$ 581,428	3,523,847
Fund Balance - Beginning of Year		5,655,361		2,131,514
FUND BALANCE - END OF YEAR		\$ 2,855,341		\$ 5,655,361

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2019**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenues	\$ 84,430,453	\$ 84,430,450	\$ 3	Total Revenues	\$ 4,506,492	\$ 4,506,493	\$ (1)
Total Expenditures	\$ 83,453,976	\$ 83,453,972	\$ 4	Total Expenditures	\$ 21,441,545	\$ 21,441,544	\$ 1
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
460 Non Spendable Fund Balance	\$ 387,953	\$ 387,953	\$ -	460 Non Spendable Fund Balance	\$ 58,526	\$ 58,526	\$ -
<i>Restricted/Reserve:</i>				<i>Restricted/Reserve:</i>			
403 Staff Development	\$ 801,245	\$ 801,246	\$ (1)	407 Capital Projects Levy	\$ -	\$ -	\$ -
406 Health & Safety	\$ -	\$ -	\$ -	413 Project Funded by COP	\$ 8,584,424	\$ 8,584,424	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	467 LTFM	\$ 28,765,853	\$ 28,765,853	\$ -
408 Cooperative Rev.	\$ -	\$ -	\$ -	<i>Restricted:</i>			
409 Deferred Maintenance	\$ -	\$ -	\$ -	464 Restricted Fund Balance	\$ 136,607,199	\$ 136,607,202	\$ (3)
414 Operating Debt	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
416 Levy Reduction	\$ -	\$ -	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
419 Encumbrances	\$ -	\$ -	\$ -				
423 Certain Teacher Programs	\$ -	\$ -	\$ -	07 DEBT SERVICE			
424 Operating Capital	\$ 1,121,870	\$ 1,121,870	\$ -	Total Revenues	\$ 6,403,040	\$ 6,403,039	\$ 1
426 \$25 Taconite	\$ -	\$ -	\$ -	Total Expenditures	\$ 9,903,958	\$ 9,903,959	\$ (1)
427 Disabled Accessibility	\$ -	\$ -	\$ -	<i>Non Spendable:</i>			
428 Learning & Development	\$ 550,205	\$ 550,206	\$ (1)	460 Non Spendable Fund Balance	\$ -	\$ -	\$ -
434 Area Learning Center	\$ -	\$ -	\$ -	<i>Restricted/Reserve:</i>			
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
436 St. Approved Alt. Prog.	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
438 Gifted & Talented	\$ -	\$ -	\$ -	<i>Restricted:</i>			
441 Basic Skills	\$ -	\$ -	\$ -	464 Restricted Fund Balance	\$ 2,204,173	\$ 2,204,173	\$ -
443 Telecomm. Access Cost	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
446 First Grade Preparedness	\$ -	\$ -	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
449 Safe Schools Levy	\$ 229,178	\$ 229,179	\$ (1)				
450 Pre-Kindergarten	\$ -	\$ -	\$ -	08 TRUST			
451 QZAB Payments	\$ -	\$ -	\$ -	Total Revenues	\$ -	\$ -	\$ -
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -	Total Expenditures	\$ -	\$ -	\$ -
453 Unfunded Sev & Retirement Levy	\$ -	\$ -	\$ -	422 Net Position	\$ -	\$ -	\$ -
467 LTFM	\$ 2,370,948	\$ 2,370,948	\$ -				
<i>Restricted:</i>				20 INTERNAL SERVICE			
464 Restricted Fund Balance	\$ 152,128	\$ 152,128	\$ -	Total Revenues	\$ 15,444,865	\$ 15,444,864	\$ 1
<i>Assigned:</i>				Total Expenditures	\$ 15,884,723	\$ 15,884,722	\$ 1
462 Assigned Fund Balance	\$ 751,621	\$ 751,621	\$ -	422 Net Position	\$ 6,049,910	\$ 6,049,910	\$ -
<i>Unassigned:</i>							
422 Unassigned Fund Balance	\$ 7,506,140	\$ 7,506,138	\$ 2	25 OPEB REVOCABLE TRUST			
				Total Revenues	\$ -	\$ -	\$ -
02 FOOD SERVICE				Total Expenditures	\$ -	\$ -	\$ -
Total Revenues	\$ 3,527,177	\$ 3,527,178	\$ (1)	422 Net Position	\$ -	\$ -	\$ -
Total Expenditures	\$ 3,613,187	\$ 3,613,189	\$ (2)				
<i>Non Spendable:</i>				45 OPEB IRREVOCABLE TRUST			
460 Non Spendable Fund Balance	\$ 81,165	\$ 81,165	\$ -	Total Revenues	\$ 1,447,567	\$ 1,447,566	\$ 1
<i>Restricted:</i>				Total Expenditures	\$ 2,055,164	\$ 2,055,164	\$ -
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -	422 Net Position	\$ 22,646,217	\$ 22,646,217	\$ -
464 Restricted Fund Balance	\$ 460,745	\$ 460,744	\$ 1				
<i>Unassigned:</i>				47 OPEB DEBT SERVICE			
463 Unassigned Fund Balance	\$ -	\$ -	\$ -	Total Revenues	\$ 2,685,267	\$ 2,685,267	\$ -
				Total Expenditures	\$ 2,691,802	\$ 2,691,802	\$ -
04 COMMUNITY SERVICE				<i>Non Spendable:</i>			
Total Revenues	\$ 3,209,005	\$ 3,209,002	\$ 3	460 Non Spendable Fund Balance	\$ -	\$ -	\$ -
Total Expenditures	\$ 3,455,690	\$ 3,455,688	\$ 2	<i>Restricted:</i>			
<i>Non Spendable:</i>				425 Bond Refundings	\$ -	\$ -	\$ -
460 Non Spendable Fund Balance	\$ 121,977	\$ 121,977	\$ -	464 Restricted Fund Balance	\$ 651,168	\$ 651,168	\$ -
<i>Restricted/Reserve:</i>				<i>Unassigned:</i>			
426 \$25 Taconite	\$ -	\$ -	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
431 Community Education	\$ 516,012	\$ 516,012	\$ -				
432 E.C.F.E.	\$ 711,473	\$ 711,473	\$ -				
444 School Readiness	\$ 258,821	\$ 258,821	\$ -				
447 Adult Basic Education	\$ 12,089	\$ 12,089	\$ -				
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -				
<i>Restricted:</i>							
464 Restricted Fund Balance	\$ 6,264	\$ 6,265	\$ (1)				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	\$ -	\$ -	\$ -				

SINGLE AUDIT AND OTHER REQUIRED REPORTS



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

Board of Education
Independent School District No. 181
Brainerd Public Schools
Brainerd, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of ISD #181 Brainerd (the District), as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 18, 2019.

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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2019-001 and 2019-002 that we consider to be material weaknesses.

Compliance and Other Matters

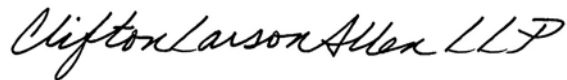
As part of obtaining reasonable assurance about whether the District’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

The District’s Response to the Finding

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

Purpose of this Report

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
December 18, 2019



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

Board of Education
Independent School District No. 181
Brainerd Public Schools
Brainerd, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the Independent School District No. 181's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2019. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, described in the accompanying schedule of findings and questioned costs as item 2019-003, that we consider to be a significant deficiency.

The District's response to the internal control over compliance 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 compliance and, accordingly, we express no opinion on the response.

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
December 18, 2019

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2019**

FEDERAL AGENCY/ PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES	PASSED THROUGH TO SUBRECIPIENTS
U.S. DEPARTMENT OF AGRICULTURE				
Passed Through Minnesota Department of Education:				
Child Nutrition Cluster:				
Non-Cash Assistance (Commodities):				
National School Lunch Program	10.555	N/A	\$ 212,862	
Non-Cash Assistance Subtotal			\$ 212,862	\$ -
Cash Assistance:				
School Breakfast Program	10.553	N/A	389,491	
National School Lunch Program	10.555	N/A	1,283,232	
Commodity Cash Rebate Program	10.555	N/A	4,219	
Summer Food Service Program	10.559	N/A	88,577	
Cash Assistance Subtotal			1,765,519	-
Total Child Nutrition Cluster:			1,978,381	-
Total U.S. Department of Agriculture			1,978,381	-
U.S. DEPARTMENT OF EDUCATION				
Passed Through Minnesota Department of Education:				
Cash Assistance:				
Adult Basic Education Formula Revenue	84.002	N/A	8,846	-
Title II, Part A - Improving Teacher Quality	84.367	S367A180022	199,412	-
Title VII - Indian Education	84.060	N/A	19,960	-
Carl Perkins Vocational and Applied Technology	84.048	N/A	28,762	-
Title I, Part A	84.010	S010A180023A	1,265,185	-
Title I, Part D	84.412	N/A	272,530	-
Passed Through Paul Bunyan Education Co-op				
Special Education Cluster:				
Special Education	84.027	1-6050-061	333,844	
Discretionary Professional Development	84.027	1-6050-061	14,911	
Individuals with Disabilities Education Act Part B				
Section 611 Discretionary Comprehensive System of Personnel Development - CSPD	84.027	1-6050-061	6,950	
Special Education Preschool Grants	84.173	H173A180086	677	
Special Education Cluster Subtotal			356,382	-
Individuals with Disabilities Education Act Part C				
Regional IEIC Grant for Children Ages Birth to 2	84.181	1-6050-061	6,331	-
Individuals with Disabilities Education Act Part C				
Regional Centers of Excellence CSPD Grant	84.181	1-6050-061	1,950	-
Total Passed Through Paul Bunyan Education Co-op			364,663	-
Total U.S. Department of Education			2,159,358	-
Total Federal Awards Expended			\$ 4,137,739	\$ -

Notes to schedule of expenditures of federal awards:

Note 1:

The schedule of expenditures of federal awards presents the activity of federal award programs expended by Independent School District No. 181.

Note 2:

The expenditures on this schedule are on the modified accrual basis of accounting, which is described in Note 1 to the basic financial statements of the District. The District has not elected to use the 10% de minimis indirect costs rate as allowed under Uniform Guidance.

Note 3:

N/A - The pass-through entity identifying number is unknown.

Note 4:

The total of CFDA #10.555 is \$1,500,313. The total of CFDA #84.027 is \$355,705. The total of CFDA #84.181 is \$8,281.



INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 181
Brainerd Public Schools
Brainerd, 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 *Governmental Auditing Standards* issued by the Comptroller of the United States, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of ISD #181 Brainerd (the District), Minnesota, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents and have issued our report thereon dated December 18, 2019.

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. Our study included all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts*, except as noted in the schedule of findings and questioned costs as item 2019-004. 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, insofar as they relate to accounting matters.

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

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Brainerd, Minnesota
December 18, 2019

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2019**

A. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant deficiency(ies) identified? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? yes X no
- Significant deficiency(ies) identified? X yes none reported

Type of auditor's report issued on compliance for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? X yes no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, and 10.559	Child Nutrition Cluster
84.010	Title I, Part A

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? yes X no

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2019**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2019-001 – Financial Statement Preparation

Type of Finding: Material weakness in internal control over financial reporting.

Criteria: Management is responsible for establishing and maintaining internal controls and for the fair presentation of the financial statements including the related disclosures, in conformity with U.S. generally accepted accounting principles (GAAP).

Condition: The District does not have an internal control policy or procedures in place over annual financial reporting that would enable management to prepare its annual financial statements and related footnote disclosures are complete and presented in accordance with GAAP.

Cause/Context: Management has informed us that they do not have an internal control policy or procedures in place over the annual financial reporting and that they do not have the necessary staff capacity to prepare the annual financial statements including footnote disclosures. The District relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, management has reviewed and approved the annual financial statements and the related footnote disclosures.

Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the District's internal controls.

Repeat Finding: The finding was a repeat finding from the prior year identified as finding 2018-001.

Recommendation: Management should continue to evaluate their internal staff capacity to determine if an internal control policy or procedures over the annual financial reporting is cost beneficial to the District.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

There is no disagreement with the finding.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2019**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Finding 2019-002 – Material Audit Adjustments

Type of Finding: Material weakness in internal control over financial reporting.

Criteria: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the financial statements in accordance with generally accepted accounting principles. Management is responsible for the accuracy and completeness of all financial records and related information. Their responsibilities include adjusting the financial statements on a timely basis.

Condition: As part of the audit, we proposed material adjustments related to accounts/contracts payable.

Cause/Context: The District did not record one contractor payment as a contract payable in error. Upon auditor request, the retainage payable on June invoices and the prorated contracts payable on the July invoices were recorded as required by generally accepted accounting principles.

Effect: The potential exists that a material misstatement of the annual financial statements could occur and not be prevented or detected by the District's internal controls.

Repeat Finding: Not applicable.

Recommendation: We recommend that District management and financial personnel continue to work on establishing a process to ensure all recording of related transactions to properly adjust financial statements at year-end.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

There is no disagreement with the finding.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2019**

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Finding 2019-003

Federal Agency: U.S. Department of Agriculture

Federal Program: Child Nutrition Cluster

CFDA Number: 10.553, 10.555, and 10.559

Pass Through Agency: Minnesota Department of Education

Pass Through Numbers: 1-0181-000

Award Period: July 1, 2018 – June 30, 2019

Type of Finding: Significant Deficiency in Internal Control over Compliance

Repeat Finding: Not applicable.

Criteria: Title 2 U.S. Code of Federal Regulations §200.213 states that nonfederal entities are subject to the nonprocurement debarment and suspension regulations.

Condition/Context: The District did have controls in place related to suspension/debarment testing, but did not have documentation to show that the District verified the vendor was not on the suspended or debarred list.

Questioned Costs: Unknown.

Cause: The District did not sufficiently document that suspension/debarment checks were completed.

Possible Effect: The District could enter into a contract with a vendor that is suspended/debarred, which is against federal guidelines for awards.

Recommendation: We recommend the District develop procedures to ensure vendor testing is performed before the contract is entered into. The District should document that suspension/debarment procedures are taking place prior to entering into a contract.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

There is no disagreement with the finding.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2019**

D. FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

Finding 2019-004 – Unclaimed or Uncashed Checks Held

Criteria: Minnesota Statutes 345.38-.43 states that if records show unclaimed or uncashed checks or other intangible property held for more than three years, the property must be reported and paid or delivered to the state Commissioner of Commerce.

Condition: The District has outstanding checks that are older than three years that have not been reported.

Cause/Context: Unknown.

Effect: The District is not in compliance with Minnesota Statutes regarding unclaimed property.

Recommendation: We recommend that District management develop processes to clean up unclaimed or uncashed checks.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

There is no disagreement with the finding.