

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

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2017

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
TABLE OF CONTENTS
JUNE 30, 2017**

INTRODUCTORY SECTION	
BOARD OF EDUCATION AND ADMINISTRATION	1
FINANCIAL SECTION	
INDEPENDENT AUDITORS' REPORT	2
REQUIRED SUPPLEMENTARY INFORMATION	
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION	17
STATEMENT OF ACTIVITIES	18
BALANCE SHEET – GOVERNMENTAL FUNDS	19
RECONCILIATION OF THE BALANCE SHEET– GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES	21
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	22
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES	24
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL – GENERAL FUND	25
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – FOOD SERVICE FUND	26
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL – COMMUNITY SERVICE FUND	27
STATEMENT OF NET POSITION – INTERNAL SERVICE FUND	28
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION – INTERNAL SERVICE FUND	29
STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUND	30
STATEMENT OF FIDUCIARY NET POSITION – FIDUCIARY FUNDS	31
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION – POSTEMPLOYMENT BENEFITS IRREVOCABLE TRUST FUND	32
NOTES TO FINANCIAL STATEMENTS	33

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
TABLE OF CONTENTS
JUNE 30, 2017**

FINANCIAL SECTION (CONTINUED)

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF CHANGES IN THE DISTRICT'S SUPPLEMENTAL PENSION LIABILITY AND RELATED RATIOS	78
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY (ASSET) AND RELATED RATIOS	79
SCHEDULE OF MONEY WEIGHTED RATE OF RETURN ON PLAN ASSETS	80
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY	81
SCHEDULE OF DISTRICT CONTRIBUTIONS	82

SUPPLEMENTARY INFORMATION

GENERAL FUND

BALANCE SHEET	83
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL	84

FOOD SERVICE FUND

BALANCE SHEET	87
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL	88

COMMUNITY SERVICE FUND

BALANCE SHEET	89
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL	90

BUILDING CONSTRUCTION FUND

BALANCE SHEET	91
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL	92

DEBT SERVICE FUNDS

BALANCE SHEET	93
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL	94

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE

95

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
TABLE OF CONTENTS
JUNE 30, 2017**

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 <i>GOVERNMENT AUDITING STANDARDS</i>	96
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	98
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS	100
INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE	101
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	102

INTRODUCTORY SECTION

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2017**

BOARD OF EDUCATION

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Bob Nystrom	December 31, 2020	Chairperson
Chris Robinson	December 31, 2018	Vice-Chairperson
Reed Campbell	December 31, 2020	Clerk/Treasurer
Tom Haglin	December 31, 2018	Director
Ruth Nelson	December 31, 2018	Director
Sue Kern	December 31, 2020	Director

ADMINISTRATION

Laine Larson	Superintendent
William Severson	Director of Schools
Steve Lund	Director of Business Services
Tim Murtha	Director of Teaching and Learning
Cori Reynolds	Director of Community Education
Nancy Anderson	Assistant 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

This Page Has Been Intentionally Left Blank.

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, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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, 2017, 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.

Emphasis of a Matter

During fiscal year ended June 30, 2017, the District adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* and No. 73 *Accounting and Financial Reporting for Pensions and Related Assets That are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. As a result of the implementation of these standards, the District reported a restatement for the change in accounting principle (see Note 14). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Report on Summarized Comparative Information

We have previously audited the District's 2016 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 October 19, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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.

Other Matters (Continued)

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.

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 November 27, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the 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
November 27, 2017

This Page Has Been Intentionally Left Blank.

REQUIRED SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

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, 2017.

FINANCIAL HIGHLIGHTS

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

- District-wide, accrual basis net position decreased by approximately \$13,347,000, before the change in accounting principle, on revenues of \$97,267,000 compared to expenses of \$110,614,000.
- Total General Fund revenues were approximately \$79,426,000 as compared to \$78,126,000 of expenditures.
- The fund balance of the General Fund increased by a net of approximately \$1,275,000 from the prior year representing a 10.8% increase in fund balance.

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, 2017**

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, respectively.
- To assess the overall financial health of the District, you need to consider additional non-financial 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, 2017**

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 internal service funds 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, the amounts held for the flexible benefits and administrative dental programs 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, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's combined net position was a deficit of \$29,626,089 on June 30, 2017. This was a large decrease from prior year net position balance of \$1,857,384 due to the change in net pension liability and the implementation of new accounting standards (see Table A-1).

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

	Governmental Activities as of June 30,		Percentage Change
	2017	2016	
Current and Other Assets	\$ 49,712,342	\$ 65,715,371	(24.4)%
Capital and Noncurrent Assets	66,824,511	69,760,968	(4.2)
Total Assets	<u>116,536,853</u>	<u>135,476,339</u>	(14.0)
Deferred Outflows of Resources	102,599,441	8,886,622	1054.5
Current Liabilities	13,062,790	12,720,793	2.7
Long-Term Liabilities	214,184,629	105,106,054	103.8
Total Liabilities	<u>227,247,419</u>	<u>117,826,847</u>	92.9
Deferred Inflows of Resources	<u>21,514,964</u>	<u>24,678,730</u>	(12.8)
Net Position			
Net Investment in Capital Assets	23,598,912	20,503,935	15.1
Restricted	12,053,773	5,486,354	119.7
Unrestricted	(65,278,774)	(24,132,905)	170.5
Total Net Position	<u><u>\$ (29,626,089)</u></u>	<u><u>\$ 1,857,384</u></u>	(1695.0)

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's total revenues were \$97,266,877 for the year ended June 30, 2017. Property taxes and state aid formula accounted for 69% of total revenue for the year. Another 25% 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
	2017	2016	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 5,116,186	\$ 4,836,597	5.8 %
Operating Grants and Contributions	23,152,805	23,177,959	(0.1)
Capital Grants and Contributions	831,254	1,589,532	(47.7)
<u>General Revenues</u>			
Property Taxes	19,017,706	18,906,869	0.6
Unrestricted Federal and State Aid	48,300,997	43,396,196	11.3
Investment Earnings	150,196	48,460	209.9
Other	697,733	482,508	44.6
Total Revenues	<u>97,266,877</u>	<u>92,438,121</u>	5.2
Expenses			
Administration	3,812,021	2,848,546	33.8
District Support Services	1,749,412	1,330,874	31.4
Regular Instruction	47,049,008	33,725,916	39.5
Vocational Education Instruction	1,755,809	1,263,616	39.0
Special Education Instruction	25,221,863	19,361,021	30.3
Instructional Support Services	6,160,473	4,933,911	24.9
Pupil Support Services	7,126,516	6,502,933	9.6
Sites and Buildings	8,505,301	8,528,239	(0.3)
Fiscal and Other Fixed Cost Programs	325,399	304,376	6.9
Food Service	3,483,924	3,378,860	3.1
Community Service	3,595,412	2,870,807	25.2
Interest and Fiscal Charges on Long-Term Liabilities	1,828,671	1,982,017	(7.7)
Total Expenses	<u>110,613,809</u>	<u>87,031,116</u>	27.1
Increase (Decrease) in Net Position			
	(13,346,932)	5,407,005	
Net Position - Beginning of Year	1,857,384	(3,549,621)	
Change in Accounting Principle	(18,136,541)	-	
Net Position - Beginning of Year, as Restated	<u>(16,279,157)</u>	<u>(3,549,621)</u>	
Net Position - End of Year	<u>\$ (29,626,089)</u>	<u>\$ 1,857,384</u>	

Revenues increased in 2017 primarily due to an increase in the local property tax levy and an increase in the state aid funding formula. Expenses increased 27% during fiscal year 2017, which decreased net position by approximately \$13,347,000, due to the increase in the net pension liability.

This Page Has Been Intentionally Left Blank.

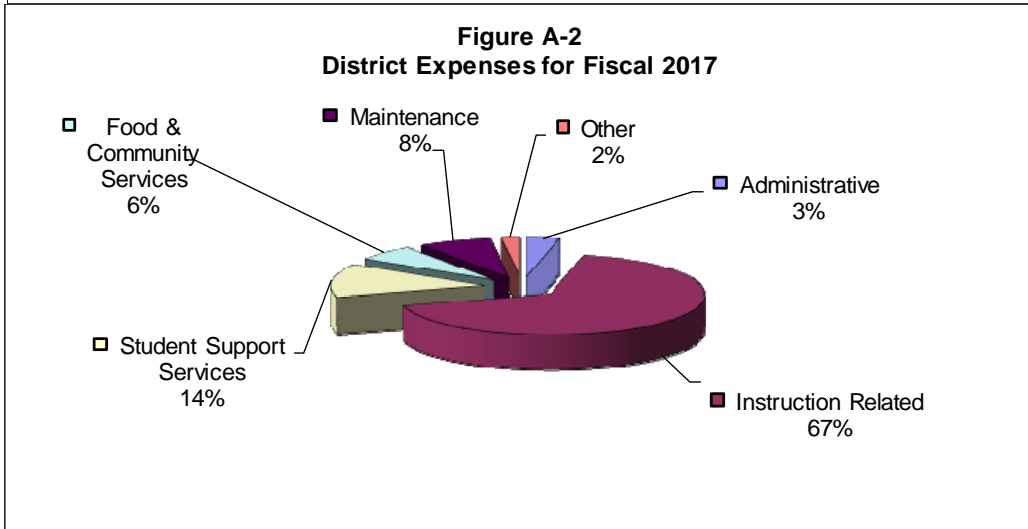
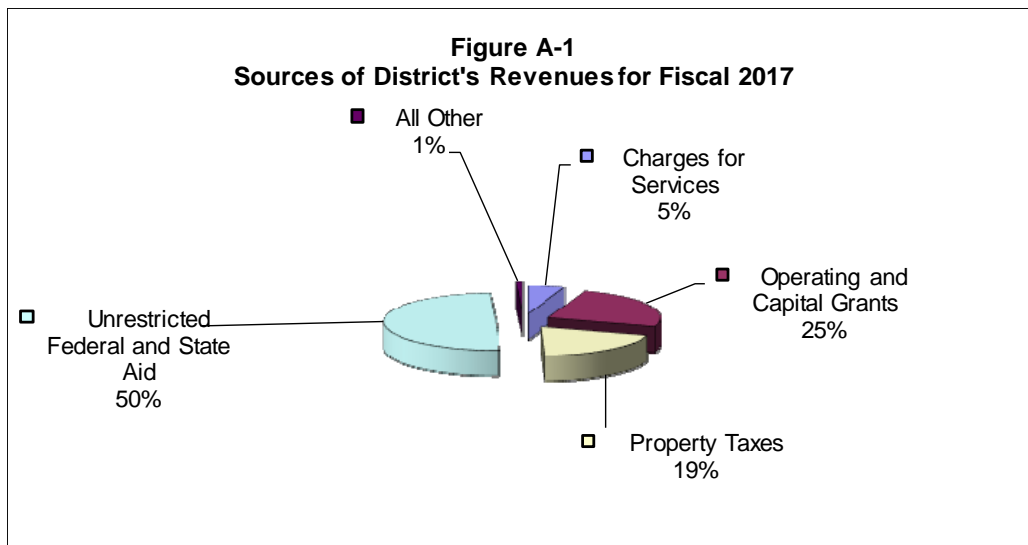
**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position (Continued)

The cost of all governmental activities this year was \$110,614,000.

- Some of the cost was paid by the users of the District's programs (\$5,116,186).
- The federal and state governments subsidized certain programs with grants and contributions (\$23,984,059).
- The rest of the remaining District's costs (\$81,513,564), 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, 2017**

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		
	2017	2016	Change	2017	2016	Change
Administration	\$ 3,812,021	\$ 2,848,546	33.8 %	\$ 3,280,687	\$ 2,474,714	32.6 %
District Support Services	1,749,412	1,330,874	31.4	1,749,012	1,330,874	31.4
Regular Instruction	47,049,008	33,725,916	39.5	40,630,856	26,529,446	53.2
Vocational Education Instruction	1,755,809	1,263,616	39.0	1,697,462	1,155,149	46.9
Special Education Instruction	25,221,863	19,361,021	30.3	11,196,654	6,033,845	85.6
Instructional Support Services	6,160,473	4,933,911	24.9	5,511,997	4,417,974	24.8
Pupil Support Services	7,126,516	6,502,933	9.6	6,356,445	5,675,908	12.0
Sites and Buildings	8,505,301	8,528,239	(0.3)	7,959,084	7,077,024	12.5
Fiscal and Other Fixed Cost Programs	325,399	304,376	6.9	325,399	304,376	6.9
Food Service	3,483,924	3,378,860	3.1	(78,786)	(161,685)	(51.3)
Community Service	3,595,412	2,870,807	25.2	1,081,800	614,987	75.9
Interest and Fiscal Charges on Long-Term Liabilities	1,828,671	1,982,017	(7.7)	1,802,954	1,974,416	(8.7)
Total	\$ 110,613,809	\$ 87,031,116	27.1	\$ 81,513,564	\$ 57,427,028	41.9

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 \$16,107,255, showing an increase of about \$1,869,000 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 3.3 % to a level of \$95,388,505. Expenditures for 2017 decreased less than 1%; revenues remained in excess of expenditures by about \$1.9 million.

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, 2017**

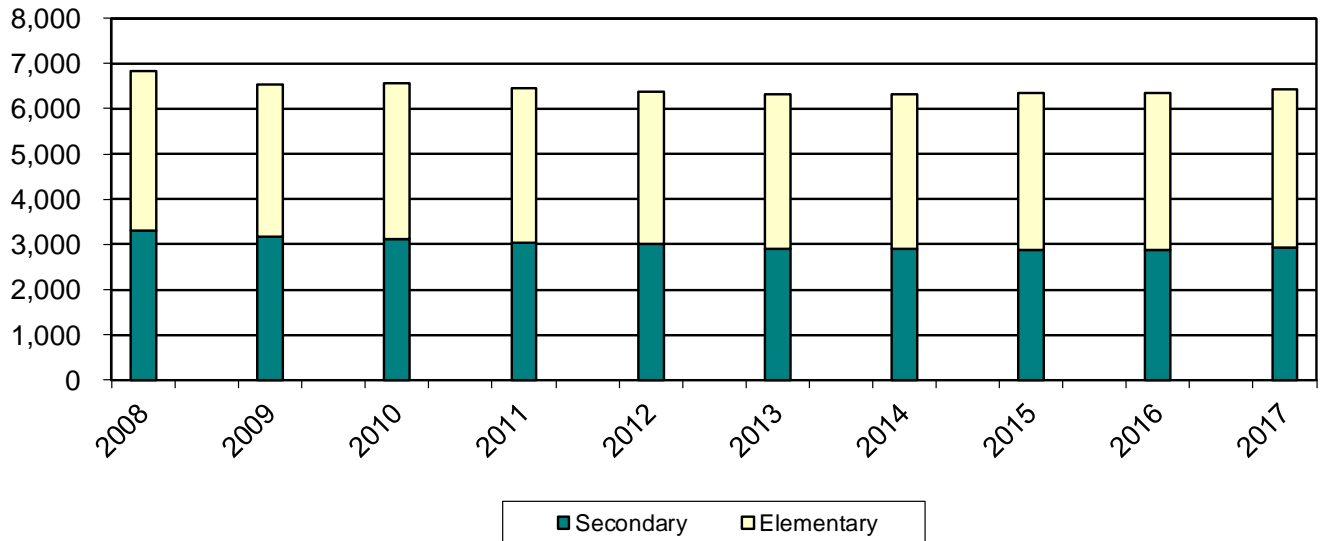
GENERAL FUND (CONTINUED)

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

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Pre-K	73	71	79	86	85	101	107	101	107	115
HCP K	64	70	65	72	73	76	81	94	97	96
Reg K	449	414	457	427	410	394	407	411	378	375
Elementary	3,000	2,904	2,919	2,899	2,876	2,921	2,917	2,946	3,000	3,015
Secondary	3,306	3,160	3,119	3,049	3,008	2,908	2,903	2,884	2,865	2,932
Total Students for Aid	6,892	6,619	6,639	6,533	6,452	6,400	6,415	6,436	6,447	6,533
Percent Change	-0.44%	-3.96%	0.30%	-1.60%	-1.24%	-0.80%	0.22%	0.33%	0.17%	1.33%

**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, 2017**

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, 2017	June 30, 2016	Amount Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	\$ 9,325,208	\$ 9,193,848	\$ 131,360	1.4 %
Earnings on Investments	78,904	22,002	56,902	258.6
Other	2,668,977	2,337,627	331,350	14.2
State Sources	65,099,985	63,044,374	2,055,611	3.3
Federal Sources	2,252,790	2,301,338	(48,548)	(2.1)
Total General Fund Revenue	<u>\$ 79,425,864</u>	<u>\$ 76,899,189</u>	<u>\$ 2,526,675</u>	3.3

Overall, total General Fund revenue increased by \$2,526,675 or 3.3% 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, 2017	June 30, 2016	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	\$ 44,285,242	\$ 42,309,027	\$ 1,976,215	4.7 %
Employee Benefits	16,852,526	17,210,942	(358,416)	(2.1)
Purchased Services	10,062,504	9,962,145	100,359	1.0
Supplies and Materials	3,155,385	3,014,537	140,848	4.7
Capital Expenditures	2,485,379	4,276,515	(1,791,136)	(41.9)
Other Expenditures	1,285,343	1,067,838	217,505	20.4
Total Expenditures	<u>\$ 78,126,379</u>	<u>\$ 77,841,004</u>	<u>\$ 285,375</u>	0.4

Total General Fund expenditures increased \$285,375 or 0.4% to provide additional services and add more staff for growing enrollment.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

GENERAL FUND (CONTINUED)

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget two times. These budget amendments fall into two categories:

- Generally speaking, the first 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.
- Because it occurs further into the fiscal year, the second amendment of the budget has a heavier concentration on the review and tracking of both actual revenue and expense categories toward the annual budgeted amounts.

In the case of either budget amendments, 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:

- While the District's final budget for the General Fund anticipated that expenditures would exceed revenues by \$646,410, actual revenues exceeded actual expenditures by \$1,299,485.
- Overall, actual revenues were about \$1,421,000 more than budgeted, representing a 1.8% variation from budget to actual, primarily due to an increase in state funding and additional students over projected.
- The actual expenditures for current year were about \$525,000 less than budgeted, which represents less than 1% of budgeted expenditures, primarily due to a decrease in capital outlay expenses.
- The General Fund's unassigned fund balance increased by approximately \$725,000, and the restricted fund balances increased by approximately \$1.1 million.

CONSTRUCTION PROJECTS AND DEBT SERVICE

An annual levy is made to fund the bond payments of approximately \$6,780,000 in principal and \$2,253,345 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, 2017 exceeded revenues by approximately \$361,000 and net position at year-end totaled approximately \$5,626,000 as compared to annual expenses of approximately \$13,893,000.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

CAPITAL ASSETS

As shown in the table below, the District has invested \$133,196,399 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 \$4,379,297.

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

	<u>2017</u>	<u>2016</u>	<u>Percentage Change</u>
Land	\$ 2,230,747	\$ 2,230,747	-
Land Improvements	12,531,800	12,451,613	0.6
Buildings and Improvements	103,639,341	102,755,990	0.9
Equipment	14,794,511	14,388,084	2.8
Less: Accumulated Depreciation	<u>(66,371,888)</u>	<u>(62,065,466)</u>	6.9
Total	<u><u>\$ 66,824,511</u></u>	<u><u>\$ 69,760,968</u></u>	(4.2)

Long-Term Liabilities

At year-end, the District had \$49,110,000 in general obligation bonds outstanding, approximately \$4,154,000 in a lease purchase, and about \$2,450,000 in capital leases as shown in Note 5 to the financial statements.

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

	<u>2017</u>	<u>2016</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 49,110,000	\$ 55,890,000	(12.1)%
Net Bond Premium and Discount	876,384	1,171,324	(25.2)
Obligations Under Capital Leases	2,449,749	2,983,406	(17.9)
Lease Purchase Series 2014	<u>4,153,991</u>	<u>4,418,657</u>	(6.0)
Total	<u><u>\$ 56,590,124</u></u>	<u><u>\$ 64,463,387</u></u>	(12.2)
Long-Term Liabilities			
Due Within One Year	\$ 7,880,957	\$ 7,578,324	
Due in More Than One Year	<u>48,709,167</u>	<u>56,885,063</u>	
Total	<u><u>\$ 56,590,124</u></u>	<u><u>\$ 64,463,387</u></u>	

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FACTORS BEARING ON THE DISTRICT'S FUTURE

With the exception of voter-approved excess operating 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 were 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 their 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.

The District has also experienced a reversal of its historical trend of declining enrollment, showing an increase of over 130 students in the past five years.

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 the Business Office, Independent School District No. 181, 804 Oak Street, Brainerd, Minnesota 56401.

This Page Has Been Intentionally Left Blank.

BASIC FINANCIAL STATEMENTS

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF NET POSITION
JUNE 30, 2017**

ASSETS

Cash and Investments	\$ 26,366,537
Cash Held by Fiscal Agent	150,901
Receivables	
Property Taxes	9,456,367
Other Governments	7,846,989
Other	323,461
Prepaid Items	182,519
Net OPEB Asset	5,278,256
Inventories	107,312
Capital Assets	
Land	2,230,747
Other Capital Assets, Net of Depreciation	64,593,764
Total Assets	<u>116,536,853</u>

DEFERRED OUTFLOWS OF RESOURCES

Loss on Refunding	71,255
Pension Related	102,528,186
Total Deferred Outflows of Resources	<u>102,599,441</u>

LIABILITIES

Salaries Payable	2,316,819
Accounts and Contracts Payable	1,062,354
Accrued Interest	885,569
Due to Other Governmental Units	476,267
Unearned Revenue - Charges for Services	194,419
Long-Term Liabilities	
Net Pension Liability	165,323,086
Net Supplemental Pension Liability	152,376
Portion Due Within One Year	8,127,362
Portion Due in More Than One Year	48,709,167
Total Liabilities	<u>227,247,419</u>

DEFERRED INFLOWS OF RESOURCES

Gain on Refunding	138,877
Pension Related	2,783,308
OPEB Related	232,793
Property Taxes Levied for Subsequent Year	18,359,986
Total Deferred Inflows of Resources	<u>21,514,964</u>

NET POSITION

Net Investment in Capital Assets	23,598,912
Restricted for:	
General Fund Operating Capital Purposes	885,018
General Fund State-Mandated Reserves	2,081,889
Food Service	454,508
Community Service	1,716,727
Cash Held by Fiscal Agent	150,901
Debt Service	1,486,474
Other Postemployment Benefits	5,278,256
Unrestricted	(65,278,774)
Total Net Position	<u>\$ (29,626,089)</u>

See accompanying Notes to Financial Statements.

This Page Has Been Intentionally Left Blank.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities
Governmental Activities					
Administration	\$ 3,812,021	\$ 21,536	\$ 509,798	\$ -	\$ (3,280,687)
District Support Services	1,749,412	400	-	-	(1,749,012)
Regular Instruction	47,049,008	994,545	5,304,210	119,397	(40,630,856)
Vocational Education Instruction	1,755,809	58,347	-	-	(1,697,462)
Special Education Instruction	25,221,863	727,945	13,297,264	-	(11,196,654)
Instructional Support Services	6,160,473	50,804	373,767	223,905	(5,511,997)
Pupil Support Services	7,126,516	-	769,017	1,054	(6,356,445)
Sites and Buildings	8,505,301	59,319	-	486,898	(7,959,084)
Fiscal and Other Fixed Cost Programs	325,399	-	-	-	(325,399)
Food Service	3,483,924	1,391,483	2,171,227	-	78,786
Community Service	3,595,412	1,811,807	701,805	-	(1,081,800)
Interest and Fiscal Charges on Long-Term Liabilities	1,828,671	-	25,717	-	(1,802,954)
Total School District	<u>\$ 110,613,809</u>	<u>\$ 5,116,186</u>	<u>\$ 23,152,805</u>	<u>\$ 831,254</u>	<u>(81,513,564)</u>
General Revenues					
Property Taxes Levied for:					
General Purposes					9,425,876
Community Service					567,528
Debt Service					9,024,302
State Aid Not Restricted to Specific Purposes					48,300,997
Earnings on Investments					150,196
Miscellaneous					697,733
Total General Revenues					<u>68,166,632</u>
CHANGE IN NET POSITION					<u>(13,346,932)</u>
Net Position - Beginning of Year					1,857,384
Change in Accounting Principle					<u>(18,136,541)</u>
Net Position - Beginning of Year, as Restated					<u>(16,279,157)</u>
NET POSITION - END OF YEAR					<u>\$ (29,626,089)</u>

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	Major Funds		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 10,429,209	\$ 432,943	\$ 2,101,691
Cash Held by Fiscal Agent	150,901	-	-
Receivables			
Current Property Taxes	4,386,527	-	271,507
Delinquent Property Taxes	215,387	-	15,610
Due from Other Minnesota School Districts	189,755	-	-
Due from Minnesota Department of Education	6,132,085	-	81,172
Due from Federal through Minnesota Department of Education	565,623	3,256	5,436
Due from Other Governmental Units	863,171	-	210
Other Receivables	323,461	-	-
Prepaid Items	168,892	13,592	35
Inventory	16,700	90,612	-
Total Assets	<u>\$ 23,441,711</u>	<u>\$ 540,403</u>	<u>\$ 2,475,661</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities			
Salaries Payable	\$ 2,100,568	\$ 80,947	\$ 135,304
Accounts and Contracts Payable	184,444	3,249	14,173
Due to Other Minnesota School Districts	150,546	-	-
Due to Other Governmental Units	325,536	185	-
Unearned Revenue - Charges for Services	155,577	1,514	37,328
Total Liabilities	<u>2,916,671</u>	<u>85,895</u>	<u>186,805</u>
Deferred Inflows of Resources			
Property Taxes Levied for Subsequent Year	8,670,245	-	572,129
Unavailable Revenue - Delinquent Taxes	34,679	-	15,610
Total Deferred Inflows of Resources	<u>8,704,924</u>	<u>-</u>	<u>587,739</u>
Fund Balance			
Nonspendable:			
Prepaid Items	168,892	13,592	35
Inventory	16,700	90,612	-
Restricted:			
Deferred Maintenance	-	-	-
Health and Safety	-	-	-
Alternative Facilities Program	-	-	-
Operating Capital	885,018	-	-
Learning and Development	462,549	-	-
Safe Schools - Crime	329,802	-	-
Community Education Programs	-	-	949,380
Early Childhood and Family Educations Programs	-	-	518,998
School Readiness	-	-	228,651
Staff Development	939,773	-	-
Lont-Term Facilities Maintenance (LTFM)	349,765	-	-
Other Restricted	150,901	350,304	4,053
Assigned:			
Q Comp	499,611	-	-
Unassigned			
Unassigned	8,017,105	-	-
Total Fund Balances	<u>11,820,116</u>	<u>454,508</u>	<u>1,701,117</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 23,441,711</u>	<u>\$ 540,403</u>	<u>\$ 2,475,661</u>

See accompanying Notes to Financial Statements.

Capital Projects	Debt Service	Total Governmental Funds	
		2017	2016
\$ -	\$ 6,916,038	\$ 19,879,881	\$ 17,838,796
-	-	150,901	150,830
-	4,326,807	8,984,841	8,818,995
-	240,529	471,526	546,945
-	-	189,755	239,613
-	6,281	6,219,538	5,997,428
-	-	574,315	438,175
-	-	863,381	1,329,476
-	-	323,461	230,149
-	-	182,519	163,712
-	-	107,312	123,525
<u>\$ -</u>	<u>\$ 11,489,655</u>	<u>\$ 37,947,430</u>	<u>\$ 35,877,644</u>
\$ -	\$ -	\$ 2,316,819	\$ 2,169,612
-	-	201,866	448,729
-	-	150,546	101,158
-	-	325,721	276,593
-	-	194,419	150,325
-	-	3,189,371	3,146,417
-	9,117,612	18,359,986	18,093,976
-	240,529	290,818	399,158
-	9,358,141	18,650,804	18,493,134
-	-	182,519	163,712
-	-	107,312	123,525
-	-	-	207,901
-	-	-	41,109
-	-	-	199,274
-	-	885,018	715,793
-	-	462,549	241,058
-	-	329,802	276,968
-	-	949,380	963,729
-	-	518,998	429,469
-	-	228,651	34,877
-	-	939,773	1,015,391
-	-	349,765	-
-	2,131,514	2,636,772	1,958,161
-	-	499,611	424,430
-	-	8,017,105	7,442,696
-	2,131,514	16,107,255	14,238,093
<u>\$ -</u>	<u>\$ 11,489,655</u>	<u>\$ 37,947,430</u>	<u>\$ 35,877,644</u>

This Page Has Been Intentionally Left Blank.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
RECONCILIATION OF THE BALANCE SHEET
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
GOVERNMENTAL ACTIVITIES
JUNE 30, 2017**

Total Fund Balance for Governmental Funds	\$ 16,107,255
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	2,230,747
Land Improvements, Net of Accumulated Depreciation	5,780,815
Buildings and Improvements, Net of Accumulated Depreciation	54,933,096
Equipment, Net of Accumulated Depreciation	3,879,853
OPEB trust assets net of the OPEB liability recognized to date, are not current financial resources and, therefore, are not reported at fund level.	5,278,256
OPEB deferred inflows are reported only on the statement of net position.	(232,793)
The Net Supplemental Pension Liability is not a current financial resource and, therefore, is not reported at fund level.	(152,376)
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	(165,323,086)
Deferred Inflows of Resources - Pension Related	(2,783,308)
Deferred Outflows of Resources - Pension Related	102,528,186
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.	290,818
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(885,569)
Internal service funds are used by management to charge the costs of health and dental insurance services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. Internal service fund net position at year-end are:	5,626,168
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	(49,110,000)
Unamortized Premiums	(880,055)
Unamortized Discounts	3,671
Gain on Refunding Bond	(138,877)
Loss on Refunding Bond	71,255
Obligations Under Capital Leases	(2,449,749)
Lease Purchase Payable	(4,153,991)
Compensated Absences Payable	(246,405)
Total Net Position of Governmental Activities	<u><u>\$ (29,626,089)</u></u>

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, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	Major Funds		
	General	Food Service	Community Service
REVENUES			
Local			
Property Taxes	\$ 9,325,208	\$ -	\$ 570,177
Earnings on Investments	78,904	1,765	14,102
Other	2,668,977	1,397,202	1,889,700
State Sources	65,099,985	212,004	749,583
Federal Sources	2,252,790	1,959,223	5,436
Total Revenues	<u>79,425,864</u>	<u>3,570,194</u>	<u>3,228,998</u>
EXPENDITURES			
Current			
Administration	2,957,644	-	-
District Support Services	1,581,627	-	-
Regular Instruction	32,109,384	-	-
Vocational Education Instruction	1,222,789	-	-
Special Education Instruction	18,601,516	-	-
Instructional Support Services	4,241,555	-	-
Pupil Support Services	6,264,039	-	-
Sites and Buildings	7,270,652	-	-
Fiscal and Other Fixed Cost Programs	325,399	-	-
Food Service	-	3,366,708	-
Community Service	38,848	-	2,973,943
Capital Outlay	2,485,379	4,866	8,254
Debt Service			
Principal	798,323	-	-
Interest and Fiscal Charges	229,224	-	-
Total Expenditures	<u>78,126,379</u>	<u>3,371,574</u>	<u>2,982,197</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,299,485	198,620	246,801
OTHER FINANCING SOURCES (USES)			
Transfers In	-	-	24,302
Transfers Out	(24,302)	-	-
Proceeds from Capital Leases	-	-	-
Total Other Financing Sources (Uses)	<u>(24,302)</u>	<u>-</u>	<u>24,302</u>
NET CHANGE IN FUND BALANCE	1,275,183	198,620	271,103
Fund Balance - Beginning of Year	<u>10,544,933</u>	<u>255,888</u>	<u>1,430,014</u>
FUND BALANCE - END OF YEAR	<u>\$ 11,820,116</u>	<u>\$ 454,508</u>	<u>\$ 1,701,117</u>

See accompanying Notes to Financial Statements.

Capital Projects - Building Construction	Debt Service	Total Governmental Funds	
		2017	2016
\$ -	\$ 9,064,296	\$ 18,959,681	\$ 18,740,882
844	35,506	131,121	36,422
-	-	5,955,879	5,483,441
-	62,803	66,124,375	63,873,362
-	-	4,217,449	4,269,144
844	9,162,605	95,388,505	92,403,251
-	-	2,957,644	2,748,001
-	-	1,581,627	1,275,664
-	-	32,109,384	31,865,041
-	-	1,222,789	1,183,136
-	-	18,601,516	18,168,417
-	-	4,241,555	4,369,305
-	-	6,264,039	6,132,662
-	-	7,270,652	6,560,636
-	-	325,399	304,376
-	-	3,366,708	3,384,562
-	-	3,012,791	2,759,315
-	-	2,498,499	4,985,932
-	6,780,000	7,578,323	7,279,149
-	2,259,193	2,488,417	2,683,148
-	9,039,193	93,519,343	93,699,344
844	123,412	1,869,162	(1,296,093)
-	200,118	224,420	18,207
(200,118)	-	(224,420)	(18,207)
-	-	-	922,243
(200,118)	200,118	-	922,243
(199,274)	323,530	1,869,162	(373,850)
199,274	1,807,984	14,238,093	14,611,943
\$ -	\$ 2,131,514	\$ 16,107,255	\$ 14,238,093

**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 ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Net Change in Fund Balance-Total Governmental Funds \$ 1,869,162

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	1,470,323
Net Depreciated Value of Disposed Assets	(27,483)
Depreciation Expense	(4,379,297)

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.

Change in Accrued Interest Expense - Capital Leases	4,784
Principal Payments - Capital Leases	533,657

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. (33,913)

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. (19,759,878)

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:

Payment on Lease Purchase Agreement	264,666
Repayment of Bond Principal	6,780,000
Change in Accrued Interest Expense - General Obligation Bonds	113,455
Amortization of Loss on Refunding	(14,251)
Amortization of Gain on Refunding	47,422
Amortization of Bond Premium	295,882
Amortization of Bond Discount	(942)

Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current-period's expenditures and, therefore, are unavailable in the funds. (108,340)

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). (41,076)

Internal service funds are used by the District to charge the costs of employee health and dental benefits to individual funds. The net gain (loss) of the internal service funds is reported with governmental activities. (361,103)

Change in Net Position of Governmental Activities \$ (13,346,932)

**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, 2017**

	<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	\$ 9,035,087	\$ 9,035,087	\$ 9,325,208	\$ 290,121
Earnings on Investments	4,500	23,000	78,904	55,904
Other	1,981,069	2,287,345	2,668,977	381,632
State Sources	64,353,962	64,434,512	65,099,985	665,473
Federal Sources	2,406,051	2,224,725	2,252,790	28,065
Total Revenues	<u>77,780,669</u>	<u>78,004,669</u>	<u>79,425,864</u>	<u>1,421,195</u>
EXPENDITURES				
Current				
Administration	2,670,650	2,865,849	2,957,644	91,795
District Support Services	1,369,840	1,547,004	1,581,627	34,623
Elementary and Secondary Regular Instruction	31,161,804	32,336,797	32,109,384	(227,413)
Vocational Education Instruction	1,113,006	1,183,657	1,222,789	39,132
Special Education Instruction	17,733,379	18,535,305	18,601,516	66,211
Community Education	30,000	30,000	38,848	8,848
Instructional Support Services	4,172,522	4,554,867	4,241,555	(313,312)
Pupil Support Services	10,169,612	6,496,887	6,264,039	(232,848)
Sites and Buildings	6,684,110	6,845,009	7,270,652	425,643
Fiscal and Other Fixed Cost Programs	312,000	325,000	325,399	399
Capital Outlay	2,797,794	2,913,955	2,485,379	(428,576)
Debt Service				
Principal	811,261	817,398	798,323	(19,075)
Interest and Fiscal Charges	208,186	199,351	229,224	29,873
Total Expenditures	<u>79,234,164</u>	<u>78,651,079</u>	<u>78,126,379</u>	<u>(524,700)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,453,495)	(646,410)	1,299,485	1,945,895
OTHER FINANCING SOURCES (USES)				
Transfers Out	(19,695)	(25,455)	(24,302)	1,153
NET CHANGE IN FUND BALANCE	<u>\$ (1,473,190)</u>	<u>\$ (671,865)</u>	1,275,183	<u>\$ 1,947,048</u>
FUND BALANCE				
Beginning of Year			<u>10,544,933</u>	
END OF YEAR			<u>\$ 11,820,116</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, 2017**

	<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	\$ 150	\$ 150	\$ 1,765	\$ 1,615
Other - Primarily Meal Sales	1,384,870	1,384,870	1,397,202	12,332
State Sources	195,200	195,200	212,004	16,804
Federal Sources	1,885,700	1,885,700	1,959,223	73,523
Total Revenues	<u>3,465,920</u>	<u>3,465,920</u>	<u>3,570,194</u>	<u>104,274</u>
EXPENDITURES				
Current				
Food Service	3,363,123	3,325,123	3,366,708	41,585
Capital Outlay	-	-	4,866	4,866
Total Expenses	<u>3,363,123</u>	<u>3,325,123</u>	<u>3,371,574</u>	<u>46,451</u>
NET CHANGE IN FUND BALANCE	<u>\$ 102,797</u>	<u>\$ 140,797</u>	198,620	<u>\$ 57,823</u>
FUND BALANCE				
Beginning of Year			<u>255,888</u>	
END OF YEAR			<u>\$ 454,508</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, 2017**

	<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	\$ 569,075	\$ 568,558	\$ 570,177	\$ 1,619
Earnings on Investments	350	3,500	14,102	10,602
Other - Primarily Tuition and Fees	1,424,996	1,669,713	1,889,700	219,987
State Sources	439,541	743,290	749,583	6,293
Federal Sources	3,529	5,435	5,436	1
Total Revenues	<u>2,437,491</u>	<u>2,990,496</u>	<u>3,228,998</u>	<u>238,502</u>
EXPENDITURES				
Current				
Community Service	2,342,690	3,004,424	2,973,943	(30,481)
Capital Outlay	233,440	31,300	8,254	(23,046)
Total Expenditures	<u>2,576,130</u>	<u>3,035,724</u>	<u>2,982,197</u>	<u>(53,527)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(138,639)	(45,228)	246,801	292,029
OTHER FINANCING SOURCES				
Transfers In	<u>19,695</u>	<u>25,455</u>	<u>24,302</u>	<u>(1,153)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (118,944)</u>	<u>\$ (19,773)</u>	271,103	<u>\$ 290,876</u>
FUND BALANCE				
Beginning of Year			<u>1,430,014</u>	
END OF YEAR			<u>\$ 1,701,117</u>	

See accompanying Notes to Financial Statements.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
STATEMENT OF NET POSITION
INTERNAL SERVICE FUND
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	2017	2016
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 6,486,656	\$ 6,781,864
LIABILITIES		
Current Liabilities		
Claims Payable	860,488	794,593
NET POSITION		
Unrestricted Net Position	\$ 5,626,168	\$ 5,987,271

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, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	2017	2016
OPERATING REVENUES		
Contributions from District and Employees	\$ 13,467,229	\$ 13,043,448
OPERATING EXPENSES		
Insurance Claims and Administration	13,873,124	12,693,927
Wellness Expenses from Insurance Administrator	20,000	15,000
Total Operating Expenses	13,893,124	12,708,927
Operating Income (Loss)	(425,895)	334,521
NONOPERATING INCOME (EXPENSES)		
Earnings on Investments	44,792	19,639
Wellness Funding from Insurance Administrator	20,000	30,000
Total Nonoperating Income (Expenses)	64,792	49,639
CHANGE IN NET POSITION	(361,103)	384,160
Net Position - Beginning of Year	5,987,271	5,603,111
NET POSITION - END OF YEAR	\$ 5,626,168	\$ 5,987,271

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, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	Governmental Activities - Internal Service Funds	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from District and Employees	\$ 13,467,229	\$ 13,043,448
Cash Payments for Insurance and Other Operating Expenses	<u>(13,827,229)</u>	<u>(12,720,422)</u>
Net Cash Provided (Used) by Operating Activities	(360,000)	323,026
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	44,792	19,639
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Wellness Funding Received from Insurance Administrator	<u>20,000</u>	<u>30,000</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(295,208)	372,665
Cash and Cash Equivalents - Beginning of Year	<u>6,781,864</u>	<u>6,409,199</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 6,486,656</u></u>	<u><u>\$ 6,781,864</u></u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating Income (Loss)	\$ (425,895)	\$ 334,521
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities		
Increase (Decrease) in Claims Payable	65,895	(11,495)
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (360,000)</u></u>	<u><u>\$ 323,026</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, 2017**

	Postemployment Benefits Irrevocable Trust Fund	Agency
ASSETS		
Cash and Deposits	\$ 424,186	\$ 404,614
Investments:		
Fixed Income	13,996,822	-
Equities	7,923,399	-
Alternative	1,761,732	-
Receivables		
Due from Other Minnesota School Districts	-	568,874
Due from Federal through the Minnesota Department of Education	-	554,672
Interest	110,608	-
Prepaid Items	-	23,648
Total Assets	\$ 24,216,747	\$ 1,551,808
LIABILITIES		
Accounts Payable	\$ -	\$ 44,276
Due to Other Governments	-	826,319
Due to Other Minnesota School Districts	-	215,429
Amounts Held for Others	-	404,614
Unearned Revenue	-	61,170
Total Liabilities	-	\$ 1,551,808
NET POSITION		
Restricted for Postemployment Benefits other than Pensions	\$ 24,216,747	

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, 2017**

ADDITIONS

Employer Contributions	\$	242,900
Investment Income:		
Net Increase (Decrease) in Fair Value of Investments		994,188
Interest and Dividends		649,826
Less Investment Expense		<u>(124,713)</u>
Net Investment Income		<u>1,519,301</u>
Total Additions		1,762,201

DEDUCTIONS

OPEB Health Insurance Payments		<u>2,111,654</u>
--------------------------------	--	------------------

CHANGE IN NET POSITION

(349,453)

Net Position - Beginning of Year

24,566,200

NET POSITION - END OF YEAR

\$ 24,216,747

NOTES TO FINANCIAL STATEMENTS

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 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, 2017**

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 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, 2017**

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.

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, 2017**

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, 2017**

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. There are two separate programs within the Agency fund. The first program is used to account for the District's flexible benefit plan for employees and the administrative dental program for employees. The second program 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, 2017**

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:

	Original Budget	Amendments	Amended Budget
<u>Revenues and Transfers In</u>			
General Fund	\$ 77,780,669	\$ 224,000	\$ 78,004,669
Special Revenue Funds			
Community Service Fund	2,457,186	558,765	3,015,951
<u>Expenditures and Transfers Out</u>			
General Fund	79,253,859	(577,325)	78,676,534
Special Revenue Funds			
Food Service Fund	3,363,123	(38,000)	3,325,123
Community Service Fund	2,576,130	459,594	3,035,724

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, 2017**

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, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. 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 2016 Pay 2017 levy, normally revenue for the 2017-18 fiscal year, are also advance recognized as June 30, 2017, 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, 2017, 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.

L. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$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, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. 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.

M. 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.

N. 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.

O. 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 non-union 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 non-union 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, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. 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 receives 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.

P. Deferred Inflows of Resources

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. 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.

R. 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, charges for services, and school lunch deposits.

S. 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.

T. 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.

U. 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. 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 five to seven percent.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

V. 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:

	Budget	Expenditures	Excess
Special Revenue Funds			
Food Service Fund	\$ 3,325,123	\$ 3,371,574	\$ 46,451

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

B. Interfund Transfers

The District had the following interfund transfers at June 30, 2017:

	Transfers In:		
Transfers Out:	Community Service Fund	Debt Service Fund	Total
General Fund	\$ 24,302	\$ -	\$ 24,302
Capital Projects - Building Construction	-	200,118	200,118
	\$ 24,302	\$ 200,118	\$ 224,420

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. The purpose of the transfer from the Capital Projects – Building Construction Fund to the Debt Service Fund was to close out the Capital Projects – Building Construction Fund.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017 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, 2017**

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, 2017, 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+)	<u>\$ 22,785,433</u>

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, 2017**

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+	AAAm	\$ 22,785,433

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 (\$3,732,005), investments (\$22,785,433), irrevocable OPEB trust (\$24,106,139), and Agency deposits (\$404,614) are presented in the financial statements as follows:

Cash and Investments - Statement of Net Position	\$ 26,517,438
Cash and Investments - OPEB Trust	24,106,139
Cash and Investments - Agency Fund (deposits)	404,614
Total Cash and Investments	\$ 51,028,191

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 non-traditional 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 6/30/2017	
Money Market/Cash Equivalent	N/A	N/A	\$ 424,186	5%
Domestic Fixed Income	55%	50-70%	13,264,382	53%
Foreign Fixed Income	5%	0-10%	732,440	2%
Total Fixed Income	60%	50-70%	13,996,822	55%
U.S. Stocks	30%	20-35%	5,512,571	29%
Foreign Stocks	5%	0-10%	2,410,828	5%
Total Equity	35%	20-40%	7,923,399	34%
Alternative Investments	5%	0-10%	1,761,732	6%
Accrued Interest			110,608	
Total Investments and Accrued Interest			<u>\$ 24,216,747</u>	100%

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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	\$ 2,094,282	15%
Federal Agency	4,847,882	35%
Bond Mutual Funds	2,342,289	17%
Corporate Bonds	3,120,104	22%
Municipal Bonds	1,592,265	11%
Total	<u>\$ 13,996,822</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.

<u>Quality Distribution Ratings</u>		
Govt/AAA	\$ 4,649,502	40%
AA	1,392,119	12%
A	1,197,354	10%
BBB	1,819,473	16%
NR	2,596,086	22%
Total	<u>\$ 11,654,534</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.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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>		
0-1 Years	\$ 1,231,677	11%
1-3 Years	3,117,655	27%
3-5 Years	2,165,975	19%
5-7 Years	3,075,903	25%
7-10 Years	1,421,491	13%
>10 Years	641,833	5%
Total	<u>\$ 11,654,534</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, 2017**

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.
- *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
Government/Agency Obligations	\$ 3,643,408	\$ -	\$ -	\$ 3,643,408
Mortgage Backed Securities (MBS)	-	3,298,756	-	3,298,756
Corporate Bonds	-	3,120,104	-	3,120,104
Municipal Obligations	-	1,592,265	-	1,592,265
Equity Securities	1,717,017	-	-	1,717,017
Mutual Funds/ETFs	8,548,671	-	-	8,548,671
Alternative Investments	1,761,732	-	-	1,761,732
Total	<u>\$ 15,670,828</u>	<u>\$ 8,011,125</u>	<u>\$ -</u>	23,681,953
Investments at Amortized Costs				424,186
Total Investments				<u>\$ 24,106,139</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Being Depreciated				
Land	\$ 2,230,747	\$ -	\$ -	\$ 2,230,747
Capital Assets, Being Depreciated				
Land Improvements	12,451,613	80,187	-	12,531,800
Buildings and Improvements	102,755,990	912,051	(28,700)	103,639,341
Equipment	14,388,084	478,085	(71,658)	14,794,511
Total Capital Assets, Being Depreciated	<u>129,595,687</u>	<u>1,470,323</u>	<u>(100,358)</u>	<u>130,965,652</u>
Accumulated Depreciation for				
Land Improvements	(6,222,669)	(528,316)	-	(6,750,985)
Buildings and Improvements	(45,630,989)	(3,077,050)	1,794	(48,706,245)
Equipment	(10,211,808)	(773,931)	71,081	(10,914,658)
Total Accumulated Depreciation	<u>(62,065,466)</u>	<u>(4,379,297)</u>	<u>72,875</u>	<u>(66,371,888)</u>
Total Capital Assets, Being Depreciated, Net	<u>67,530,221</u>	<u>(2,908,974)</u>	<u>(27,483)</u>	<u>64,593,764</u>
Governmental Activities Capital Assets, Net	<u>\$ 69,760,968</u>	<u>\$ (2,908,974)</u>	<u>\$ (27,483)</u>	<u>\$ 66,824,511</u>

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

Governmental Activities:	
Administration	\$ 147,642
District Support Services	58,352
Regular Instruction	1,584,763
Vocational Education Instruction	82,059
Special Education Instruction	1,257,732
Instructional Support Services	484,138
Pupil Support Services	395,462
Sites and Buildings	243,528
Community Service	125,621
Total Depreciation Expense, Governmental Activities	<u>\$ 4,379,297</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 2010A-Refunding	3/10/2010	3.00-4.00%	\$ 49,970,000	2/1/2023	\$ 32,705,000
Series 2013A	3/19/2013	0.40 - 1.95%	1,240,000	2/1/2024	880,000
Series 2013B	6/11/2013	2.00%	2,120,000	2/1/2024	2,120,000
OPEB Bonds					
Series 2009A	06/23/09	4.00 - 5.00%	22,915,000	02/01/23	13,405,000
Total General Obligation Bonds					49,110,000
Capital Lease Payable					
Buildings - Refunded	05/28/14	1.00 - 2.35%	2,175,000	02/01/22	1,355,000
Franklin Building	02/15/08	5.15%	718,553	02/21/28	306,288
Copier/Printer	08/01/14	4.62%	328,940	08/01/18	134,341
Teachers Computers	05/05/16	2.17%	522,243	05/15/20	364,010
Lowell LULA Elevator	07/13/15	2.88%	400,000	02/01/22	290,110
Total Capital Leases					2,449,749
Lease Purchase Payable					
Lease Purchase Series 2014	03/13/14	3.87%	3,020,702	02/01/29	2,534,380
Lease Purchase Series 2015	05/19/15	2.87%	1,835,000	02/01/30	1,619,611
Total Lease Purchases					4,153,991
Compensated Absences Payable					246,405
Total Long-Term Liabilities					\$ 55,960,145

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	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 7,060,000	\$ 1,986,105	\$ 546,980	\$ 63,789	\$ 273,977	\$ 142,195
2019	7,330,000	1,707,425	560,599	51,590	283,621	132,551
2020	7,630,000	1,411,510	464,787	38,521	293,611	122,561
2021	7,940,000	1,096,695	375,462	26,258	303,960	112,212
2022	8,280,000	764,100	318,547	16,938	314,680	101,492
2023-2027	10,870,000	456,875	158,928	27,973	1,748,206	332,653
2028-2030	-	-	24,446	475	935,936	46,560
Total	\$ 49,110,000	\$ 7,422,710	\$ 2,449,749	\$ 225,544	\$ 4,153,991	\$ 990,224

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2017 are approximately \$59,359,000. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota Statutes.

2. General Obligation School Building Refunding Bonds

On March 10, 2010, the District issued \$49,970,000 General Obligation Refunding Bonds, Series 2010A to refund (in 2012) the 2002 General Obligation School Building Bonds, dated June 1, 2002.

3. General Obligation Capital Facilities Bonds

On March 19, 2013, the District issued \$1,240,000 General Obligation Capital Facilities Bonds, Series 2013A. The proceeds are to be used to finance capital projects. Repayment of the principal will be in ten annual installments, plus variable interest at 0.40% to 1.95%, commencing February 1, 2024.

4. General Obligation Alternative Facilities Bonds

On June 11, 2013, the District issued \$2,120,000 General Obligation Alternative Facilities Bonds, Series 2013B. The proceeds are to be used to provide funds for health and safety projects included in the five-year health and safety plan of the District. Repayment of the principal will be in one annual installment, plus 21 semi-annual fixed interest payments at 2%, commencing February 1, 2024.

5. General Obligation Taxable OPEB Bonds

On June 23, 2009, the District issued \$22,915,000 General Obligation Taxable OPEB Bonds, Series 2009A. The proceeds are to be used to finance the OPEB liability. Repayment of the principal will be in thirteen annual installments, plus variable interest at 4.00% to 5.00%, commencing February 1, 2010.

6. Other Long-Term Debt

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.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Debt (Continued)

7. 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 August 1, 2014, the District entered into a five-year lease-purchase agreement with Marco in the amount of \$328,940, bearing interest at 4.62% to finance its copiers and printers across the District. Repayment of the lease will occur in five annual installments of \$71,860, commencing August 1, 2014.

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.

Assets acquired through capital leases, are summarized as follows:

Land	\$ 148,509
Buildings and Improvements	4,930,592
Equipment	1,195,277
Less: Accumulated Depreciation	<u>(3,314,197)</u>
Total	<u><u>\$ 2,960,181</u></u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

D. Changes in Long-Term Debt

	June 30, 2016	Net Additions	Retirements	June 30, 2017	Due Within One Year
General Obligation Bonds	\$ 55,890,000	\$ -	\$ 6,780,000	\$ 49,110,000	\$ 7,060,000
Net Bond Premiums (Discount)	1,171,324	-	294,940	876,384	-
Capital Leases	2,983,406	-	533,657	2,449,749	546,980
Lease Purchases	4,418,657	-	264,666	4,153,991	273,977
Subtotal	64,463,387	-	7,873,263	56,590,124	7,880,957
Compensated Absences	197,651	381,261	332,507	246,405	246,405
Total	<u>\$ 64,661,038</u>	<u>\$ 381,261</u>	<u>\$ 8,205,770</u>	<u>\$ 56,836,529</u>	<u>\$ 8,127,362</u>

NOTE 6 RESTRICTED FUND BALANCES

A. Restricted for Deferred Maintenance

Deferred maintenance aid and levy can only be used for projects and costs that would be eligible for health and safety revenue, disabled access levy, or deferred maintenance projects necessary to prevent further erosion of facilities.

B. Restricted for Health and Safety

Represents available resources in the General Fund to be used for Health and Safety projects in accordance with an approved Health and Safety plan.

C. Alternative Facilities Program

The fund balance restriction represents unspent bond proceeds available to provide funds for health and safety projects included in the five-year health and safety plan.

D. Restricted for Operating Capital

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

E. 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.

F. 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.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 RESTRICTED FUND BALANCES (CONTINUED)

G. Restricted for Community Education

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

H. Restricted for Early Childhood and Family Education

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

I. Restricted for School Readiness

Represents the resources available to provide for School Readiness Program.

J. Restricted for Staff Development

Represents cumulative unspent staff development dollars.

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

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

L. 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	\$ 150,901
Food Service	350,304
Community Service	4,053
Debt Service	<u>2,131,514</u>
Total Other Restricted	<u><u>\$ 2,636,772</u></u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 ASSIGNED FUND BALANCES

Assigned for Q Comp

Represents amount set aside for Q Comp expenditures.

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)

PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the District other than teachers are covered by the General Employees Plan. The General Employees members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Teachers Retirement Fund (TRA)

TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member and three statutory officials.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

2. Teachers Retirement Fund (TRA) (Continued)

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

B. Benefits Provided

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

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

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

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. General Employees Plan Benefits

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

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 Statutes and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for 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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier 1 Benefits (Continued)

With these provisions:

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

or

Tier II Benefits

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

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

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

C. Contributions

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

1. General Employees Plan Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in fiscal year 2017. Coordinated Plan members contributed 6.5% of pay in fiscal year 2017. In fiscal year 2017, the District was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The District's contributions to the General Employees Plan for the Plan's fiscal year ended June 30, 2017, were \$911,061. The District's contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

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

	Ending June 30, 2017	
	Employee	Employer
Basic	11.0 %	11.5 %
Coordinated	7.5	7.5

The District's contributions to TRA for the Plan's fiscal year ended June 30, 2017, were \$2,584,829. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

1. General Employees Plan Pension Costs

At June 30, 2017, the District reported a liability of \$15,029,202 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing District 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 \$196,269. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015 through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was .1851% which was a decrease of .0028% from its proportion measured as of June 30, 2015.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Plan Pension Costs (Continued)

For the year ended June 30, 2017, the District recognized pension expense of \$1,623,887 for its proportionate share of General Employees Plan's pension expense. In addition, the District recognized an additional \$58,522 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 44,481	\$ 1,220,900
Changes in Actuarial Assumptions	3,241,436	-
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	1,677,907	-
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	-	600,465
District Contributions Subsequent to the Measurement Date	911,061	-
Total	<u>\$ 5,874,885</u>	<u>\$ 1,821,365</u>

\$911,061 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, 2018. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2018	\$ 765,088
2019	421,902
2020	1,412,588
2021	542,881

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs

At June 30, 2017, the District reported a liability of \$150,293,884 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was .6301% at the end of the measurement period and .6221% for the beginning of the period.

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

Description	Amount
District's Proportionate Share of the TRA Net Pension Liability	\$ 150,293,884
State's Proportionate Share of TRA's Net Pension Liability Associated with the District	15,084,592

For the year ended June 30, 2017, the District recognized pension expense of \$21,868,693. It also recognized \$2,106,453 as pension expense for the support provided by direct aid.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 1,472,190	\$ 4,190
Changes in Actuarial Assumptions	85,703,299	-
Net Difference Between Projected and Actual Investment Earnings	6,501,813	-
Changes in Proportion Differences Between Contributions and Made and the District's Proportionate Share of Contributions	391,107	957,753
District Contributions Subsequent to the Measurement Date	2,584,892	-
Total	<u>\$ 96,653,301</u>	<u>\$ 961,943</u>

\$2,584,892 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ended June 30	Pension Expenses Amount
2018	\$ 18,304,273
2019	18,304,273
2020	20,497,052
2021	19,255,402
2022	16,745,466

The District's total pension expense for all plans for the year ended June 30, 2017 was \$25,668,477.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

E. Actuarial Assumptions

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

Assumptions	General Employees Plan	TRA
Inflation	2.50% per Year	2.75%
Active Member Payroll Growth	3.25% per Year	3.50% Based on Years of Service
Investment Rate of Return	7.50%	8.00%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors and disabilitants were based on RP 2014 tables for the General Employees Plan and RP-2000 tables for the Police and Fire Plan and Correctional Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan.

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

The following changes in actuarial assumptions occurred in 2016:

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

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

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

F. Actuarial Assumptions (Continued)

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

The target allocation and best estimates of 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	45.0 %	5.50 %
International Equity	15.0	6.00
Bonds	18.0	1.45
Alternative Assets	20.0	6.40
Cash	2.0	0.50
Totals	<u>100.0 %</u>	

G. Discount Rate

The discount rate used to measure the total General Employees Plan pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current 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 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the fiscal 2017 contribution rate, contributions from school districts will be made at contractually required rates (actuarially determined), and contributions from the state will be made at current statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be depleted in 2052 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return was applied to periods before 2052 and the Municipal Bond Index Rate of 3.01% was applied to periods on and after 2052, resulting in a SEIR of 4.66%. Based on Fiduciary Net Position at prior year measurement date, the discount rate of 8.00% was used and it was not necessary to calculate the SEIR.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 PENSION PLANS (CONTINUED)

H. 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	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	\$ 21,345,921	\$ 15,029,202	\$ 9,825,945
<u>TRA Discount Rate</u>	3.66%	4.66%	5.66%
District's Proportionate Share of the TRA Net Pension Liability	\$ 193,616,088	\$ 150,293,884	\$ 115,009,362

I. 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 868 active participants and 124 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
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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 are 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 2017, the District made a contribution of \$242,900 to the plan; the remaining 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, 2017, were as follows:

Total OPEB Liability	\$	18,938,491
Plan Fiduciary Net Position		24,216,747
District's net OPEB Liability (Asset)	<u>\$</u>	<u>(5,278,256)</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability (Asset)		128%

D. Actuarial Methods and Assumptions

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, and 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), to the extent that the conditions above are not met.

The District's net OPEB liability (asset) was measured as of June 30, 2017, and the total OPEB liability (asset) used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2016. 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, 2016, 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%
Medical Trend Rates	6.75% Decreasing to 5.00% over 7 Years
Dental Trend Rates	4.00%

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

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, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2014 to June 30, 2015.

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>Long-Term Expected Real Rate of Return</u>	<u>Long-Term Expected Nominal Rate of Return</u>
Domestic Equity	30.00%	0.00%
International Equity	5.00%	0.00%
Domestic Fixed Income	55.00%	0.00%
Foreign Fixed Income	5.00%	0.00%
Alternative Investments	5.00%	0.00%
Net Assumed Investment Return (Weighted Avg, Rounded to 1/4%)		5.00%

The discount rate used to measure the total OPEB liability was 4.60%. 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 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.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Actuarial Methods and Assumptions (Continued)

Since the most recent GASB 45 valuation, the following changes have been made:

- The actuarial cost method changed from using the Projected Unit Credit cost method to the Entry Age Normal level percentage of pay cost method.
- The discount rate was changed from 5.00% to 4.60%.
- Healthcare trend rates were reset to reflect updated cost increase expectations.
- The withdrawal table for all employees and retirement table for only employees eligible to retire with Rule of 90 also were updated.

E. Changes in the Net OPEB Liability (Asset)

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at June 30, 2016	\$ 19,486,824	\$ 24,566,200	\$ (5,079,376)
Changes for the Year:			
Service Cost	683,508	-	683,508
Interest	879,813	-	879,813
Net Investment Income	-	1,519,301	(1,519,301)
Contributions-Employer	-	242,900	(242,900)
Benefit Payments	(2,111,654)	(2,111,654)	-
Net Changes	<u>(548,333)</u>	<u>(349,453)</u>	<u>(198,880)</u>
Balances at June 30, 2017	<u>\$ 18,938,491</u>	<u>\$ 24,216,747</u>	<u>\$ (5,278,256)</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

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

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 (3.60%)	Discount Rate (4.60%)	1% Increase (5.60%)
Net OPEB Liability (Asset)	\$ (4,236,448)	\$ (5,278,256)	\$ (6,286,062)

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 (5.75% decreasing to 4.00%) or 1% point higher (7.75% decreasing to 5.00%) 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 5.75% decreasing to 4.00%, Dental 3.00%)	Current Trend Rates (6.75% decreasing to 5.00%, Dental 4.00%)	1% Increase (7.75% decreasing to 6.00%, Dental 5.00%)
Net OPEB Liability (Asset)	\$ (6,686,571)	\$ (5,278,256)	\$ (3,678,251)

For the year ended June 30, 2017, the District recognized OPEB expense of \$44,020. At June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference Between Expected and Actual Liability	\$ -	\$ -
Change of Assumptions	-	-
Net Difference Between Projected and Actual Investment Earnings	-	232,792
Total	\$ -	\$ 232,792

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

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

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

Year Ended June 30,	Future Recognition
2018	\$ (58,199)
2019	(58,199)
2020	(58,199)
2021	(58,195)
Total	\$ (232,792)

At June 30, 2017, the District reported a receivable of \$110,608 for the outstanding amount of interest to the trust required for the year ended June 30, 2017.

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 27 active employees who are eligible to receive benefits under the plan as of July 1, 2016. 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.

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.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 SUPPLEMENTAL BENEFIT PLAN (CONTINUED)

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, 2016	\$	160,054
Changes for the Year:		
Service Cost		6,364
Interest		4,558
Benefit Payments		<u>(18,600)</u>
Net Changes		<u>(7,678)</u>
Total Pension Liability - June 30, 2017	\$	<u><u>152,376</u></u>

D. Pension Costs

For the year ended June 30, 2017, the District recognized pension expense of \$10,922. At June 30, 2017, there were no deferred outflows of resources and deferred inflows of resources related to the Plan.

E. Actuarial Methods and Assumptions

The actuarial total pension liability was determined as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement:

Valuation Date:	July 1, 2016
Measurement Date:	June 30, 2017
Actuarial Cost Method:	Entry Age, Level Percentage of Pay
Discount Rate:	2.90%
Inflation:	2.50%
Salary Increases:	3.00%
Retirement Age:	55
Mortality:	RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 SUPPLEMENTAL BENEFIT PLAN (CONTINUED)

F. Discount Rate

The discount rate used to measure the total pension liability was 2.90%. 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 2.90%, 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 (1.90%) or one percentage point higher (3.90%) than the current rate:

	1% Decrease (1.90%)	Current Discount Rate (2.90%)	1% Increase (3.90%)
Total Pension Liability	\$ 156,248	\$ 152,376	\$ 148,344

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 point limits claims to approximately \$12,397,559 for the contract period ended August 31, 2017.

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 2017 were as follows:

	Year Ended	
	2017	2016
Beginning of Fiscal Year Liability - Beginning of Year	\$ 782,690	\$ 797,124
Current Year Claims and Administration	13,315,897	12,143,283
Payments to Health Care Providers	(13,250,130)	(12,157,717)
Balance at Fiscal Year End - End of Year	\$ 848,457	\$ 782,690

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 SELF INSURANCE (CONTINUED)

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 2017 were as follows:

	Year Ended	
	2017	2016
Beginning of Fiscal Year Liability - Beginning of Year	\$ 11,903	\$ 8,964
Current Year Claims and Administration	557,227	550,644
Payments to Health Care Providers	(557,099)	(547,705)
Balance at Fiscal Year End - End of Year	\$ 12,031	\$ 11,903

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 13 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.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 14 RESTATEMENT FOR A CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year ended June 30, 2017, the District adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. These pronouncements require the restatement of the June 30, 2016 net position of the governmental activities as follows:

	Governmental Activities
Net Position, June 30, 2016, as Previously Reported	\$ 1,857,384
Cumulative Affect of Application of GASB 75	(17,976,487)
Cumulative Affect of Application of GASB 73	(160,054)
Net Position, June 30, 2016, as Restated	\$ (16,279,157)

This Page Has Been Intentionally Left Blank.

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, 2017**

Total Pension Liability	\$	160,054
Changes for the Year:		
Service Cost		6,364
Interest		4,558
Benefit Payments		<u>(18,600)</u>
Net Changes		<u><u>(7,678)</u></u>
Total Pension Liability	\$	<u><u>152,376</u></u>
Covered Employee Payroll	\$	2,694,653
District's Net OPEB Liability as a Percentage of Covered Employee Payroll		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
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY (ASSET) AND RELATED
RATIOS
JUNE 30, 2017**

Total OPEB Liability	
Service Cost	\$ 683,508
Interest	879,813
Changes of Benefit Terms	-
Differences Between Expected and Actual Experience	-
Changes of Assumptions	-
Benefit Payments	(2,111,654)
Net Change in Total OPEB Liability	<u>(548,333)</u>
Total OPEB Liability - beginning	19,486,824
Total OPEB Liability - ending (a)	<u><u>\$ 18,938,491</u></u>
Plan Fiduciary Net Position	
Contributions - Employer	\$ 242,900
Projected Investment Return	1,228,310
Differences between Expected and Actual Experience	290,991
Benefit Payments	(2,111,654)
Administrative Expense	-
Net Change in Plan Fiduciary Net Position	<u>(349,453)</u>
Plan Fiduciary Net Position - beginning	24,566,200
Plan Fiduciary Net Position - ending (b)	<u><u>\$ 24,216,747</u></u>
District's Net OPEB Liability - ending (a) - (b)	\$ (5,278,256)
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	127.87%
Covered Employee Payroll	\$ 40,509,653
District's Net OPEB Liability as a Percentage of Covered Employee Payroll	(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, 2017**

<u>Year</u>	<u>Annual Money-Weighted Rate of Return, Net of Investment Expense</u>
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, 2017**

	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 (Asset)	0.1851%	0.1879%	0.2058%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 15,029,202	\$ 9,737,953	\$ 9,667,453
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	<u>\$ 196,269</u>	<u>\$ -</u>	<u>\$ -</u>
Total District's Proportionate Share of the Net Pension Liability (Asset) and State's Proportionate Share of the Net Pension Liability (Asset)	\$ 15,225,471	\$ 9,737,953	\$ 9,667,453
District's Covered Payroll	\$ 11,193,133	\$ 11,038,651	\$ 10,796,201
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	136.03%	88.22%	89.54%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.91%	78.20%	78.75%
TRA			
District's Proportion of the Net Pension Liability (Asset)	0.6301%	0.6221%	0.6616%
District's Proportionate Share of the Net Pension Liability (Asset)	\$ 150,293,884	\$ 38,483,038	\$ 30,486,052
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	<u>\$ 15,084,592</u>	<u>\$ 4,720,268</u>	<u>\$ 2,144,524</u>
Total District's Proportionate Share of the Net Pension Liability (Asset) and State's Proportionate Share of the Net Pension Liability (Asset)	\$ 165,378,476	\$ 43,203,306	\$ 32,630,576
District's Covered Payroll	\$ 31,129,173	\$ 31,568,351	\$ 30,197,434
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of Its Covered Payroll	531.27%	121.90%	100.96%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	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 FOUR FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
PERA				
Contractually Required Contribution	\$ 911,061	\$ 839,485	\$ 815,148	\$ 782,726
Contributions in Relation to the Contractually Required Contribution	(911,061)	(839,485)	(815,148)	(782,726)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 12,147,480	\$ 11,193,133	\$ 11,038,651	\$ 10,796,201
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%	7.38%	7.25%
TRA				
Contractually Required Contribution	\$ 2,584,892	\$ 2,334,688	\$ 2,367,880	\$ 2,113,775
Contributions in Relation to the Contractually Required Contribution	(2,584,892)	(2,334,688)	(2,367,880)	(2,113,775)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered-Employee Payroll	\$ 34,465,227	\$ 31,129,173	\$ 31,568,351	\$ 30,197,434
Contributions as a Percentage of Covered Employee Payroll	7.50%	7.50%	7.50%	7.00%

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

This Page Has Been Intentionally Left Blank.

SUPPLEMENTARY INFORMATION

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
GENERAL FUND
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

ASSETS	<u>2017</u>	<u>2016</u>
Cash and Investments	\$ 10,429,209	\$ 9,025,630
Cash Held by Fiscal Agent	150,901	150,830
Receivables		
Current Property Taxes	4,386,527	4,254,758
Delinquent Property Taxes	215,387	248,163
Due from Other Minnesota School Districts	189,755	239,613
Due from Minnesota Department of Education	6,132,085	5,926,120
Due from Federal through the Minnesota Department of Education	565,623	410,483
Due from Other Governmental Units	863,171	1,329,476
Accounts and Interest Receivable	323,461	230,149
Prepaid Items	168,892	157,712
Inventories	16,700	21,875
Total Assets	<u><u>\$ 23,441,711</u></u>	<u><u>\$ 21,994,809</u></u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
Liabilities		
Salaries Payable	\$ 2,100,568	\$ 1,994,891
Accounts and Contracts Payable	184,444	437,731
Due to Other Minnesota School Districts	150,546	101,158
Due to Other Governmental Units	325,536	276,593
Unearned Revenue - Charges for Services	155,577	117,302
Total Liabilities	<u>2,916,671</u>	<u>2,927,675</u>
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year	8,670,245	8,421,825
Unavailable Revenue - Delinquent Taxes	34,679	100,376
Total Deferred Inflows of Resources	<u>8,704,924</u>	<u>8,522,201</u>
Fund Balances (Deficit)		
Nonspendable		
Prepaid Items	168,892	157,712
Inventory	16,700	21,875
Restricted		
Deferred Maintenance	-	207,901
Health and Safety	-	41,109
Operating Capital	885,018	715,793
Learning and Development	462,549	241,058
Safe Schools - Crime	329,802	276,968
Staff Development	939,773	1,015,391
Long-Term Facilities Maintenance (LTFM)	349,765	-
Other Restricted	150,901	-
Assigned		
Q Comp	499,611	424,430
Unassigned	8,017,105	7,442,696
Total Fund Balances	<u>11,820,116</u>	<u>10,544,933</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u><u>\$ 23,441,711</u></u>	<u><u>\$ 21,994,809</u></u>

This Page Has Been Intentionally Left Blank.

**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, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	<u>2017</u>		<u>Over (Under) Final Budget</u>	<u>2016</u>
	<u>Final Budget</u>	<u>Actual Amounts</u>		<u>Actual Amounts</u>
REVENUES				
Local Sources				
Property Taxes	\$ 9,035,087	\$ 9,325,208	\$ 290,121	\$ 9,193,848
Earnings on Investments	23,000	78,904	55,904	22,002
Other	2,287,345	2,668,977	381,632	2,337,627
State Sources	64,434,512	65,099,985	665,473	63,044,374
Federal Sources	<u>2,224,725</u>	<u>2,252,790</u>	<u>28,065</u>	<u>2,301,338</u>
Total Revenues	78,004,669	79,425,864	1,421,195	76,899,189
EXPENDITURES				
Current				
Administration				
Salaries	1,910,886	1,934,921	24,035	1,816,881
Employee Benefits	812,388	870,114	57,726	805,752
Purchased Services	115,500	132,628	17,128	105,331
Supplies and Materials	6,050	5,580	(470)	5,788
Other Expenditures	<u>21,025</u>	<u>14,401</u>	<u>(6,624)</u>	<u>14,249</u>
Total Administration	2,865,849	2,957,644	91,795	2,748,001
District Support Services				
Salaries	773,755	796,003	22,248	699,831
Employee Benefits	335,620	347,702	12,082	321,113
Purchased Services	200,760	223,761	23,001	101,026
Supplies and Materials	195,539	182,382	(13,157)	136,577
Capital Expenditures	9,600	9,011	(589)	4,456
Other Expenditures	<u>41,330</u>	<u>31,779</u>	<u>(9,551)</u>	<u>17,117</u>
Total District Support Services	1,556,604	1,590,638	34,034	1,280,120
Elementary and Secondary				
Regular Instruction				
Salaries	21,990,645	21,675,617	(315,028)	21,069,896
Employee Benefits	7,541,926	7,528,532	(13,394)	7,942,163
Purchased Services	1,434,382	1,511,920	77,538	1,377,143
Supplies and Materials	1,358,974	1,389,196	30,222	1,448,539
Capital Expenditures	76,000	71,107	(4,893)	266,105
Other Expenditures	<u>10,870</u>	<u>4,119</u>	<u>(6,751)</u>	<u>27,300</u>
Total Elementary and Secondary Regular Instruction	32,412,797	32,180,491	(232,306)	32,131,146

**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, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	<u>2017</u>		<u>Over (Under) Final Budget</u>	<u>2016</u>
	<u>Final Budget</u>	<u>Actual Amounts</u>		<u>Actual Amounts</u>
EXPENDITURES (Continued)				
Current (Continued)				
Vocational Education Instruction				
Salaries	\$ 745,676	\$ 769,123	\$ 23,447	\$ 753,284
Employee Benefits	316,333	328,136	11,803	341,452
Purchased Services	27,100	7,990	(19,110)	4,142
Supplies and Materials	94,548	117,290	22,742	84,258
Capital Expenditures	-	-	-	11,199
Other Expenditures	-	250	250	-
Total Vocational Education Instruction	<u>1,183,657</u>	<u>1,222,789</u>	<u>39,132</u>	<u>1,194,335</u>
Special Education Instruction				
Salaries	12,126,962	12,389,835	262,873	11,780,080
Employee Benefits	5,182,309	5,135,299	(47,010)	5,186,547
Purchased Services	974,350	807,761	(166,589)	1,002,037
Supplies and Materials	162,584	156,318	(6,266)	111,783
Capital Expenditures	27,500	11,775	(15,725)	11,132
Other Expenditures	89,100	112,303	23,203	87,970
Total Special Education Instruction	<u>18,562,805</u>	<u>18,613,291</u>	<u>50,486</u>	<u>18,179,549</u>
Community Education				
Salaries	30,000	33,836	3,836	31,263
Employee Benefits	-	5,012	5,012	4,786
Total Community Education	<u>30,000</u>	<u>38,848</u>	<u>8,848</u>	<u>36,049</u>
Instructional Support Services				
Salaries	2,441,794	2,628,109	186,315	2,362,132
Employee Benefits	864,823	926,943	62,120	868,617
Purchased Services	794,542	337,867	(456,675)	496,173
Supplies and Materials	453,708	347,968	(105,740)	642,383
Capital Expenditures	539,236	538,029	(1,207)	343,856
Other Expenditures	-	668	668	-
Total Instructional Support Services	<u>5,094,103</u>	<u>4,779,584</u>	<u>(314,519)</u>	<u>4,713,161</u>
Pupil Support Services				
Salaries	1,470,209	1,429,401	(40,808)	1,284,816
Employee Benefits	461,756	576,701	114,945	576,811
Purchased Services	4,494,984	4,171,579	(323,405)	4,196,408
Supplies and Materials	69,809	86,059	16,250	74,627
Capital Expenditures	91,970	94,096	2,126	70,102
Other Expenditures	129	299	170	-
Total Pupil Support Services	<u>6,588,857</u>	<u>6,358,135</u>	<u>(230,722)</u>	<u>6,202,764</u>

**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, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	<u>2017</u>		Over (Under) Final Budget	<u>2016</u>
	<u>Final Budget</u>	<u>Actual Amounts</u>		<u>Actual Amounts</u>
EXPENDITURES (Continued)				
Current (Continued)				
Sites and Buildings				
Salaries	\$ 2,582,545	\$ 2,628,397	\$ 45,852	\$ 2,510,844
Employee Benefits	1,082,371	1,134,087	51,716	1,163,701
Purchased Services	2,138,000	2,543,599	405,599	2,375,509
Supplies and Materials	948,193	870,592	(77,601)	510,582
Capital Expenditures	2,169,649	1,761,361	(408,288)	3,569,665
Other Expenditures	93,900	93,977	77	-
Total Sites and Buildings	<u>9,014,658</u>	<u>9,032,013</u>	<u>17,355</u>	<u>10,130,301</u>
Fiscal and Other Fixed Cost Programs				
Purchased Services	325,000	325,399	399	304,376
Debt Service				
Principal Payments	817,398	798,323	(19,075)	709,149
Interest Payments	199,351	229,224	29,873	212,053
Total Debt Service	<u>1,016,749</u>	<u>1,027,547</u>	<u>10,798</u>	<u>921,202</u>
Total Expenditures	<u>78,651,079</u>	<u>78,126,379</u>	<u>(524,700)</u>	<u>77,841,004</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(646,410)	1,299,485	1,945,895	(941,815)
OTHER FINANCING SOURCES (USES)				
Transfers Out	(25,455)	(24,302)	1,153	(18,207)
Proceeds from Capital Leases	-	-	-	922,243
Total Other Financing Sources (Uses)	<u>(25,455)</u>	<u>(24,302)</u>	<u>1,153</u>	<u>904,036</u>
NET CHANGE IN FUND BALANCE	<u>\$ (671,865)</u>	1,275,183	<u>\$ 1,947,048</u>	(37,779)
FUND BALANCE				
Beginning of Year		<u>10,544,933</u>		<u>10,582,712</u>
END OF YEAR		<u>\$ 11,820,116</u>		<u>\$ 10,544,933</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
FOOD SERVICE FUND
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	2017	2016
ASSETS		
Cash and Investments	\$ 432,943	\$ 203,842
Receivables		
Due from Federal through the Minnesota Department of Education	3,256	24,021
Inventory	90,612	101,650
Prepaid Items	13,592	6,000
Total Assets	\$ 540,403	\$ 335,513
LIABILITIES AND FUND BALANCE		
Liabilities		
Salaries Payable	\$ 80,947	\$ 74,785
Accounts and Contracts Payable	3,249	4,130
Due to Other Governmental Units	185	-
Unearned Revenue - Charges for Services	1,514	710
Total Liabilities	85,895	79,625
Fund Balance		
Nonspendable		
Prepaid Items	13,592	6,000
Inventory	90,612	101,650
Restricted		
Other Restricted	350,304	148,238
Total Fund Balances	454,508	255,888
Total Liabilities and Fund Balance	\$ 540,403	\$ 335,513

**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, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	<u>2017</u>		<u>Over (Under) Final Budget</u>	<u>2016</u>
	<u>Final Budget</u>	<u>Actual Amounts</u>		<u>Actual Amounts</u>
REVENUES				
Local Sources				
Earnings on Investments	\$ 150	\$ 1,765	\$ 1,615	\$ 212
Other - Primarily Meal Sales	1,384,870	1,397,202	12,332	1,388,876
State Sources	195,200	212,004	16,804	196,179
Federal Sources	1,885,700	1,959,223	73,523	1,964,135
Total Revenues	<u>3,465,920</u>	<u>3,570,194</u>	<u>104,274</u>	<u>3,549,402</u>
EXPENDITURES				
Current				
Salaries	973,789	966,072	(7,717)	988,410
Employee Benefits	592,413	581,500	(10,913)	652,501
Purchased Services	98,770	71,383	(27,387)	66,503
Supplies and Materials	1,660,151	1,747,648	87,497	1,677,148
Capital Expenditures	-	4,866	4,866	-
Other Expenditures	-	105	105	-
Total Expenditures	<u>3,325,123</u>	<u>3,371,574</u>	<u>46,451</u>	<u>3,384,562</u>
NET CHANGE IN FUND BALANCE	<u>\$ 140,797</u>	198,620	<u>\$ 57,823</u>	164,840
FUND BALANCE (DEFICIT)				
Beginning of Year		<u>255,888</u>		<u>91,048</u>
END OF YEAR		<u>\$ 454,508</u>		<u>\$ 255,888</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
COMMUNITY SERVICE FUND
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	2017	2016
ASSETS		
Cash and Investments	\$ 2,101,691	\$ 1,802,099
Receivables		
Current Property Taxes	271,507	270,011
Delinquent Property Taxes	15,610	18,259
Due from Minnesota Department of Education	81,172	65,529
Due from Federal Government through the Minnesota Department of Education	5,436	3,671
Due from Other Governmental Units	210	-
Prepaid Items	35	-
Total Assets	\$ 2,475,661	\$ 2,159,569
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES		
Liabilities		
Salaries Payable	\$ 135,304	\$ 99,936
Accounts and Contracts Payable	14,173	6,868
Unearned Revenue - Charges for Services	37,328	32,313
Total Liabilities	186,805	139,117
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Year	572,129	572,179
Unavailable Revenue - Delinquent Taxes	15,610	18,259
Total Deferred Inflows of Resources	587,739	590,438
Fund Balances		
Nonspendable		
Prepaid Items	35	-
Restricted		
Community Education Programs	949,380	963,729
Early Childhood and Family Education Programs	518,998	429,469
School Readiness	228,651	34,877
Other Restricted	4,053	1,939
Total Fund Balances	1,701,117	1,430,014
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 2,475,661	\$ 2,159,569

**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, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	2017		Over (Under) Final Budget	2016
	Final Budget	Actual Amounts		Actual Amounts
REVENUES				
Local Sources				
Property Taxes	\$ 568,558	\$ 570,177	\$ 1,619	\$ 570,700
Earnings on Investments	3,500	14,102	10,602	3,511
Other - Primarily Tuition and Fees	1,669,713	1,889,700	219,987	1,756,938
State Sources	743,290	749,583	6,293	575,019
Federal Sources	5,435	5,436	1	3,671
Total Revenues	2,990,496	3,228,998	238,502	2,909,839
EXPENDITURES				
Current				
Salaries	1,927,055	1,994,327	67,272	1,797,710
Employee Benefits	616,171	580,285	(35,886)	513,734
Purchased Services	146,960	116,618	(30,342)	81,942
Supplies and Materials	312,738	281,453	(31,285)	328,605
Other Expenditures	1,500	1,260	(240)	1,275
Capital Outlay	31,300	8,254	(23,046)	30,496
Total Expenditures	3,035,724	2,982,197	(53,527)	2,753,762
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(45,228)	246,801	292,029	156,077
OTHER FINANCING SOURCES				
Transfer In	25,455	24,302	(1,153)	18,207
NET CHANGE IN FUND BALANCE	\$ (19,773)	271,103	\$ 290,876	174,284
FUND BALANCE				
Beginning of Year		1,430,014		1,255,730
END OF YEAR		\$ 1,701,117		\$ 1,430,014

BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
BUILDING CONSTRUCTION FUND
JUNE 30, 2017
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)

	2017	2016
ASSETS		
Cash and Investments	\$ -	\$ 199,274
FUND BALANCES		
Fund Balances		
Restricted		
Alternative Facilities Program	\$ -	\$ 199,274

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
BUILDING CONSTRUCTION FUND
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	2017	2016
REVENUES		
Local Sources		
Earnings on Investments	\$ 844	\$ 268
EXPENDITURES		
Capital Outlay	-	678,921
DEFICIENCY OF REVENUES OVER EXPENDITURES	844	(678,653)
OTHER FINANCING SOURCES		
Transfers Out	(200,118)	-
NET CHANGE IN FUND BALANCE	(199,274)	(678,653)
Fund Balance - Beginning of Year	199,274	877,927
FUND BALANCE - END OF YEAR	\$ -	\$ 199,274

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
BALANCE SHEET
DEBT SERVICE FUNDS
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	2017	2016
ASSETS		
Cash and Investments	\$ 6,916,038	\$ 6,607,951
Receivables		
Current Property Taxes	4,326,807	4,294,226
Delinquent Property Taxes	240,529	280,523
Due from Minnesota Department of Education	6,281	5,779
Total Assets	\$ 11,489,655	\$ 11,188,479
DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES		
Deferred Inflows of Resources		
Property Taxes Levied for Subsequent Years	\$ 9,117,612	\$ 9,099,972
Deferred Revenue - Delinquent Taxes	240,529	280,523
Total Deferred Inflows of Resources	9,358,141	9,380,495
Fund Balances		
Restricted		
Restricted for Debt Service	2,131,514	1,807,984
Total Deferred Inflows of Resources and Fund Balances	\$ 11,489,655	\$ 11,188,479

**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, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	<u>2017</u>		<u>Over (Under) Final Budget</u>	<u>2016</u>
	<u>Final Budgeted Amounts</u>	<u>Actual Amounts</u>		<u>Actual Amounts</u>
REVENUES				
Local Sources				
Property Tax	\$ 9,054,340	\$ 9,064,296	\$ 9,956	\$ 8,976,334
Earnings on Investments	6,900	35,506	28,606	10,429
State Sources	45,631	62,803	17,172	57,790
Total Revenues	<u>9,106,871</u>	<u>9,162,605</u>	<u>55,734</u>	<u>9,044,553</u>
EXPENDITURES				
Debt Service				
Bond Principal	6,780,000	6,780,000	-	6,570,000
Bond Interest	2,258,795	2,259,193	398	2,471,095
Total Expenditures	<u>9,038,795</u>	<u>9,039,193</u>	<u>398</u>	<u>9,041,095</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	68,076	123,412	55,336	3,458
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>200,000</u>	<u>200,118</u>	<u>118</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ 268,076</u>	323,530	<u>\$ 55,454</u>	3,458
Fund Balance - Beginning of Year		<u>1,807,984</u>		<u>1,804,526</u>
FUND BALANCE - END OF YEAR		<u>\$ 2,131,514</u>		<u>\$ 1,807,984</u>

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
COMPLIANCE TABLE
JUNE 30, 2017**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenues	\$ 79,425,864	\$ 79,425,860	\$ 4	Total Revenues	\$ 844	\$ 844	\$ -
Total Expenditures	\$ 78,126,379	\$ 78,126,375	\$ 4	Total Expenditures	\$ -	\$ -	\$ -
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
460 Non Spendable Fund Balance	\$ 185,592	\$ 185,592	\$ -	460 Non Spendable Fund Balance			
<i>Restricted/Reserve:</i>				<i>Restricted/Reserve:</i>			
403 Staff Development	\$ 939,773	\$ 939,773	\$ -	407 Capital Projects Levy	\$ -	\$ -	\$ -
406 Health & Safety	\$ -	\$ -	\$ -	409 Alternative Fac. Program	\$ -	\$ -	\$ -
407 Capital Project Levy	\$ -	\$ -	\$ -	413 Project Funded by COP	\$ -	\$ -	\$ -
408 Cooperative Rev.	\$ -	\$ -	\$ -	<i>Restricted:</i>			
409 Deferred Maintenance	\$ -	\$ -	\$ -	464 Restricted Fund Balance	\$ -	\$ -	\$ -
414 Operating Debt	\$ -	\$ -	\$ -	<i>Unassigned:</i>			
416 Levy Reduction	\$ -	\$ -	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
419 Encumbrances	\$ -	\$ -	\$ -	07 DEBT SERVICE			
423 Certain Teacher Programs	\$ -	\$ -	\$ -	Total Revenues	\$ 6,535,985	\$ 6,535,985	\$ -
424 Operating Capital	\$ 885,018	\$ 885,018	\$ -	Total Expenditures	\$ 6,466,228	\$ 6,466,230	\$ (2)
426 \$25 Taconite	\$ -	\$ -	\$ -	<i>Non Spendable:</i>			
427 Disabled Accessibility	\$ -	\$ -	\$ -	460 Non Spendable Fund Balance	\$ -	\$ -	\$ -
428 Learning & Development	\$ 462,549	\$ 462,549	\$ -	<i>Restricted/Reserve:</i>			
434 Area Learning Center	\$ -	\$ -	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
435 Contracted Alt. Programs	\$ -	\$ -	\$ -	451 QZAB Payments	\$ -	\$ -	\$ -
436 St. Approved Alt. Prog.	\$ -	\$ -	\$ -	<i>Restricted:</i>			
438 Gifted & Talented	\$ -	\$ -	\$ -	464 Restricted Fund Balance	\$ 1,596,166	\$ 1,596,165	\$ 1
441 Basic Skills	\$ -	\$ -	\$ -	<i>Unassigned</i>			
443 Telecomm. Access Cost	\$ -	\$ -	\$ -	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
446 First Grade Preparedness	\$ -	\$ -	\$ -	08 TRUST			
449 Safe Schools Levy	\$ 329,802	\$ 329,802	\$ -	Total Revenues	\$ -	\$ -	\$ -
450 Pre-Kindergarten	\$ -	\$ -	\$ -	Total Expenditures	\$ -	\$ -	\$ -
451 QZAB Payments	\$ -	\$ -	\$ -	422 Net Position	\$ -	\$ -	\$ -
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -	20 INTERNAL SERVICE			
453 Unfunded Sev & Retirement Levy	\$ -	\$ -	\$ -	Total Revenues	\$ 13,532,021	\$ 13,532,021	\$ -
467 LTFM	\$ 349,765	\$ 349,765	\$ -	Total Expenditures	\$ 13,893,124	\$ 13,893,124	\$ -
<i>Restricted:</i>				422 Net Position	\$ 5,626,168	\$ 5,626,168	\$ -
464 Restricted Fund Balance	\$ 150,901	\$ 150,901	\$ -	25 OPEB REVOCABLE TRUST			
<i>Assigned:</i>				Total Revenues	\$ -	\$ -	\$ -
462 Assigned Fund Balance	\$ 499,611	\$ 499,611	\$ -	Total Expenditures	\$ -	\$ -	\$ -
<i>Unassigned:</i>				422 Net Position	\$ -	\$ -	\$ -
422 Unassigned Fund Balance	\$ 8,017,105	\$ 8,017,105	\$ -	45 OPEB IRREVOCABLE TRUST			
02 FOOD SERVICE				Total Revenues	\$ 1,886,914	\$ 1,886,914	\$ -
Total Revenues	\$ 3,570,194	\$ 3,570,195	\$ (1)	Total Expenditures	\$ 2,236,367	\$ 2,236,367	\$ -
Total Expenditures	\$ 3,371,574	\$ 3,371,575	\$ (1)	422 Net Position	\$ 24,216,747	\$ 24,216,747	\$ -
<i>Non Spendable:</i>				47 OPEB DEBT SERVICE			
460 Non Spendable Fund Balance	\$ 104,204	\$ 104,204	\$ -	Total Revenues	\$ 2,626,620	\$ 2,626,620	\$ -
<i>Restricted</i>				Total Expenditures	\$ 2,572,965	\$ 2,572,965	\$ -
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -	<i>Non Spendable:</i>			
464 Restricted Fund Balance	\$ 350,304	\$ 350,304	\$ -	460 Non Spendable Fund Balance			
<i>Unassigned:</i>				<i>Restricted:</i>			
463 Unassigned Fund Balance	\$ -	\$ -	\$ -	425 Bond Refundings	\$ -	\$ -	\$ -
04 COMMUNITY SERVICE				464 Restricted Fund Balance	\$ 535,348	\$ 535,348	\$ -
Total Revenues	\$ 3,228,998	\$ 3,228,993	\$ 5	<i>Unassigned:</i>			
Total Expenditures	\$ 2,982,197	\$ 2,982,195	\$ 2	463 Unassigned Fund Balance	\$ -	\$ -	\$ -
<i>Non Spendable:</i>							
460 Non Spendable Fund Balance	\$ 35	\$ 35	\$ -				
<i>Restricted/Reserve:</i>							
426 \$25 Taconite	\$ -	\$ -	\$ -				
431 Community Education	\$ 949,380	\$ 949,380	\$ -				
432 E.C.F.E.	\$ 518,998	\$ 518,998	\$ -				
444 School Readiness	\$ 228,651	\$ 228,651	\$ -				
447 Adult Basic Education	\$ -	\$ -	\$ -				
452 OPEB Liab. Not in Trust	\$ -	\$ -	\$ -				
<i>Restricted:</i>							
464 Restricted Fund Balance	\$ 4,053	\$ 4,050	\$ 3				
<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 Independent School District No. 181 (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 27, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control as deficiency 2017-001 described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness.

Compliance and Other Matters

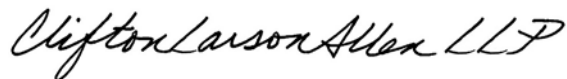
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 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.

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
November 27, 2017

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, 2017. 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, 2017.

Report on Internal Control Over Compliance

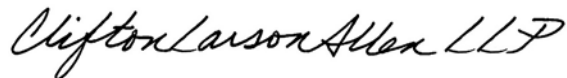
Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

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
November 27, 2017

This Page Has Been Intentionally Left Blank.

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

FEDERAL AGENCY/ PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	PASS-THROUGH GRANTOR'S NUMBER	FEDERAL EXPENDITURES
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through Minnesota Department of Education:			
Fresh Fruit and Vegetable Program	10.582	N/A	\$ 13,831
Child Nutrition Cluster:			
Non-Cash Assistance (Commodities):			
National School Lunch Program	10.555	N/A	\$ 189,830
Cash Assistance:			
School Breakfast Program	10.553	N/A	370,983
National School Lunch Program	10.555	N/A	1,264,591
Commodity Cash Rebate Program	10.555	N/A	64,496
Summer Food Service Program	10.559	N/A	55,492
Cash Assistance Subtotal			<u>1,755,562</u>
Total Child Nutrition Cluster:			<u>1,945,392</u>
Total U.S. Department of Agriculture			1,959,223
U.S. DEPARTMENT OF EDUCATION			
Passed Through Minnesota Department of Education:			
Cash Assistance:			
Adult Basic Education Formula Revenue	84.002	N/A	5,436
Title II, Part A - Improving Teacher Quality	84.367	S367A160022	242,372
Carl Perkins Vocational and Applied Technology	84.048	N/A	21,646
Title I, Part A	84.010	S010A160023A	1,581,375
Nonclustered Programs Subtotal			
Passed Through Paul Bunyan Education Co-op			
Special Education Cluster:			
Special Education	84.027	H027A160087	357,456
Discretionary Professional Development	84.027	H027A160087	49,684
Special Education Preschool Grants	84.173	H027A160087	256
Special Education Cluster Subtotal			<u>407,396</u>
Total U.S. Department of Education			<u>2,258,225</u>
Total Federal Awards Expended			<u>\$ 4,217,448</u>

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 District did not pass federal funds to subrecipients.

Note 5:

The total of CFDA #10.555 is \$1,518,917. The total of CFDA #84.027 is \$407,140.

This Page Has Been Intentionally Left Blank.

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 Independent School District No. 181 (the District), Minnesota, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's financial statements as listed in the table of contents and have issued our report thereon dated November 27, 2017.

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions and uniform financial accounting and reporting standards. 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*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above-referenced provisions.

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



CliftonLarsonAllen LLP

Brainerd, Minnesota
November 27, 2017

**BRAINERD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 181
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

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? yes X 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)? yes X no

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555, 10.556, and 10.559	Child Nutrition Cluster

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, 2017**

B. FINDINGS – FINANCIAL STATEMENT AUDIT

Finding 2017-001 – Financial Statement Preparation

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 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 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.

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

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person: Steve Lund, Director of Business Services

Corrective Action Plan: A corrective action plan is in place.

Anticipated Completion Date: June 30, 2018.

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

None noted

D. FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

None noted