

**West Central Education District
Sauk Centre, Minnesota**

Financial Statements

June 30, 2017



**West Central Education District
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**West Central Education District
Governing Board and Administration
June 30, 2017**

<u>Governing Board</u>	<u>Position</u>	<u>District Represented</u>
Don Winkels	Chairperson	Albany
Lew Storkamp	Vice Chairperson	Paynesville
Sarah Abel	Clerk/Treasurer	Sauk Centre
Kris Winter	Director	Melrose
Pat Westby	Ex Officio	Sauk Centre
Greg Johnson	Ex Officio	Albany
Thomas Rich	Ex Officio	Melrose
Robert Huot	Ex Officio	Paynesville

Administration

Laurie Fevig

Independent Auditor's Report

To the Governing Board
West Central Education District
Sauk Centre, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and General Fund of West Central Education District, Sauk Centre, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of West Central Education District, Sauk Centre, Minnesota, as of June 30, 2017, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, which follows this report letter, and the Required Supplementary Information 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 Governmental Accounting Standards Board (GASB), who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information identified in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements.



Other Matters (Continued)

Other Information

The accompanying supplementary information identified in the Table of Contents 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 accompanying supplementary information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2017, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Bergan KDV, Ltd.

St. Cloud, Minnesota
October 6, 2017

West Central Education District Management's Discussion and Analysis

FINANCIAL HIGHLIGHTS

- Overall revenues for the year were \$3,668,275. Expenditures were \$3,573,943.
- The District meets regularly with the superintendents and finance staff of the member districts to discuss allocations of federal and local dollars to be used for local expenditures. This process has been useful in maintaining quality communication amongst all the participating finance groups.
- The District continues to use the services of the Minnesota School District Liquid Asset Fund (MSDLAF) in order to maximize the return on monies in reserve in the fund balance.
- The District is working on a model to assist in estimating tuition billing revenue in an attempt to be closer to actual revenue.

Government-Wide Statements

The government-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 and deferred outflows of resources; and 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 government-wide statements report the District's net position and how they have changed. Net position – the difference between the District's assets and deferred outflows of resources; and liabilities and deferred inflows of resources – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial position is improving or deteriorating, respectively.

In the government-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 alternative regular education, special education, and administration. Federal and state aids finance most of these activities, with the rest coming from fee for services billed back to member districts.

Fund Financial Statements

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

Governmental Funds – 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.

**West Central Education District
Management's Discussion and Analysis**

**Statement of Net Position/ Governmental Activities
As of June 30, 2017 (with comparable June 30, 2016 data)**

	June 30, 2017	June 30, 2016
Assets		
Cash and investments	\$ 486,733	\$ 444,113
Due from Department of Education	137,652	98,439
Due from Federal Government	614,112	345,814
Due from other Minnesota school districts	21,366	314,724
Prepaid items	2,450	3,151
Equipment	23,919	31,362
Total assets	1,286,232	1,237,603
 Deferred Outflows of Resources		
Deferred outflows of resources related to pensions	5,186,102	486,662
Total assets and deferred outflows of resources	\$ 6,472,334	\$ 1,724,265
 Liabilities		
Accounts payable	\$ 14,260	\$ 11,200
Salaries and benefits payable	251,928	237,585
Due to other Minnesota school districts	197,343	252,859
Unearned revenue	680	827
Compensated absences payable within one year	4,099	3,952
Compensated absences payable after one year	12,299	11,855
Severance payable after one year	23,529	21,304
Net other post employment benefits (OPEB) obligation	111,557	83,047
Net pension liability	8,025,536	2,095,692
Total liabilities	8,641,231	2,718,321
 Deferred Inflows of Resources		
Deferred inflows of resources related to pensions	79,250	255,463
 Net Position		
Invested in capital assets	23,919	31,362
Restricted for Other Purposes	4,961	-
Unrestricted	(2,277,027)	(1,280,881)
Total net position	(2,248,147)	(1,249,519)
Total liabilities, deferred inflows of resources, and net position	\$ 6,472,334	\$ 1,724,265

**West Central Education District
Management's Discussion and Analysis**

**Statement of Activities/ Governmental Activities
As of June 30, 2017 (with comparable June 30, 2016 data)**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
Revenues		
Charges for services	\$ 1,561,349	\$ 1,533,412
Operating grants and contributions	2,046,055	2,148,797
Aids and other payments from state	140,583	47,356
Other sources	14,811	14,127
Total revenues	<u>3,762,798</u>	<u>3,743,692</u>
Expenses		
Administration	26,350	27,872
District support services	40,616	40,276
Regular instruction	467,723	332,811
Vocational education instruction	2,474	2,890
Special education services	4,215,577	3,240,365
Instructional support services	-	6,800
Pupil support services	1,338	1,900
Fiscal and other fixed cost program	7,348	6,909
Total expenses	<u>4,761,426</u>	<u>3,659,823</u>
Change in net position	<u>\$ (998,628)</u>	<u>\$ 83,869</u>

Fund Balance

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of \$798,102. This is an increase of \$94,332 from the District's June 30, 2016, combined fund balance total that was \$703,770.

**West Central Education District
Management's Discussion and Analysis**

**Statement of Revenue, Expenditures, and Changes in Fund
Balances – Governmental Fund
Fiscal Year Ended June 30, 2017 (with comparable June 30, 2016 data)**

	2016-2017	2015-2016
Revenues		
Other local and county revenues	\$ 1,576,160	\$ 1,547,539
Revenue from state sources	877,068	832,093
Revenue from federal sources	1,215,047	1,364,060
Total revenues	3,668,275	3,743,692
Expenditures		
Current		
Administration	26,350	27,872
District support services	40,516	40,176
Elementary and secondary regular instruction	349,533	328,869
Special education instruction	3,148,858	3,215,048
Instructional support services	-	6,000
Pupil support services	1,338	1,900
Fiscal and other fixed cost programs	7,348	6,909
Capital outlay		
Special education instruction	-	23,089
Total expenditures	3,573,943	3,649,863
Net change in fund balances	94,332	93,829
Fund Balance		
Beginning of year	703,770	609,941
End of year	\$ 798,102	\$ 703,770

Further Discussion

The three primary revenue sources for the District include the Federal allocation, member district billing, and tuition for special education programs operated by the District. The total federal allocation had a slight increase in FY17 after a preliminary amount which would have been an overall decrease in the total allocation.

West Central Education District Management's Discussion and Analysis

Further Discussion (Continued)

Revenue from the member districts are calculated for three areas: Operational- all expenditures which cannot be federal or state; ALC usage- recapturing general education expenditures; and Purchase of Service for the related service providers within their district. There is also a one-time bill sent to each district which includes the expenditures for all summer programming which are overseen by the District. Operational was consistent with budgeted amounts, however, ALC usage was up for FY 17 and a new salary schedule for certified and non-certified resulted in a significant increase for Purchase of Service.

Although the tuition revenue has appeared to have unanticipated adjustments over the years, through some in-depth investigating and work with MDE, the formula has an adjustment factor which ultimately uses an average cost per hour instead of actual cost per hour. Understanding this formula and sending in a request to use actual should eliminate the ambiguity of the tuition revenue.

In order to fully comply with Minnesota Department of Education's directive to match Uniform Financial Accounting and Reporting Standards (UFARS) and EDRS entries, the Education District did a clean-up bill to address budgeted vs actual expenditures.

The General Fund balance increased by \$94,332 from the prior year. The District's operating revenues were higher during the 2016-2017 fiscal year than in previous fiscal year primarily because of adjustments in billing to local districts. The majority of our spending is related to salaries, benefits, supplies, and equipment that are needed to allow students to derive educational benefit from specialized instruction and/or accommodations. Since we are an organization that is service oriented, it is not surprising to see the majority of expenditures in salaried positions and benefits.

Budget to Actual: In regards to the Revenue budget to actual, the primary impacts were understanding tuition billing and member district billing increased to cover general education staff expenditures at the ALC. In regards to the Expenditure budget to actual, the primary impact included the certified and non-certified staff salary increases which were not anticipated.

Capital Assets: Capital assets decreased by \$7,443 mostly due to accumulated depreciation and disposal of outdated equipment. Total for FY16 was \$31,362 and FY17 was \$23,919.

The District's fund balance increased in the past year. The current fund balance is in line with suggested recommendations made during previous audits. During subsequent years, we will be working to maintain the fund balance at current levels in order to decrease impact on local district's budgets.

Currently, in my opinion, the District's overall financial status is in good condition, but the prospects for the future still seem to me to be dependent upon the overall economy and stabilization of state and federal aid. The board will also want to monitor the effects of modified funding formulas from the State, and the potential impact on fiscal stability.

Respectfully submitted by,
Laurie S. Fevig
Executive Director

West Central Education District Management's Discussion and Analysis

Definitions

Elementary and Secondary Regular Instruction – Expenditures for all activities dealing directly with the teaching of pupils, the interaction between teachers and pupils in the classroom and co-curricular activities at the kindergarten, elementary and secondary levels. This does not include special education instruction.

Special Education Instruction – Expenditures for instruction of students who, because of atypical characteristics or conditions, are provided educational programs that are different from regular instructional programs. This includes expenditures for special instruction of students who are emotionally or psychologically disabled or mentally handicapped, for students with physical, hearing, speech, and visual impairments and for students with special learning and behavior problems.

Instructional Support Services – Expenditures for activities intended to help teachers provide instruction, not including expenditures for administration. This includes expenditures for assistant principals, curriculum development, libraries, media centers, audiovisual support, staff development, and computer-assisted instruction.

Pupil Support Services – Expenditures for all non-instructional services provided to students, not including transportation and food service. This includes expenditures for counseling, guidance, health services, psychological services and attendance and social work services.

BASIC FINANCIAL STATEMENTS

West Central Education District
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and investments	\$ 486,733
Due from Department of Education	137,652
Due from Federal Government	614,112
Due from other Minnesota School Districts	21,366
Prepaid items	2,450
Capital assets	
Equipment, net of accumulated depreciation	23,919
Total assets	1,286,232
 Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	5,186,102
Total assets and deferred outflows of resources	\$ 6,472,334
 Liabilities	
Accounts payable	\$ 14,260
Salaries and benefits payable	251,928
Due to other Minnesota School Districts	197,343
Unearned revenue	680
Compensated absences payable	
Payable within one year	4,099
Payable after one year	12,299
Severance payable	
Payable after one year	23,529
Net other post employment benefits (OPEB) obligation	111,557
Net pension liability	8,025,536
Total liabilities	8,641,231
 Deferred Inflows of Resources	
Deferred inflows of resources related to pensions	79,250
 Net Position	
Invested in capital assets	23,919
Restricted for	
Other purposes	4,961
Unrestricted	(2,277,027)
Total net position	(2,248,147)
Total liabilities, deferred inflows of resources, and net position	\$ 6,472,334

See notes to financial statements.

**West Central Education District
Statement of Activities
Year Ended June 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (expense) Revenues And Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental activities					Governmental Activities
Administration	\$ 26,350	\$ -	\$ -	\$ -	\$ (26,350)
District support services	40,616	-	-	-	(40,616)
Elementary and secondary regular instruction	467,723	253,995	-	-	(213,728)
Vocational education instruction	2,474	-	-	-	(2,474)
Special education instruction	4,215,577	1,307,354	2,046,055	-	(862,168)
Pupil support services	1,338	-	-	-	(1,338)
Fiscal and other fixed cost programs	7,348	-	-	-	(7,348)
Total governmental activities	\$ 4,761,426	\$ 1,561,349	\$ 2,046,055	\$ -	(1,154,022)
General revenues					
Taxes					
State aid-formula grants					
Other general revenues					
Investment income					
Total general revenues					
Change in net position					
Net position - beginning					
Net position - ending					

See notes to financial statements.

**West Central Education District
Balance Sheet - Governmental Fund
June 30, 2017**

	General
Assets	
Cash and investments	\$ 486,733
Due from Department of Education	137,652
Due from Federal Government	614,112
Due from other Minnesota School Districts	21,366
Prepaid items	2,450
Total assets	\$ 1,262,313
Liabilities	
Accounts payable	\$ 14,260
Salaries and benefits payable	251,928
Due to other Minnesota School Districts	197,343
Unearned revenue	680
Total liabilities	464,211
Fund Balance	
Nonspendable	2,450
Restricted	4,961
Unassigned	790,691
Total fund balances	798,102
Total liabilities and fund balance	\$ 1,262,313

**West Central Education District
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Fund
June 30, 2017**

Total fund balance - governmental fund	\$ 798,102
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.</p>	
Cost of capital assets	290,896
Less accumulated depreciation	(266,977)
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.</p>	
<p>Long-term liabilities at year-end consist of:</p>	
Compensated absences payable	(16,398)
Severance payable	(23,529)
Net OPEB obligation	(111,557)
Net pension liability	(8,025,536)
<p>Deferred outflows of resources and deferred inflows of resources are created as a result of various differences related to pensions that are not recognized in the governmental funds.</p>	
Deferred outflows of resources related to pensions	5,186,102
Deferred inflows of resources related to pensions	(79,250)
	(79,250)
Total net position - governmental activities	\$ (2,248,147)

**West Central Education District
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Governmental Fund
Year Ended June 30, 2017**

	General
Revenues	
Other local and county revenues	\$ 1,576,160
Revenue from state sources	877,068
Revenue from federal sources	1,215,047
Total revenues	3,668,275
 Expenditures	
Current	
Administration	26,350
District support services	40,516
Elementary and secondary regular instruction	349,533
Special education instruction	3,148,858
Pupil support services	1,338
Fiscal and other fixed cost programs	7,348
Total expenditures	3,573,943
Net change in fund balances	94,332
 Fund Balance	
Beginning of year	703,770
End of year	\$ 798,102

**West Central Education District
 Reconciliation of the Statement of Revenues,
 Expenditures, and Change in Fund Balance to the
 Statement of Activities - Governmental Fund
 Year Ended June 30, 2017**

Net change in fund balance - total governmental fund \$ 94,332

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

Capital outlays are reported in governmental funds as expenditures. However,
 in the Statement of Activities, the cost of those assets is allocated over the
 estimated useful lives as depreciation expense.

Depreciation expense (7,443)

Net post employment benefit obligations are recognized as paid in the
 Governmental funds but recognized as the expense is incurred in the
 Statement of Activities.

(28,510)

Compensated absences and severance are recognized as paid in the
 Governmental funds but recognized as the expense is incurred in the
 Statement of Activities.

(2,816)

Governmental funds recognize pension contributions as expenditures at the time of
 payment whereas the Statements of Activities factors in items related to pensions on
 a full accrual perspective.

State aid related to pension expense 94,523
 Pension expense (1,148,714)

Change in net position - governmental activities \$ (998,628)

**West Central Education District
Statement of Revenues, Expenditures, and
Change in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Over (Under)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Other local and county revenues	\$ 1,537,716	\$ 1,551,283	\$ 1,576,160	\$ 24,877
Revenue from state sources	643,936	855,783	877,068	21,285
Revenue from federal sources	1,283,760	1,265,290	1,215,047	(50,243)
Total revenues	<u>3,465,412</u>	<u>3,672,356</u>	<u>3,668,275</u>	<u>(4,081)</u>
Expenditures				
Current				
Administration	30,000	30,000	26,350	(3,650)
District support services	39,450	39,450	40,516	1,066
Elementary and secondary regular instruction	328,818	344,960	349,533	4,573
Special education instruction	3,145,453	3,219,039	3,148,858	(70,181)
Pupil support services	2,300	2,300	1,338	(962)
Fiscal and other fixed cost programs	7,800	7,800	7,348	(452)
Total expenditures	<u>3,553,821</u>	<u>3,643,549</u>	<u>3,573,943</u>	<u>(69,606)</u>
Net change in fund balances	<u>\$ (88,409)</u>	<u>\$ 28,807</u>	94,332	<u>\$ 65,525</u>
Fund Balance				
Beginning of year			<u>703,770</u>	
End of year			<u>\$ 798,102</u>	

West Central Education District Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates for the purpose of providing educational instruction to students of the District's member districts.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the more significant policies.

A. Reporting Entity

For financial reporting purposes, the District includes all funds that are controlled by or dependent on the District's Governing Board. Control by or dependence on the Governing Board was determined on the basis of budget adoption, taxing authority, outstanding debt secured by the District, and obligation of the District to finance any deficits that may occur. These financial statements represent the District, the primary government. The District has no component units. The District membership consists of the following Independent School Districts:

- Albany
- Melrose
- Paynesville
- Sauk Centre

B. Basic Financial Statement Information

The government-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.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. 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 a 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 that function. Depreciation expense relating to assets that serve multiple functions is presented as unallocated depreciation in the Statement of Activities. Interest on general long-term debt is considered an indirect expense and is reported separately in the Statement of Activities. The effect of interfund activity has been removed from these statements.

Separate fund financial statements are provided for the governmental fund.

**West Central Education District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. 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. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and accounting principles generally accepted in the United States of America. *Minnesota Statutes* include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within 60 days.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are compensated absences and claims and judgments are recognized when payment is due.

The District applies restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. Further, the District applies unrestricted funds in this order if various levels of unrestricted fund balances exist: committed, assigned, and unassigned.

Description of Fund:

Major Fund:

General Fund – This Fund is the basic operating fund of the District and is used to account for all financial resources.

D. Deposits and Investments

Deposits and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law.

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

**West Central Education District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

Cash and investments at June 30, 2017, were comprised of deposits and shares in the Minnesota School District Liquid Asset Fund (MSDLAF). MSDLAF is valued at amortized cost, which approximates fair value.

Minnesota Statutes requires all deposits be protected by federal depository insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by Federal Deposit Insurance Corporation (FDIC) insurance or corporate surety bonds.

Minnesota Statutes authorizes the District to invest in obligations of the U.S. Treasury, agencies and instrumentalities, shares of investment companies whose only investments are in the aforementioned securities, obligations of the State of Minnesota or its municipalities, bankers' acceptances, future contracts, repurchase, and reverse repurchase agreements and commercial paper of the highest quality with a maturity of no longer than 270 days.

In accordance with GASB Statement No. 79, the various MSDLA securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF. Investments in the MSDLAF MAX must be deposited for a minimum of 14 calendar days with the exception of direct investments of funds distributed by the State of Minnesota. Withdrawals prior to the 14-day restriction period may be subject to a penalty and there is a 24 hour hold on all requests for redemptions. MSDLAF+ Term investments have a maturity of 60 days to one year and early withdrawal may result in substantial early redemption penalties.

E. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. Prepaid items are recorded as an expenditure at the time of consumption.

F. Capital Assets

Capital assets are recorded in the government-wide financial statements, but are not reported in the fund financial statements.

Capital assets are defined by the District as assets with an initial individual cost of more than \$1,250. Such 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 its acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 5 to 15 years for equipment.

The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots.

**West Central Education District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred outflows of resources related to pensions is reported in the government-wide Statement of Net Position. Deferred outflows of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

In addition to liabilities, the Statement of Financial Position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred inflows of resources related to pensions is recorded on the government-wide statements for various estimate differences that will be amortized and recognized over future years.

H. Compensated Absences

District employees are entitled to sick leave at the rate of 15 days per year and accumulate to a maximum of 100 days. Support staff employed over 15 years are paid 25% of accumulated sick leave at termination.

I. Severance Payable

Severance pay shall be available to an administrator that has completed at least ten years of service with the District.

J. 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.

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

**West Central Education District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries to employees for which the District carries commercial insurance. Settled claims have not exceeded this commercial coverage in any of the past three years. There were no significant reductions in the District's insurance coverage during the year ending June 30, 2017.

L. Fund Equity

In the fund financial statements, governmental funds report various levels of spending constraints.

- Nonspendable Fund Balances – These are amounts that cannot be spent because they are not in spendable form as they are legally or contractually required to be maintained intact and include fund balances related to inventory and prepaid expenditures, for example. The District balance for prepaid items was \$2,450 at year-end.
- Restricted Fund Balances – These are subject to externally enforceable legal restrictions.
- Committed Fund Balances – The government's highest level of decision making authority is the Governing Board. Committed fund balances can only be established through formal action taken by the Governing Board.
- Assigned Fund Balances – The Executive Director and the Business Manager are authorized by the Governing Board to assign fund balances for specific purposes.
- Unassigned Fund Balances – Resources that have not been restricted, committed, or assigned.
- Minimum Fund Balance Policy – The District's policy is to maintain a minimum unassigned General Fund balance of one month of operating expenditures. Replenishing the fund balance when it falls below the targeted level shall be accomplished through budget reductions.

M. Net Position

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

N. Use of Estimates

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

**West Central Education District
Notes to Financial Statements**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Budgetary Information

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to July 1, the Director submits to the District's Governing Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Prior to July 1, the Director submits to the District's Governing Board, a proposed operating budget for the year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
3. The Director is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the District's Governing Board.
4. Formal budgetary integration is employed as a management control device during the year for the General Fund.
5. Budgets for the General Fund are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
6. Budgets are as originally adopted or as amended by the District's Governing Board. Budgeted expenditure appropriations lapse at year-end.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Deposits

In accordance with applicable *Minnesota Statutes*, the District maintains deposits at depository banks authorized by the Governing Board.

Custodial Credit Risk – Deposits: This is the risk that in the event of a bank failure, the district's deposits may not be returned to it. The district has a deposit policy that requires the District's deposits to be collateralized as required by *Minnesota Statutes* 118a.03 for an amount exceeding Federal Deposit Insurance Corporation (FDIC), SAIF, BIF, or NCUA coverage. As of June 30, 2017, the District's bank balance of \$332,948 was not exposed to custodial credit risk because it was insured and fully collateralized with securities held by the pledging financial institution's trust department or agent and in the District's name. The District's book balance at year-end was \$263,535.

**West Central Education District
Notes to Financial Statements**

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

Investments at June 30, 2017 were comprised of shares in the MSDLAF and MSDLAF Max Series.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy requires their investments to be rated "A" or better for any security which is a federal obligation of any state or local government and "AA" or better for any security which is a revenue obligation of any state or local government as required by *Minnesota Statutes* 118A.04. The District's investments in MSDLAF and MSDMAX were both rated AAAM by Standard & Poor's (S&P). The balance at year-end was \$223,198.

Concentration of Credit Risk: Limits the amount the District may invest in any one issuer. The District's policy states the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. The District's investments in MSDLAF and MSDMAX were not exposed to concentration of credit risk as these investments were in an external pool and were exempt from this risk.

Interest Rate Risk: Managing exposure to fair value arising from increasing interest rates. The District's investments policy states the District should manage their interest rates in a manner to attain a market rate of return through various economic and budgetary cycles and taking into account constraints on risk and cash flow requirements.

Custodial Credit Risk – Investments: For an investment, this is the risk that in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investment policy states all investment securities shall be held in third party safekeeping by a designated custodial agent

The following is a summary of total deposits and investments:

Deposits (Note 3.A.)	\$ 263,535
Investments (Note 3.B.)	<u>223,198</u>
Total deposits and investments	<u><u>\$ 486,733</u></u>

Deposits and investments in the June 30, 2017, basic financial statements were as follows:

Statement of Net Position	<u><u>\$ 486,733</u></u>
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**West Central Education District
Notes to Financial Statements**

NOTE 3 – CAPITAL ASSETS

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets being depreciated				
Equipment	\$ 291,823	\$ -	\$ 927	\$ 290,896
Less accumulated depreciation for Equipment	<u>260,461</u>	<u>7,443</u>	<u>927</u>	<u>266,977</u>
Governmental activities, capital assets, net	<u>\$ 31,362</u>	<u>\$ (7,443)</u>	<u>\$ -</u>	<u>\$ 23,919</u>

Depreciation expense of \$7,443 for the year ended June 30, 2017, was charged to the following governmental functions:

District support services	\$ 100
Elementary and secondary regular instruction	2,291
Vocational education instruction	2,474
Special education instruction	<u>2,578</u>
Total depreciation expense	<u>\$ 7,443</u>

NOTE 4 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	<u>Balance Outstanding</u>	<u>Due Within One Year</u>
Compensated absences	\$ 16,398	\$ 4,099
Severance payable	<u>23,529</u>	<u>-</u>
Total	<u>\$ 39,927</u>	<u>\$ 4,099</u>

**West Central Education District
Notes to Financial Statements**

NOTE 4 – LONG-TERM DEBT (CONTINUED)

B. Changes in Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Long-term liabilities				
Compensated absences	\$ 15,807	\$ 3,178	\$ 2,587	\$ 16,398
Severance payable	<u>21,304</u>	<u>2,225</u>	<u>-</u>	<u>23,529</u>
 Total long-term liabilities	 <u>\$ 37,111</u>	 <u>\$ 5,403</u>	 <u>\$ 2,587</u>	 <u>\$ 39,927</u>

The General Fund typically liquidates the liabilities related to compensated absences and severance payable.

NOTE 5 – FUND BALANCES

Fund Equity

Fund equity balances are classified as follows to reflect the limitations and restrictions of respective funds.

	<u>General Fund</u>
Nonspendable - prepaid items	\$ 2,450
Restricted for Medical Assistance	4,961
Unassigned	<u>790,691</u>
 Total	 <u>\$ 798,102</u>

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2017 was \$1,302,239. The components of pension expense are noted in the following plan summaries.

Teachers' Retirement Association

A. Plan Description

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

**West Central Education District
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

A. Plan Description (Continued)

Teachers employed in Minnesota's public elementary and secondary school, charter schools and certain educational institutions maintained by the state (except those teachers employed by the cities of Duluth and St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by 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

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

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

Tier 1 Benefits

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

With these provisions:

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

**West Central Education District
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

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 is applied. 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 Statute*. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

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

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

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

C. Contribution Rate

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

	<u>Employee</u>	<u>Employer</u>
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

**West Central Education District
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

C. Contribution Rate (Continued)

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

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

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

D. Actuarial Assumptions

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

**West Central Education District
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation date	July 1, 2016
Experience study	June 5, 2015
Actuarial cost method	Entry Age Normal
Actuarial assumptions	
Investment rate of return	4.66%, from the single equivalent interest rate calculation
Price inflation	2.75%
Wage growth rate	3.50%
Projected salary increase	3.50-9.50%
Cost of living adjustment	2.00%

Mortality Assumption

Pre-retirement	RP 2014 white collar employee table, male rates set back six years and female rates set back five years. Generational projection uses the MP 2015 scale.
Post-retirement	RP 2014 white collar annuitant table, male rates set back three years and female rates set back three years, with further adjustments of set rates. Generational projections uses the MP 2015 scale.
Post-disability	RP 2014 disabled retiree mortality table, without adjustment.

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

**West Central Education District
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

Asset Class	Target	Long-Term Expected Real Rate of Return
Domestic stocks	45 %	5.50 %
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Unallocated cash	2	0.50
Total	<u>100 %</u>	

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

E. Discount Rate

The discount rate used to measure the total pension liability was 4.66%. This is a decrease from the discount rate at the prior measurement date of 8.00%. 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 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 the prior year measurement date, the discount rate of 8.00% was used and it was not necessary to calculate the SEIR.

F. Net Pension Liability

On June 30, 2017, the District reported a liability of \$7,489,649 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to TRA in relation to total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. District proportionate share was 0.0314% at the end of the measurement period and 0.0286% for the beginning of the year.

**West Central Education District
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

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

District's proportionate share of net pension liability	\$ 7,489,649
State's proportionate share of the net pension liability associated with the District	752,815

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

For the year ended June 30, 2017, the District recognized pension expense of \$1,230,758. Of that amount, \$105,118 was recognized as an increase to pension expense for the support provided by direct aid.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 71,860	\$ 210
Net difference between projected and actual earnings on plan investments	315,474	-
Changes of assumptions	4,260,384	-
Changes in proportion	196,861	31,332
Contributions to TRA subsequent to the measurement date	<u>120,678</u>	<u>-</u>
Total	<u>\$ 4,965,257</u>	<u>\$ 31,542</u>

\$120,678 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.

**West Central Education District
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

Other amounts reported as deferred outflows of resources and (deferred inflows of resources) will be recognized in pension expense as follows:

2018	\$ 956,283
2019	956,284
2020	1,058,568
2021	982,450
2022	859,452
Total	\$ 4,813,037

G. Pension Liability Sensitivity

The following presents the District's proportionate share of the net pension liability calculated using the discount rate of 4.66% as well as the liability measured using 1% lower and 1% higher.

District proportionate share of NPL		
1% decrease (3.66%)	Current (4.66%)	1% increase (5.66%)
\$ 9,648,540	\$ 7,489,649	\$ 5,731,303

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

H. Pension Plan Fiduciary Net Position

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

Public Employees' Retirement Association

A. Plan Description

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

**West Central Education District
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

A. Plan Description (Continued)

General Employees Retirement Plan (General Employees Plan (accounted for in the General Employees Fund))

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

B. Benefits Provided

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

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

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

General Employees Plan Benefits

General Employees Plan benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). 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 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.

**West Central Education District
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

C. Contributions

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

General Employees Fund Contributions

Coordinated Plan members were required to contribute 6.5%, of their annual covered salary in fiscal year 2017. The District was required to contribute 7.5% for Coordinated Plan members in fiscal year 2017. The District's contributions to the General Employees Fund for the year ended June 30, 2017, were \$32,847. The District's contributions were equal to the required contributions as set by state statute.

D. Pension Costs

General Employees Fund Pension Costs

At June 30, 2017, the District reported a liability of \$535,887 for its proportionate share of the General Employees Fund's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing entity and the State's contribution meets the definition of a special funding situation. The State of Minnesota's proportionate share of the net pension liability associated with the District totaled \$7,013. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.0066%, which was a decrease of 0.0003% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$120,678 for its proportionate share of the General Employees Plan's pension expense. Of that amount, the District recognized \$2,091 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.

**West Central Education District
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

D. Pension Costs (Continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,562	\$ 43,010
Changes in actuarial assumptions	115,417	-
Difference between projected and actual investments earnings	59,358	-
Change in proportion	11,661	4,698
Contributions paid to PERA subsequent to the measurement date	32,847	-
Total	\$ 220,845	\$ 47,708

\$32,847 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 inflows of resources related to pensions will be recognized in pension expense as follows:

2018	\$ 38,859
2019	26,805
2020	55,268
2021	19,358
Total	\$ 140,290

E. Actuarial Assumptions

The total pension liability in the June 30, 2016, actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions:

Inflation	2.50 % Per year
Active member payroll growth	3.25 % Per year
Investment rate of return	7.50 %

**West Central Education District
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be 1% 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.

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic stocks	45%	5.50 %
International stocks	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
	<hr/>	
Total	<u>100%</u>	

**West Central Education District
Notes to Financial Statements**

NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

F. Discount Rates

The discount rate used to measure the total pension liability in 2016 was 7.5%, 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 was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

G. Pension Liability Sensitivity

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	\$ 761,119	\$ 535,887	\$ 350,358

Pension Plan Fiduciary Net Position

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

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides a single-employer defined benefit health care plan to eligible retirees and their spouses. The plan offers medical coverage. Medical coverage is administered by BlueCross BlueShield. It is the District's policy to periodically review its medical coverage, and to obtain requests for proposals in order to provide the most favorable benefits and premiums for District employees and retirees.

B. Funding Policy

Retirees and their spouses contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with BlueCross BlueShield. The required contributions are based on projected pay-as-you-go financing requirements. For year 2017, the District contributed \$36,719 to the plan. As of June 30, 2017, there were two retirees receiving health benefits from the District's health plan.

**West Central Education District
Notes to Financial Statements**

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation

The District's annual other post employment benefits (OPEB) cost (expense) is calculated based on the annual required contribution (ARC) of the District, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The District prospectively implemented this Statement during the 2010 year. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The following table shows the components of the District's annual OPEB cost of the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

	\$ 66,616
Interest on net OPEB obligation	3,322
Adjustment to ARC	(4,709)
Annual OPEB cost (expense)	65,229
Contributions made	(36,719)
Increase in net OPEB obligation	28,510
Net OPEB obligation - beginning of year	83,047
Net OPEB obligation - end of year	\$ 111,557

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2017 was as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/17	\$ 65,229	\$ 36,719	56%	\$ 111,557
06/30/16	30,343	23,454	77%	83,047
06/30/15	30,636	6,266	20%	76,158

D. Funded Status and Funding Progress

As of July 1, 2014, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$246,302 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$246,302. The covered payroll (annual payroll of active employees covered by the plan) was \$1,669,081 and the ratio of the UAAL to the covered payroll was 14.8%.

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the plan and the ARC of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

**West Central Education District
Notes to Financial Statements**

NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

The Schedule of Funding Progress – Other Post Employment Benefits, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

At the July 1, 2014 actuarial valuation date, the projected unit credit funding method was used. The actuarial assumptions included a 4.0% discount rate. The District currently does not plan to prefund for this benefit. At the actuarial valuation date, the annual health care cost trend rate was calculated to be 7.5% initially, reduced incrementally to an ultimate rate of 5% after ten years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2014, was 30 years.

NOTE 8 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED

GASB has issued GASB statement 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

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REQUIRED SUPPLEMENTARY INFORMATION

West Central Education District
Schedule of Funding Progress - Other Post Employment Benefits
June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
07/01/14	\$ -	\$ 246,302	\$ 246,302	0.0%	\$ 1,669,081	14.8%
07/01/11	-	75,440	75,440	0.0%	1,468,283	5.1%
07/01/08	-	67,793	67,793	0.0%	1,561,751	4.3%

**West Central Education District
Schedule of District's and Non-Employer Proportionate Share
(if Applicable) of Net Pension Liability
Last Ten Years GERS Retirement Funds**

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0065%	\$ 305,337	\$ -	\$ 305,337	\$ 343,531	88.9%	78.8%
2015	0.0063%	326,499	-	326,499	363,733	89.8%	78.2%
2016	0.0066%	535,887	7,013	542,900	412,493	129.9%	68.9%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of District's and Non-Employer Proportionate Share
(if Applicable) of Net Pension Liability
Last Ten Years TRA Retirement Funds**

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Proportionate Share of State of Minnesota's Proportionated Share of the Net Pension Liability	Proportionate Share of the Net Pension Liability and District's Share of the State of Minnesota's Share of the Net Pension Liability	District's Covered Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0308%	\$ 1,419,242	\$ 4,360	\$ 1,423,602	\$1,437,529	98.7%	81.5%
2015	0.0286%	1,769,193	38,355	1,807,548	1,410,880	125.4%	76.8%
2016	0.0314%	7,489,649	752,815	8,242,464	1,632,160	458.9%	44.9%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**West Central Education District
Schedule of District Contributions
GERF Retirement Funds
Last Ten Years**

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 24,906	\$ 24,906	\$ -	\$ 343,531	7.25%
2015	27,280	27,280	-	363,733	7.50%
2016	30,937	30,937	-	412,493	7.50%
2017	32,847	32,847	-	437,960	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

**Schedule of District Contributions
TRA Retirement Funds
Last Ten Years**

For Fiscal Year Ended June 30,	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contributions	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percentage of Covered Payroll
2014	\$ 100,627	\$ 100,627	\$ -	\$ 1,437,529	7.00%
2015	105,816	105,816	-	1,410,880	7.50%
2016	122,412	122,412	-	1,632,160	7.50%
2017	120,678	120,678	-	1,609,040	7.50%

Note: Schedule is intended to show ten year trend. Additional years will be reported as they become available.

West Central Education District
Notes to the Required Supplementary Information

TRA Retirement Funds

2016 Changes

Changes in Actuarial Assumptions

- The COLA was not assumed to increase for funding or the GASB calculation. It remained at 2% for all future years.
- The price inflation assumption was lowered from 3% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.5%.
- Minor changes as some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP 2014 white collar employee table, male rates set back six years, and female rates set back five years. Generational projection uses the MP 2015 scale.
- The post-retirement mortality assumption was changed to the RP 2014 white collar annuitant table, male rates set back three years, and female rates set back three years, with further adjustments of the rates. Generational projection uses the MP 2015 scale.
- The post-disability mortality assumption was changed to the RP 2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989, were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional form of annuity payment at retirement were made.

2015 Changes

Changes of Benefit Terms

- The DTRFA was merged into TRA on June 30, 2015.

Changes in Actuarial Assumptions

- The annual COLA for the June 30, 2015, valuation assumed 2%. The prior year valuation used 2% with an increase to 2.5% commencing in 2034. The discount rate used to measure the total pension liability was 8.0%. This is a decrease from the discount rate at the prior measurement date of 8.25%.

General Employees Fund

2016 Changes

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2035 and 2.5% per year thereafter to 1.0% per year for all future years.
- 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, the inflation were decreased by 0.25% to 3.25% for payroll growth and 2.50% for inflation.

West Central Education District
Notes to the Required Supplementary Information

2015 Changes

Changes in Plan Provisions

- On January 1, 2015, the Minneapolis Employees Retirement Fund was merged into the General Employees Fund, which increased the total pension liability by \$1.1 billion and increased the fiduciary plan net position by \$892 million. Upon consolidation, state and employer contributions were revised.

Changes in Actuarial Assumptions

- The assumed post-retirement benefit increase rate was changed from 1.0% per year through 2030 and 2.5% per year thereafter to 1.0% per year through 2035 and 2.5% per year thereafter.

SUPPLEMENTARY INFORMATION

West Central Education District
Uniform Financial Accounting and Reporting Standards
Compliance Table
Year Ended June 30, 2017

	Audit	UFARS	Audit- UFARS		Audit	UFARS	Audit- UFARS
01 General Fund				06 Building Construction Fund			
Total revenue	\$ 3,668,275	\$ 3,668,275	\$ -	Total revenue	\$ -	\$ -	\$ -
Total expenditures	3,573,943	3,573,944	(1)	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	2,450	2,450	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/reserved:</i>				<i>Restricted/reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
406 Health and Safety	-	-	-	409 Alternative Facility Program	-	-	-
407 Capital Projects Levy	-	-	-	413 Building Projects Funded By COpop/LP	-	-	-
408 Cooperative Programs	-	-	-	<i>Restricted:</i>			
409 Alternative Facility Program	-	-	-	464 Restricted fund balance	-	-	-
413 Building Projects Funded by COP/LP	-	-	-	<i>Unassigned:</i>			
414 Operating Debt	-	-	-	463 Unassigned fund balance	-	-	-
416 Levy Reduction	-	-	-	07 Debt Service Fund			
417 Taconite Building Maintenance	-	-	-	Total revenue	\$ -	\$ -	\$ -
424 Operating Capital	-	-	-	Total expenditures	-	-	-
426 \$25 Taconite	-	-	-	<i>Nonspendable:</i>			
427 Disabled Accessibility	-	-	-	460 Nonspendable fund balance	-	-	-
428 Learning and Development	-	-	-	<i>Restricted/reserved:</i>			
434 Area Learning Center	-	-	-	425 Bond Refundings	-	-	-
435 Contracted Alternative Programs	-	-	-	451 QZAB And QSCB payments	-	-	-
436 State Approved Alternative Program	-	-	-	<i>Restricted:</i>			
438 Gifted and Talented	-	-	-	464 Restricted fund balance	-	-	-
440 Teacher Development and Evaluation	-	-	-	<i>Unassigned:</i>			
441 Basic Skills Programs	-	-	-	463 Unassigned fund balance	-	-	-
445 Career Technical Programs	-	-	-	08 Trust Fund			
448 Achievement and Integration Revenue	-	-	-	Total revenue	\$ -	\$ -	\$ -
449 Safe School Crime	-	-	-	Total expenditures	-	-	-
450 Transition for Pre-kindergarten	-	-	-	<i>Unassigned:</i>			
451 QZAB and QSCB Payments	-	-	-	422 Unassigned fund balance (net position)	-	-	-
452 OPEB liabilities not held in trust	-	-	-	20 Internal Service Fund			
453 Unfunded Severance and Retirement Levy	-	-	-	Total revenue	\$ -	\$ -	\$ -
467 Long-term Facilities Maintenance	-	-	-	Total expenditures	-	-	-
472 Medical Assistance	4,961	4,961	-	<i>Unassigned:</i>			
<i>Restricted:</i>				422 Unassigned fund balance (net position)	-	-	-
464 Restricted fund balance	-	-	-	25 OPEB Revocable Trust			
<i>Committed:</i>				Total revenue	\$ -	\$ -	\$ -
418 Committed for separation	-	-	-	Total expenditures	-	-	-
461 Committed	-	-	-	<i>Unassigned:</i>			
<i>Assigned:</i>				422 Unassigned fund balance (net position)	-	-	-
462 Assigned fund balance	-	-	-	45 OPEB Irrevocable Trust			
<i>Unassigned:</i>				Total revenue	\$ -	\$ -	\$ -
422 Unassigned fund balance (net position)	790,691	790,689	2	Total expenditures	-	-	-
02 Food Services Fund				<i>Unassigned:</i>			
Total revenue	\$ -	\$ -	\$ -	422 Unassigned fund balance (net position)	-	-	-
Total expenditures	-	-	-	47 OPEB Debt Service			
<i>Nonspendable:</i>				Total revenue	\$ -	\$ -	\$ -
460 Nonspendable fund balance	-	-	-	Total expenditures	-	-	-
<i>Restricted/reserved:</i>				<i>Nonspendable:</i>			
452 OPEB liabilities not held in trust	-	-	-	425 Bond refundings	-	-	-
<i>Restricted:</i>				460 Nonspendable fund balance	-	-	-
464 Restricted fund balance	-	-	-	<i>Restricted:</i>			
<i>Unassigned:</i>				464 Restricted fund balance	-	-	-
463 Unassigned fund balance	-	-	-	<i>Unassigned:</i>			
04 Community Service Fund				463 Unassigned fund balance	-	-	-
Total revenue	\$ -	\$ -	\$ -	05 OPEB Revocable Trust			
Total expenditures	-	-	-	Total revenue	\$ -	\$ -	\$ -
<i>Nonspendable:</i>				Total expenditures	-	-	-
460 Nonspendable fund balance	-	-	-	<i>Unassigned:</i>			
<i>Restricted/reserved:</i>				422 Unassigned fund balance (net position)	-	-	-
426 \$25 Taconite	-	-	-	45 OPEB Irrevocable Trust			
431 Community Education	-	-	-	Total revenue	\$ -	\$ -	\$ -
432 ECFE	-	-	-	Total expenditures	-	-	-
440 Teacher Development and Evaluation	-	-	-	<i>Nonspendable:</i>			
444 School Readiness	-	-	-	425 Bond refundings	-	-	-
447 Adult Basic Education	-	-	-	460 Nonspendable fund balance	-	-	-
452 OPEB liabilities not held in trust	-	-	-	<i>Restricted:</i>			
<i>Restricted:</i>				464 Restricted fund balance	-	-	-
464 Restricted fund balance	-	-	-	<i>Unassigned:</i>			
<i>Unassigned:</i>				463 Unassigned fund balance	-	-	-
463 Unassigned fund balance	-	-	-				

**West Central Education District
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017**

Federal Funding Source	Federal CFDA Number	Grant Name	Expenditures
Through Minnesota Department of Education			
USDOED	84.027	Federal Special Education	\$ 1,040,443
USDOED	84.027	Individuals with Disabilities Part B	116,834
USDOED	84.173	Disabled Early Education	42,061
Total Federal Special Education Cluster			<u>1,199,338</u>
Through Minnesota Department of Education			
USDOED	84.181	Infants and Toddlers	<u>15,711</u>
Total federal expenditures			<u>\$ 1,215,049</u>

The District provided federal awards to sub recipients as follows:

Program Title/Subrecipients	Federal CFDA Number	Amount Provided to Subrecipients
Special Education - Federal Special Education		
Independent School District No. 740 - Melrose	84.027	\$ 19,389
Independent School District No. 741 - Paynesville	84.027	16,000
Independent School District No. 743 - Sauk Centre	84.027	26,583
Independent School District No. 745 - Albany	84.027	16,708
Total Special Education - Federal Special Education		<u>\$ 78,680</u>
Special Education - Coordinated Early Intervening Services		
Independent School District No. 740 - Melrose	84.027	\$ 12,453
Independent School District No. 741 - Paynesville	84.027	25,419
Independent School District No. 743 - Sauk Centre	84.027	38,961
Independent School District No. 745 - Albany	84.027	40,000
Total Special Education - Coordinated Early Intervening Services		<u>\$ 116,833</u>

West Central Education District
Notes to the Schedule of Expenditures of Federal Awards

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – PASS-THROUGH GRANT NUMBERS

All pass-through entities listed above use the same CFDA numbers as the federal grantors to identify these grants and have not assigned any additional identifying numbers.

NOTE 3 – INDIRECT COST RATE

The District did not elect to use the 10 percent de minimis indirect cost rate.

**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***

Independent Auditor's Report

To the Governing Board
West Central Education District
Sauk Centre, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and General Fund of West Central Education District, Sauk Centre, Minnesota, as of and for the year ending June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 6, 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 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.



Internal Control over Financial Reporting

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance that we consider to be material weaknesses, listed as 2002-001 and 2007-001.

Compliance and Other Matters

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

District's Response to the Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

BergankDV, Ltd.

St. Cloud, Minnesota
October 6, 2017

**Report on Compliance for Each Major Federal Program and on Internal
Control over Compliance Required By the Uniform Guidance**

Independent Auditor's Report

To the Governing Board
West Central Education District
Sauk Centre, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the compliance of West Central Education District, Sauk Centre, Minnesota, with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs in Accordance with the Uniform Guidance.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on 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 of 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, West Central Education 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 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.

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

Bergan KDV, Ltd.

St. Cloud, Minnesota
October 6, 2017

**West Central Education District
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION I – SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes, Audit Findings 2002-001 and 2007-001
• Significant deficiency(ies) identified?	No
Noncompliance material to financial statements noted?	No

Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified
Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	No
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516?	No

Identification of Major Programs

CFDA No.:	84.027 and 84.173
Name of Federal Program or Cluster:	Individuals with Disabilities Education Act (Cluster)
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low risk auditee?	No

**West Central Education District
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS

Audit Finding 2002-001 – Lack of Segregation of Accounting Duties

Criteria or Specific Requirement:

Internal control that supports the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements requires adequate segregation of accounting duties.

Condition:

The District does not have adequate segregation of accounting duties.

Questioned Costs:

None

Context:

This finding impacts the internal control for all significant accounting functions.

Effect:

The lack of adequate segregation of accounting duties could adversely affect the District's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements.

Cause:

There are a limited number of office employees.

Recommendation:

Continue to review the accounting system, including changes that may occur. Implement segregation whenever practical.

Management's Response:

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding

Administration will continually review current segregation of accounting duties to determine if further segregation is possible.

3. Official Responsible for Ensuring CAP

Laurie Fevig, Director, is the official responsible for ensuring corrective action of the deficiency.

**West Central Education District
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2002-001 – Lack of Segregation of Accounting Duties (Continued)

Management's Response: (Continued)

CORRECTIVE ACTION PLAN (CAP) (Continued)

4. Planned Completion Date for CAP
The completion of the CAP is ongoing.
5. Plan to Monitor Completion of CAP
The Governing Board will monitor this CAP.

Audit Finding 2007-001 – Preparation of Financial Statements

Criteria or Specific Requirement:

The District does not have a process and the related internal control established to provide for the preparation of the financial statements.

Condition:

The District management has requested BerganKDV, Ltd. Draft the financial statements and accompanying notes to financial statements.

Questioned Costs:

None

Context:

This finding impacts the internal control for all financial statement and related disclosures.

Effect:

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

Cause:

District office employees have not had the training necessary to ensure financial statements are prepared in their entirety.

Recommendation:

Continue to train District office employees on financial statement presentation issues.

**West Central Education District
Schedule of Findings and Questioned Costs
in Accordance with the Uniform Guidance**

SECTION II – FINANCIAL STATEMENT FINDINGS (CONTINUED)

Audit Finding 2007-001 – Preparation of Financial Statements (Continued)

Management's Response:

CORRECTIVE ACTION PLAN (CAP)

1. Explanation of Disagreement with Audit Finding
There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding
The District will continue to contract with an outside firm to prepare its financial statements. District management will seek training to increase its knowledge regarding preparation of the financial statements.

3. Official Responsible for Ensuring CAP
Laurie Fevig, Director, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP
The completion of the CAP is ongoing.

5. Plan to Monitor Completion of CAP
The Governing Board will monitor this CAP.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

There were no federal award findings or questioned cost.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

None.



Report on Legal Compliance

Independent Auditor's Report

To the Governing Board
West Central Education District
Sauk Centre, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the General Fund of West Central Education District, Sauk Centre, Minnesota, as of and for the year ended June 30, 2016, and the related notes to financial statements, and have issued our report thereon dated October 6, 2017.

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

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

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

Bergan KDV, Ltd.

St. Cloud, Minnesota
October 6, 2017