

**Independent School District No. 879
Delano, Minnesota**

Financial Statements

June 30, 2017



Independent School District No. 879
Table of Contents

Board of Education and Administration	1
Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	18
Statement of Activities	19
Fund Financial Statements	
Balance Sheet – Governmental Funds	20
Reconciliation of the Balance Sheet to the Statement of Net Position – Governmental Funds	21
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities – Governmental Funds	23
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	24
Statement of Fiduciary Net Position	25
Statement of Changes in Fiduciary Net Position	25
Notes to Financial Statements	27
Required Supplementary Information	
Schedule of Funding Progress – Other Post Employment Benefits	62
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability General Employee Retirement Fund	63
Schedule of District's and Non-Employer Proportionate Share of Net Pension Liability TRA Retirement Fund	63
Schedule of District Contributions General Employee Retirement Fund	64
Schedule of District Contributions TRA Retirement Fund	64
Notes to the Required Supplementary Information	65
Supplementary Information	
Combining Balance Sheet – Nonmajor Governmental Funds	68
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds	69
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Detail General Fund	70
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Detail Food Service Fund	73
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Detail Community Service Fund	74
Uniform Financial Accounting and Reporting Standards Compliance Table	75

Independent School District No. 879
Table of Contents

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	77
Report on Legal Compliance	79
Schedule of Finding and Corrective Action Plan on Legal Compliance and Internal Control	80

Independent School District No. 879
Board of Education and Administration
June 30, 2017

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Amy Johnson	Chairperson	December 31, 2020
Mark Larson	Vice Chairperson	December 31, 2018
Carolyn Milano	Clerk	December 31, 2018
Lisa Seguin	Treasurer	December 31, 2018
Alan Briesemeister	Director	December 31, 2020
Rachel Depa	Director	December 31, 2020
Corey Black	Director	December 31, 2018

<u>Administration</u>	
Matthew Schoen	Superintendent
Mary Reeder	Business Manager

Independent Auditor's Report

To the School Board
Independent School District No. 879
Delano, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 879, Delano, 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, each major fund, and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of June 30, 2017, and the respective changes in financial position thereof, and the 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, 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 supplementary information identified in the Table of Contents is 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 is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 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.

Report on Summarized Comparative Information

The financial statements include partial year comparative information. Such information does not include all of the information required to constitute a presentation in accordance with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the District's financial statements for the year ended June 30, 2016, from which such partial information was derived.

We also have previously audited the District's 2016 basic financial statements and our report, dated November 9, 2016, expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in dark ink that reads 'BerganKDV Ltd.' followed by a period.

Minneapolis, Minnesota
November 7, 2017

Independent School District No. 879 Management's Discussion and Analysis

This section of Independent School District No. 879, Delano Public Schools' annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

The Management's Discussion and Analysis (MD&A) is an element of Required Supplementary Information specified in the Governmental Accounting Standard Board's (GASB) Statement No. 34 – Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments issued in June 1999. Certain comparative information between the current year (2016-2017) and the prior year (2015-2016) is required to be presented in the MD&A.

FINANCIAL HIGHLIGHTS

- *General Fund 01:* - The overall fund balance increased by \$1,709,049.
- *Food Service Fund 02:* - The overall fund balance increased by \$58,389.
- *Community Service Fund 04:* - The overall fund balance decreased by \$56,403.
- *Debt Service Fund 07:* - The overall fund balance increased by \$425,445.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The following outline shows how the various parts of this annual report are arranged and related to one another.

- A. Management's Discussion and Analysis
- B. Basic Financial Statements
 - 1. Government-Wide Financial Statements
 - 2. Fund Financial Statements

Independent School District No. 879 Management's Discussion and Analysis

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Government-Wide Financial 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, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two 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 is an indicator of whether its financial position is improving or deteriorating, respectively.

To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

In the 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 regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

Fund Financial Statements

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

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

The District has two kinds of funds:

- **Governmental Funds** – Most of the District's basic services are included in governmental funds, which generally focus on:
 - (1) How cash and other financial assets that can readily be converted to cash flow in and out, and
 - (2) The balances left at year-end that are available for spending.

**Independent School District No. 879
Management's Discussion and Analysis**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

Fund Financial Statements (Continued)

- **Governmental Funds (Continued)**
Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- **Fiduciary Funds** – The District is the trustee, or fiduciary, for assets that belong to others. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the government-wide financial statements because it cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

	Governmental Activities 2017	2016	Percentage Change
Assets			
Current and other assets	\$ 67,201,746	\$ 83,604,924	-19.62%
Capital assets	49,834,886	26,661,429	86.92%
Total assets	117,036,632	110,266,353	6.14%
Deferred Outflows of Resources	33,579,947	3,179,557	956.12%
Liabilities			
Current liabilities	12,671,983	7,097,925	78.53%
Long-term liabilities	78,619,235	81,932,908	-4.04%
Net pension liability and OPEB obligation	53,537,615	15,134,072	253.76%
Total liabilities	144,828,833	104,164,905	39.04%
Deferred Inflows of Resources	9,716,804	10,865,616	-10.57%
Net Position			
Invested in capital assets,			
Net of related debt	7,049,433	4,841,802	45.60%
Restricted	3,021,701	2,264,768	33.42%
Unrestricted	(14,000,192)	(8,691,181)	61.09%
Net position	<u>\$ (3,929,058)</u>	<u>\$ (1,584,611)</u>	<u>147.95%</u>

The District's combined net position was (\$3,929,058) on June 30, 2017, a decrease of \$2,344,447, which was due in large part to the pension expense related to the state-wide plans.

Independent School District No. 879
Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The following Table A-2 presents the Change in Net Position of the District:

	Governmental Activities for the Fiscal Year Ended June, 30		Total Percentage Change
	2017	2016	
Revenues			
Program revenues			
Charges for services	\$3,082,916	\$3,032,760	1.65%
Operating grants and contributions	4,568,914	4,318,592	5.80%
Capital grants and contributions	3,055	25,297	-87.92%
General revenues			
Property taxes	9,482,776	5,001,844	89.59%
State aid-formula grants	19,211,951	17,470,637	9.97%
Investment earnings	420,414	192,736	118.13%
Other	-	6,441	0.00%
Total revenues	<u>36,770,026</u>	<u>30,048,307</u>	<u>22.37%</u>
Expenditures			
Administration	1,485,548	1,125,778	31.96%
District support services	1,080,189	1,084,491	-0.40%
Elem & sec regular instruction	17,495,060	12,299,641	42.24%
Vocational education instruction	492,317	352,519	39.66%
Special education instruction	5,031,749	3,694,470	36.20%
Instructional support services	1,725,565	1,092,348	57.97%
Pupil support services	2,439,275	2,222,542	9.75%
Sites and buildings	2,244,074	4,331,189	-48.19%
Fiscal and other fixed cost programs	103,182	93,071	10.86%
Food service	1,053,092	999,839	5.33%
Community education and services	2,704,696	2,437,193	10.98%
Unallocated depreciation	763,446	775,395	-1.54%
Interest and fiscal charges on long-term debt	2,496,280	1,360,165	83.53%
Total expenditures	<u>39,114,473</u>	<u>31,868,641</u>	<u>22.74%</u>
Increase/(decrease) in net position	(2,344,447)	(1,820,334)	28.79%
Beginning of year net position	<u>(1,584,611)</u>	<u>235,723</u>	<u>-772.23%</u>
End of year net position	<u>\$ (3,929,058)</u>	<u>\$ (1,584,611)</u>	<u>147.95%</u>

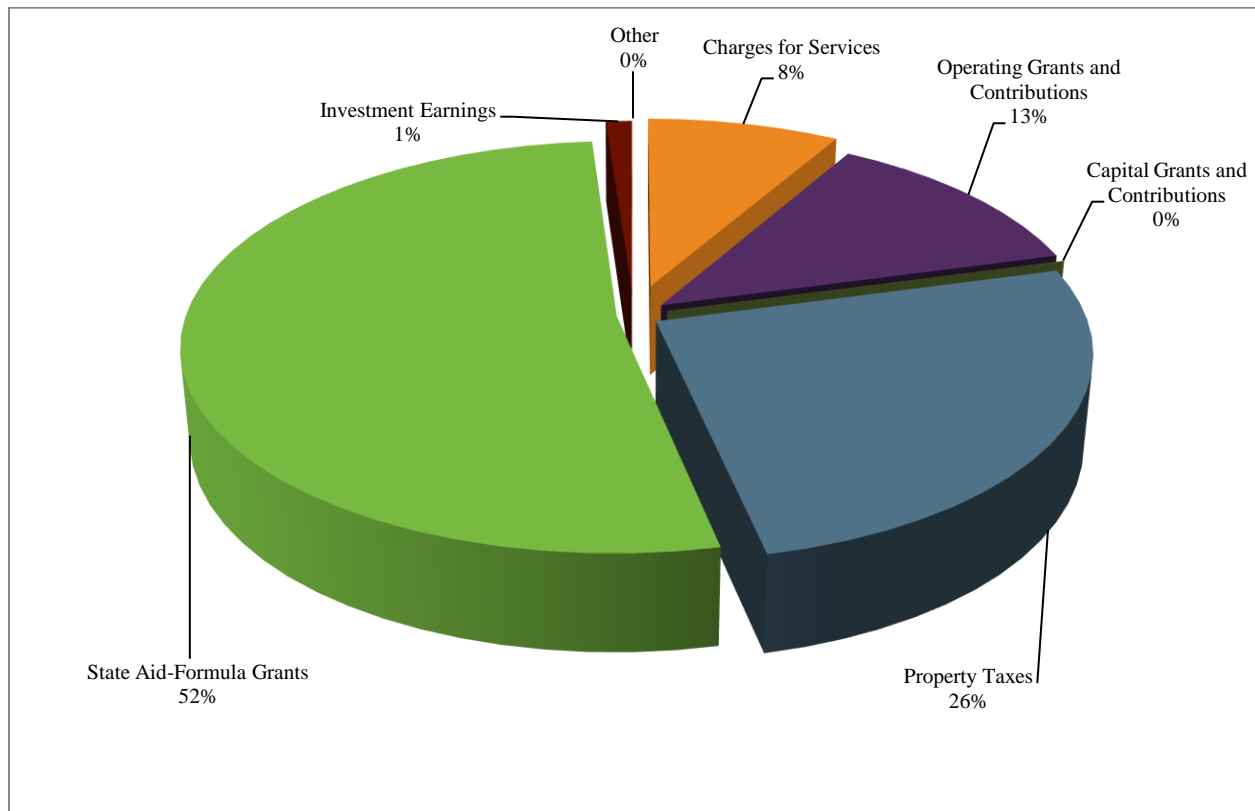
**Independent School District No. 879
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

District's Revenues

The District's total revenues were \$36,770,026 for the year ended June 30, 2017. Property taxes and state aid-formula grants accounted for 78% of total revenue for the year. (See Figure A-1). The remaining 22% came from other program revenues (charges for services and operating and capital grants and contributions) and investment earnings.

Figure A-1 Sources of District's Revenues for Fiscal 2017

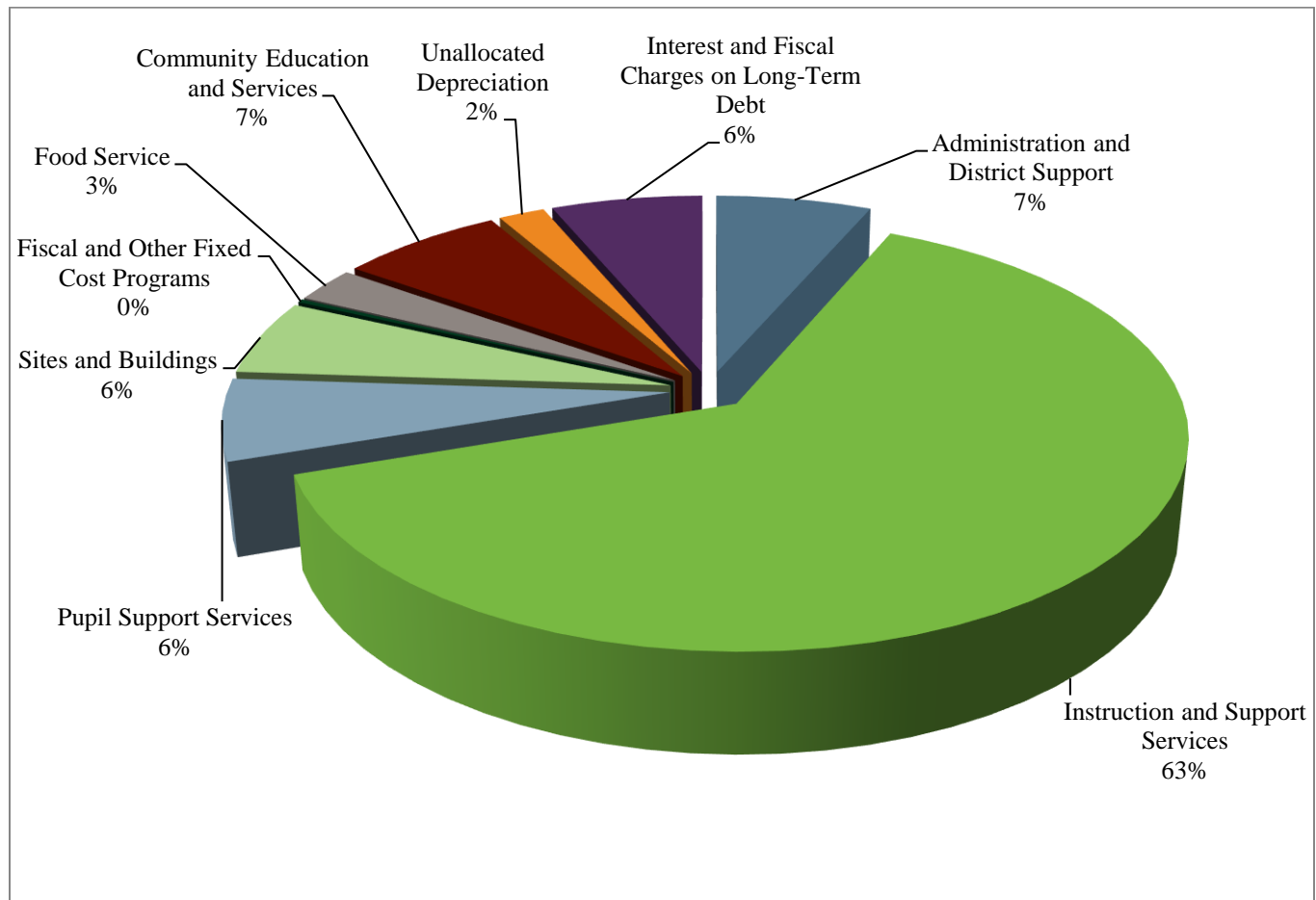


**Independent School District No. 879
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

District's Expenses

Figure A-2 District Expenses for Fiscal 2017



The total costs of all programs and services were \$39,114,473 for fiscal year 2017. The District's expenses are predominately related to instruction and pupil support services (69%). (See Figure A-2.) Interest and fiscal charges for the District's bonds account for another 6%, and 6% accounts for the facilities maintenance needs of the entire district.

The cost of all governmental activities this year was \$39,114,473.

- Some of the cost was paid by the users of the District's programs - \$3,082,916
- The federal and state governments subsidized certain programs with grants and contributions – \$4,568,914
- Most of the District's costs - \$28,694,727, however, were paid for by District taxpayers and the taxpayers of the State of Minnesota

Independent School District No. 879 Management's Discussion and Analysis

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

District's Expenses (Continued)

Typically the District does not incorporate funds allocated to direct instruction as part of an analysis of expenditures in all governmental funds. Funding for general operation of the District is controlled by the state and the District does not have latitude to allocate money received from entrepreneurial-type funds like Food Service and Community Education. Therefore, a more accurate analysis would be limited to the allocation of resources received for the general operation of the District and would show that 69% of those resources are spent on instruction and support services associated with education.

Net Cost of Governmental Activities
Table A-3

	Total Cost of Services			Net Cost of Services		
	2017	2016	Total Percentage Change 2016-2017	2017	2016	Total Percentage Change 2016-2017
Administration	\$ 1,485,548	\$ 1,125,778	31.96%	\$ 1,442,952	\$ 1,067,637	35.15%
District Support Services	1,080,189	1,084,491	-0.40%	1,061,459	1,060,450	0.10%
Elementary and Secondary						
Regular Education	17,495,060	12,299,641	42.24%	16,462,595	11,088,136	48.47%
Vocational Education Instruction	492,317	352,519	39.66%	491,157	352,519	39.33%
Special Education Instruction	5,031,749	3,694,470	36.20%	2,386,979	1,247,578	91.33%
Instructional Support Services	1,725,565	1,092,348	57.97%	1,717,114	1,085,682	58.16%
Pupil Support Services	2,439,275	2,222,542	9.75%	2,370,926	2,151,498	10.20%
Sites and Buildings	2,244,074	4,331,189	-48.19%	1,628,847	3,894,858	-58.18%
Fiscal and Other Fixed Cost Programs	103,182	93,071	10.86%	103,182	93,071	10.86%
Food Service	1,053,092	999,839	5.33%	(20,956)	(15,296)	37.00%
Community Education And Services	2,704,696	2,437,193	10.98%	555,607	330,299	68.21%
Unallocated Depreciation	763,446	775,395	-1.54%	763,446	775,395	-1.54%
Interest and Fiscal Charges						
S on Long-term Debt	2,496,280	1,360,165	83.53%	2,496,280	1,360,165	83.53%
Total	\$ 39,114,473	\$ 31,868,641	22.74%	\$ 31,459,588	\$ 24,491,992	28.45%

Table A-3 presents the total cost of governmental activities, as well as the cost of those activities. The net cost represents total cost less program revenues applicable in each category.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported a combined fund balance of \$49,258,228, a decrease of \$21,622,828 over last year's ending fund balance of \$70,881,056.

Revenues and other financing sources for the District's governmental funds were \$36,147,685, while total expenditures and other financing uses were \$57,770,513, for a negative net change of \$21,622,828.

**Independent School District No. 879
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

General Fund

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

General Fund revenues are outlined in Table A-4 below:

**Summary of General Fund Revenues
Table A-4**

	Year Ended June 30,		Amount of	Percent
	2017	2016	Increase (Decrease)	Increase (Decrease)
Local Sources				
Property taxes	\$ 3,777,936	\$ 2,533,094	\$ 1,244,842	49.14%
Other local and county sources	1,056,613	971,782	84,831	8.73%
State sources	21,639,532	20,477,312	1,162,220	5.68%
Federal sources	207,588	276,820	(69,232)	-25.01%
Sales and other conversion of assets	15,894	6,927	8,967	129.45%
Total general fund revenue	<u>\$ 26,697,563</u>	<u>\$ 24,265,935</u>	<u>\$ 2,431,628</u>	<u>10.02%</u>

Revenues from the General Fund totaled \$26,697,563, an increase of 10.02% over the preceding year. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue, including excess levy referendum, involves an equalized mix of property tax and state aid revenue. The mix of property tax and state aid can change significantly from year to year without any net change on revenue.

State sources of revenue increased due to general education aid revenue, enrollment and special education revenue. Property taxes increased due to the levying of a previously under levied operating referendum that had been authorized by the voters. Other local and county sources increased because of revenue generated through fundraising for activities and athletic groups to participate in out-of-state competitions.

**Independent School District No. 879
Management's Discussion and Analysis**

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (CONTINUED)

General Fund (Continued)

General Fund expenditures are itemized in Table A-5:

**Summary of General Fund Expenditures
Table A-5**

	Year Ended June 30,		Amount of	Percent
	2017	2016	Increase (Decrease)	Increase (Decrease)
Salaries	\$ 13,329,069	\$ 13,059,784	\$ 269,285	2.06%
Employee benefits	5,529,082	5,449,603	79,479	1.46%
Purchased services	4,083,965	3,795,222	288,743	7.61%
Supplies and materials	1,084,526	882,385	202,141	22.91%
Capital expenditures	763,105	837,706	(74,601)	-8.91%
Other expenditures	196,985	145,898	51,087	35.02%
Total general fund revenue	<u>\$ 24,986,732</u>	<u>\$ 24,170,598</u>	<u>\$ 816,134</u>	<u>3.38%</u>

Total General Fund expenditures increased by \$816,134 or 3.38% over the previous year.

Salaries increased due to hiring new staff due to special education needs, enrollment increases and hiring a Director of Teaching and Learning, as well as contract settlements. Employee benefits increased due to benefits associated with additional new staff and contract changes. Purchased services increased due to the higher transportation costs and repairs and maintenance contracted repairs. Supplies and materials increased due to technology software and supply purchases. Capital expenditures decreased due to no E-rate projects done during the 2016-2017 school year.

In 2016-2017, the General Fund recorded a surplus of \$1,709,049. The unassigned fund balance closed at \$5,666,050, which is 22.68% of General Fund unrestricted, operating expenditures.

It is the goal of the School Board of Education to maintain an unassigned fund balance of 12% of operating expenditures. For the fiscal year ended June 30, 2017, the District is in compliance with that fund balance goal.

**Independent School District No. 879
Management's Discussion and Analysis**

GENERAL FUND

General Fund Budgetary Highlights

Actual revenues were \$246,802 under the final budget, a 0.92% variance. Actual expenditures were \$1,587,657 under budget, which is a variance of 5.97%. The variance between original and final budgeted revenue amounts was due to budgeting for lower ADM's for general education aid, underestimating special education calculations which increased the special education aid, donations that came in June that had not been budgeted and budgeting for a higher than needed special funding revenue for pensions. The expenditure budget variance is due to QComp goals not met so salaries and benefits were not spent, and unspent Staff Development, building and department supply budgets, donated funds, capital and LTFM funds, as well as the district had budgeted for pension special funding expenditures, but actual amount booked was less than had been originally budgeted.

DEBT SERVICE FUND

The Debt Service Fund expenditures exceeded revenues by \$425,445 in 2016-2017.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District investment in capital assets for its governmental activities amounts to \$49,834,886 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment (see Table A-6). Additional information on capital assets can be found in Note 3 of this report.

**Capital Assets - Governmental Activities
Table A-6**

	2017	2016	Percentage Change
Land	\$ 1,022,151	\$ 1,022,151	0.00%
Land improvements	1,574,775	1,574,775	0.00%
Buildings	37,473,707	37,473,707	0.00%
Equipment	2,340,624	2,278,022	2.75%
Capital lease	3,178,525	3,178,525	0.00%
Construction in progress	24,124,208	31,565	76327.08%
Less accumulated depreciation	(19,879,104)	(18,897,316)	5.20%
Total	<u>\$ 49,834,886</u>	<u>\$ 26,661,429</u>	<u>86.92%</u>

**Independent School District No. 879
Management's Discussion and Analysis**

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities

At year-end, the District had \$81,688,788 in total long-term debt, a decrease of 3.67% from the previous year, as shown in Table A-7. (More detailed information about long-term liabilities can be found in Note 5 of the financial statements.)

**Long-Term Liabilities
Table A-7**

	2017	2016	Percentage Change
General obligation bonds payable	\$ 76,680,000	\$ 79,285,000	-3.29%
Bond premium payable	3,514,315	3,794,632	-7.39%
Capital lease payable	1,458,238	1,691,391	-13.78%
Compensated absences payable	36,235	31,874	13.68%
Total	<u>\$ 81,688,788</u>	<u>\$ 84,802,897</u>	<u>-3.67%</u>

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District had a healthy General fund balance at the end of the 2016-2017 school year. A five-year financial planning program will continue to be used as a tool in long-term financial planning.

Enrollment will continue to be monitored; enrollment in 2016-2017 increased by 77 students from 2015-2016, and the District is projecting enrollment to increase by 17 students in the 2017-2018 school year.

The new Intermediate School, which will serve students in Grades 4 through 6, will open in the fall of 2018.

Finally, the District will continue to strive to achieve its mission statement of "Educational Excellence is our Foremost Goal".

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Delano Public Schools ISD #879, Attention: Business Manager, 700 Elm Avenue East, Delano, MN 55328.

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BASIC FINANCIAL STATEMENTS

Independent School District No. 879
Statement of Net Position
June 30, 2017

	Governmental Activities
Assets	
Cash and investments	\$ 59,460,811
Current property taxes receivable	4,569,652
Delinquent property taxes receivable	103,681
Accounts receivable	18,051
Interest receivable	276,609
Due from Department of Education	2,441,213
Due from Federal Government through Department of Education	17,587
Due from other Minnesota school districts	34,957
Due from other governmental units	5,446
Inventory	40,324
Prepaid items	81,187
Equity interest in joint venture	152,228
Capital assets, not being depreciated	
Land	1,022,151
Construction in progress	24,124,208
Capital assets, net of accumulated depreciation	
Land improvements	708,994
Buildings	23,408,245
Machinery and equipment	571,288
Total assets	<u>117,036,632</u>
Deferred Outflows of Resources	
Deferred outflows of resources related to pensions	<u>33,579,947</u>
Total assets and deferred outflows of resources	<u><u>\$ 150,616,579</u></u>
Liabilities	
Accounts payable	\$ 241,080
Contracts payable	5,792,211
Salaries and benefits payable	2,290,400
Interest payable	1,085,355
Due to other Minnesota school districts	83,583
Due to other governmental units	31,785
Unearned revenue	78,016
Bonds payable	
Payable within one year	2,795,000
Payable after one year	77,399,315
Capital lease payable	
Payable within one year	238,318
Payable after one year	1,219,920
Vacation payable	
Payable within one year	36,235
Net pension liability	53,385,937
Net other post employment benefits (OPEB) obligation	151,678
Total liabilities	<u>144,828,833</u>
Deferred Inflows of Resources	
Property taxes levied for subsequent year's expenditures	9,190,077
Deferred inflows of resources related to pensions	526,727
Total deferred inflows of resources	<u>9,716,804</u>
Net Position	
Net investment in capital assets	7,049,433
Restricted for	
Capital projects	482,182
Other purposes	2,539,519
Unrestricted	(14,000,192)
Total net position	<u>(3,929,058)</u>
Total liabilities, deferred inflows of resources, and net position	<u><u>\$ 150,616,579</u></u>

Independent School District No. 879
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	\$ 1,485,548	\$ -	\$ 42,596	\$ -	\$ (1,442,952)
District support services	1,080,189	835	17,895	-	(1,061,459)
Elementary and secondary regular instruction	17,495,060	385,149	644,261	3,055	(16,462,595)
Vocational education instruction	492,317	-	1,160	-	(491,157)
Special education instruction	5,031,749	-	2,644,770	-	(2,386,979)
Instructional support services	1,725,565	-	8,451	-	(1,717,114)
Pupil support services	2,439,275	-	68,349	-	(2,370,926)
Sites and buildings	2,244,074	-	615,227	-	(1,628,847)
Fiscal and other fixed cost programs	103,182	-	-	-	(103,182)
Food service	1,053,092	748,604	325,444	-	20,956
Community education and services	2,704,696	1,948,328	200,761	-	(555,607)
Unallocated depreciation	763,446	-	-	-	(763,446)
Interest and fiscal charges on long-term debt	2,496,280	-	-	-	(2,496,280)
Total governmental activities	<u>\$ 39,114,473</u>	<u>\$ 3,082,916</u>	<u>\$ 4,568,914</u>	<u>\$ 3,055</u>	(31,459,588)
General revenues					
Taxes					
Property taxes, levied for general purposes					3,781,565
Property taxes, levied for community service					191,457
Property taxes, levied for debt service					5,509,754
State aid-formula grants					19,211,951
Investment income					420,414
Total general revenues					<u>29,115,141</u>
Change in net position					(2,344,447)
Net position - beginning					<u>(1,584,611)</u>
Net position - ending					<u>\$ (3,929,058)</u>

Independent School District No. 879
Balance Sheet - Governmental Funds
June 30, 2017

	General	Debt Service	Capital Project	Other Nonmajor Funds	Total Governmental Funds
Assets					
Cash and investments	\$ 10,439,191	\$ 3,530,831	\$ 44,884,949	\$ 605,840	\$ 59,460,811
Current property taxes receivable	1,951,069	2,499,877	-	118,706	4,569,652
Delinquent property taxes receivable	47,755	51,996	-	3,930	103,681
Accounts receivable	3,281	-	-	14,770	18,051
Interest receivable	20,065	-	256,544	-	276,609
Due from Department of Education	2,407,688	16,974	-	16,551	2,441,213
Due from Federal Government through Department of Education	17,587	-	-	-	17,587
Due from other Minnesota school districts	26,173	-	-	8,784	34,957
Due from other governmental units	5,221	-	-	225	5,446
Inventory	8,927	-	-	31,397	40,324
Prepaid items	81,187	-	-	-	81,187
Total assets	\$ 15,008,144	\$ 6,099,678	\$ 45,141,493	\$ 800,203	\$ 67,049,518
Liabilities					
Accounts payable	\$ 201,180	\$ -	\$ -	\$ 39,900	\$ 241,080
Contracts payable	-	-	5,792,211	-	5,792,211
Salaries and benefits payable	2,182,168	-	-	108,232	2,290,400
Due to other Minnesota school districts	83,583	-	-	-	83,583
Due to other governmental units	29,518	-	-	2,267	31,785
Unearned revenue	405	-	-	77,611	78,016
Total liabilities	2,496,854	-	5,792,211	228,010	8,517,075
Deferred Inflows of Resources					
Property taxes levied for subsequent year's expenditures	3,826,151	5,120,716	-	243,210	9,190,077
Unavailable revenue - delinquent property taxes	38,754	42,195	-	3,189	84,138
Total deferred inflows of resources	3,864,905	5,162,911	-	246,399	9,274,215
Fund Balances					
Nonspendable	90,114	-	-	31,397	121,511
Restricted	2,186,918	936,767	39,349,282	294,397	42,767,364
Committed	125,431	-	-	-	125,431
Assigned	577,872	-	-	-	577,872
Unassigned	5,666,050	-	-	-	5,666,050
Total fund balances	8,646,385	936,767	39,349,282	325,794	49,258,228
Total liabilities, deferred inflows of resources, and fund balances	\$ 15,008,144	\$ 6,099,678	\$ 45,141,493	\$ 800,203	\$ 67,049,518

Independent School District No. 879
Reconciliation of the Balance Sheet to
the Statement of Net Position - Governmental Funds
June 30, 2017

Total fund balance - governmental funds	\$ 49,258,228
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Equity interests in underlying capital assets of joint ventures are not reported in the funds because they do not represent current assets.

Equity interest in joint venture - Wright Technical Center	152,228
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in governmental funds.

Cost of capital assets	69,713,990
Less accumulated depreciation	(19,879,104)

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.

Long-term liabilities at year-end consist of:

Bond principal payable	(76,680,000)
Capital lease payable	(1,458,238)
Net premium on bonds payable	(3,514,315)
Vacation payable	(36,235)
Net OPEB obligation	(151,678)
Net pension liability	(53,385,937)

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.

Deferred inflows of resources related to pensions	(526,727)
Deferred outflows of resources related to pensions	33,579,947

Delinquent property taxes receivables will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.

	84,138
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Governmental funds do not report a liability for accrued interest on bonds and capital loans until due and payable.

	(1,085,355)
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Total net position - governmental activities	<u><u>\$ (3,929,058)</u></u>
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Independent School District No. 879
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Governmental Funds
Year Ended June 30, 2017

	General	Debt Service	Capital Project	Other Nonmajor Funds	Total Governmental Funds
Revenues					
Local property taxes	\$ 3,777,936	\$ 5,504,408	\$ -	\$ 191,252	\$ 9,473,596
Other local and county revenues	1,056,613	15,040	333,335	1,909,512	3,314,500
Revenue from state sources	21,639,532	172,141	-	199,017	22,010,690
Revenue from federal sources	207,588	-	-	276,595	484,183
Sales and other conversion of assets	15,894	-	-	845,792	861,686
Total revenues	26,697,563	5,691,589	333,335	3,422,168	36,144,655
Expenditures					
Current					
Administration	1,091,532	-	-	-	1,091,532
District support services	805,584	-	-	-	805,584
Elementary and secondary regular instruction	12,360,123	-	-	-	12,360,123
Vocational education instruction	366,386	-	-	-	366,386
Special education instruction	3,910,514	-	-	-	3,910,514
Instructional support services	1,265,795	-	-	-	1,265,795
Pupil support services	2,280,322	-	-	-	2,280,322
Sites and buildings	2,040,193	-	2,832,180	-	4,872,373
Fiscal and other fixed cost programs	103,182	-	-	-	103,182
Food service	-	-	-	1,017,797	1,017,797
Community education and services	-	-	-	2,394,398	2,394,398
Capital outlay					
Administration	500	-	-	-	500
District support services	259,127	-	-	-	259,127
Elementary and secondary regular instruction	133,609	-	-	-	133,609
Special education instruction	23,198	-	-	-	23,198
Instructional support services	22,222	-	-	-	22,222
Pupil support services	470	-	-	-	470
Sites and buildings	25,497	-	21,260,463	-	21,285,960
Community education and services	-	-	-	10,393	10,393
Debt service					
Principal	233,901	2,605,000	-	-	2,838,901
Interest and fiscal charges	64,577	2,661,144	-	-	2,725,721
Total expenditures	24,986,732	5,266,144	24,092,643	3,422,588	57,768,107
Excess of revenues over (under) expenditures	1,710,831	425,445	(23,759,308)	(420)	(21,623,452)
Other Financing Sources (Uses)					
Proceeds from sale of capital assets	624	-	-	-	624
Transfers in	-	-	-	2,406	2,406
Transfers out	(2,406)	-	-	-	(2,406)
Total other financing sources (uses)	(1,782)	-	-	2,406	624
Net change in fund balances	1,709,049	425,445	(23,759,308)	1,986	(21,622,828)
Fund Balances					
Beginning of year	6,937,336	511,322	63,108,590	323,808	70,881,056
End of year	\$ 8,646,385	\$ 936,767	\$ 39,349,282	\$ 325,794	\$ 49,258,228

See notes to financial statements.

Independent School District No. 879
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances to the Statement of Activities -
Governmental Funds
Year Ended June 30, 2017

Net change in fund balances - total governmental funds	\$ (21,622,828)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Net income from the equity interest in a joint venture does not provide current financial resources and its not reported as revenue in the funds.	(58,143)
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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.

Capital outlays	24,155,245
Depreciation expense	(981,788)

Vacation and severance payable are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(4,361)
---	---------

Principal payments on long-term debt are recognized as expenditures in the governmental funds but as an increase in the net position in the Statement of Activities.

Bonds payable	2,605,000
Capital lease payable	233,153

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due and thus requires use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.	(50,128)
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Premiums and discounts are amortized over the life of the bond on the statement of net position.	280,317
--	---------

Net OPEB are recognized as paid in the governmental funds but recognized as the expense is incurred in the Statement of Activities.	(143,331)
---	-----------

Governmental funds recognized pension contributions as expenditures at the time of payment whereas the Statement of Activities factors in items related to pensions on a full accrual perspective.	(6,766,763)
--	-------------

Delinquent property taxes receivable will be collected in subsequent years, but are not available soon enough to pay for the current period's expenditures and, therefore, are deferred in the funds.	9,180
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Change in net position - governmental activities	\$ (2,344,447)
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Independent School District No. 879
Statement of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - General Fund
Year Ended June 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Over (Under)
Revenues				
Local property taxes	\$ 3,709,307	\$ 3,701,466	\$ 3,777,936	\$ 76,470
Other local and county revenues	409,150	1,029,458	1,056,613	27,155
Revenue from state sources	20,704,918	21,989,958	21,639,532	(350,426)
Revenue from federal sources	222,211	207,589	207,588	(1)
Sales and other conversion of assets	-	15,894	15,894	-
Total revenues	<u>25,045,586</u>	<u>26,944,365</u>	<u>26,697,563</u>	<u>(246,802)</u>
Expenditures				
Current				
Administration	1,087,336	1,176,397	1,091,532	(84,865)
District support services	862,021	825,776	805,584	(20,192)
Elementary and secondary regular instruction	12,037,100	13,178,352	12,360,123	(818,229)
Vocational education instruction	363,598	376,658	366,386	(10,272)
Special education instruction	3,865,947	4,108,331	3,910,514	(197,817)
Instructional support services	1,549,689	1,353,901	1,265,795	(88,106)
Pupil support services	2,193,263	2,306,224	2,280,322	(25,902)
Sites and buildings	2,359,396	2,315,425	2,040,193	(275,232)
Fiscal and other fixed cost programs	97,000	103,200	103,182	(18)
Capital outlay				
Administration	7,500	7,500	500	(7,000)
District support services	214,000	265,513	259,127	(6,386)
Elementary and secondary regular instruction	47,500	159,099	133,609	(25,490)
Special education instruction	4,950	24,308	23,198	(1,110)
Instructional support services	16,170	24,922	22,222	(2,700)
Pupil support services	1,100	1,585	470	(1,115)
Sites and buildings	20,000	48,719	25,497	(23,222)
Debt service				
Principal	233,798	233,901	233,901	-
Interest and fiscal charges	64,681	64,578	64,577	(1)
Total expenditures	<u>25,025,049</u>	<u>26,574,389</u>	<u>24,986,732</u>	<u>(1,587,657)</u>
Excess of revenues under expenditures	<u>20,537</u>	<u>369,976</u>	<u>1,710,831</u>	<u>1,340,855</u>
Other Financing Sources (Uses)				
Proceeds from sale of capital assets	-	624	624	-
Transfers out	-	-	(2,406)	(2,406)
Total other financing sources (uses)	<u>-</u>	<u>624</u>	<u>(1,782)</u>	<u>(2,406)</u>
Net change in fund balance	<u>\$ 20,537</u>	<u>\$ 370,600</u>	<u>1,709,049</u>	<u>\$ 1,338,449</u>
Fund Balance				
Beginning of year			<u>6,937,336</u>	
End of year			<u>\$ 8,646,385</u>	

See notes to financial statements.

Independent School District No. 879
Statement of Fiduciary Net Position
June 30, 2017

	<u>Private Purpose Trust Fund</u>
Assets	
Current	
Cash and investments	\$ 39,178
	<u> </u>
Liabilities	
Unearned revenue	\$ 1,920
	<u> </u>
Net Position	
Held in trust for scholarships	\$ 37,258
	<u> </u>

Statement of Changes in Fiduciary Net Position
Year Ended June 30, 2017

	<u>Private Purpose Trust Fund</u>
Additions	
Other local revenues	\$ 84,113
Deductions	
Pupil support services	77,901
	<u> </u>
Change in net position	6,212
Net Position	
Beginning of year	31,046
	<u> </u>
End of year	\$ 37,258
	<u> </u>

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Independent School District No. 879
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District operates under a school board form of government for the purpose of providing educational services to individuals within the District areas. The governing body consists of a seven member board elected by the voters of the District to serve four-year terms.

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

The financial statements present the District and its component units. The District includes all funds, organizations, institutions, agencies, departments, and offices that are not legally separate from such. Component units are legally separate organizations for which the elected officials of the District are financially accountable and are included within the financial statements of the District because of the significance of their operational or financial relationships with the District.

The District is considered financially accountable for a component unit if it appoints a voting majority of the organization's governing body and it is able to impose its will on the organization by significantly influencing the programs, projects, activities, or level of services performed or provided by the organization, or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on, the District.

As a result of applying the component unit definition criteria above, it has been determined the District has no component units.

The student activity accounts of the District are under the School Board's control and are included within the General Fund activity. Separate audited financial statements have not been issued.

Joint Venture

A joint venture is a legal entity or other organization that results from a contracted agreement and that is owned, operated, or governed by two or more participants as a separate and specific activity subject to joint control. The participants retain either an ongoing financial interest or an ongoing financial responsibility. The District participates in one joint venture. A description of this organization is included in Note 9.

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, except for the fiduciary funds. The fiduciary funds are only reported in the Statement of Fiduciary Net Position and the Statement of Changes in Fiduciary Net Position at the fund financial statement level.

Independent School District No. 879
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Basic Financial Statement Information (Continued)

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other 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 governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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, as is the fiduciary fund financial statement. 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. Property tax revenue is generally considered as available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to *Minnesota Statutes* and 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.

Independent School District No. 879
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus and Basis of Accounting (Continued)

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule is that interest and principal expenditures in the Debt Service Fund, compensated absences and claims and judgments are recognized when payment is due.

The District applies resources in the following order when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available: restricted, committed, assigned, and unassigned.

Description of Funds:

Major Funds:

General Fund – This fund is the basic operating fund of the District and is used to account for all financial resources except those required to be accounted for in another fund.

Debt Service Fund – This fund is used to account for the accumulation of resources for, and payment of, general obligation (G.O.) bond principal, interest, and related costs.

Building Construction Fund – Capital Projects – This fund is used to account for financial resources used for the acquisition or construction of major capital facilities authorized by bond issue.

Nonmajor Funds:

Food Service Special Revenue Fund – This fund is used to account for food service revenues and expenditures.

Community Service Special Revenue Fund – This fund is used to account for services provided to residents in the areas of community education, school readiness, early childhood and family education, or other similar services.

Fiduciary Fund:

Private Purpose Trust Fund – The Scholarship Trust Fund is used to account for resources received and held by the District in a trustee capacity to be used in making scholarship awards.

D. Deposits and Investments

Cash and investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the individual funds based on the average of month-end cash and investment balances.

Independent School District No. 879
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Deposits and Investments (Continued)

Minnesota Statutes requires all deposits be protected by federal deposit 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.

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 pools are measured at amortized cost.

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

In accordance with GASB Statement No. 79, the various MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value. There are no restrictions or limitations on withdrawals from the MSDLAF or MNTrust. 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. Seven days' notice of redemption is required for withdrawals of investments in the MNTrust Term Series withdrawn prior to the maturity date of that series. A penalty could be assessed as necessary to recoup the Series for any charges, losses, and other costs attributable to the early redemption.

E. Property Tax Receivable

Current property taxes receivable are recorded for taxes certified the previous December and collectible in the current calendar year, which have not been received by the District. Delinquent property taxes receivable represent uncollected taxes for the past six years, and are deferred and included in the deferred inflows of resources section of the fund financial statements as unavailable revenue because they are not available to finance the operations of the District in the current year.

Independent School District No. 879
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Property Taxes Levied for Subsequent Year's Expenditures

Property taxes levied for subsequent year's expenditures consist principally of property taxes levied in the current year which will be collected and recognized as revenue in the District's following year to properly match those revenues with the budgeted expenditures for which they were levied. This amount is equal to the amount levied by the School Board in December 2016, less various components and their related adjustments as mandated by the state. These portions of that levy were recognized as revenue in fiscal year 2017. The remaining portion of the levy will be recognized when measurable and available.

G. Inventories

Inventories of commodities donated directly by the U.S. Department of Agriculture are recorded at market value. Other inventories are stated at cost as determined on a first-in, first-out (FIFO) basis. Inventories are recorded as expenditures when consumed rather than when purchased.

H. 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.

I. Property Taxes

The District levies its property tax during the month of December. December 28 is the last day the District can certify a tax levy to the County Auditor. Such taxes become a lien on January 1. The property tax is recorded as revenue when it becomes measurable and available. Hennepin and Wright Counties are the collecting agency for the levy and remit the collections to the District three times a year. The Tax levy notice is mailed in March with the first half of the payment due on May 15 and the second half due on October 15. Delinquent collections for November and December are received the following January.

A portion of property taxes levied is paid by the State of Minnesota through various tax credits, which are included in revenue from state sources in the financial statements.

J. 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 \$5,000 and an estimated useful life in excess of five years. 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 their 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.

Independent School District No. 879
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Capital Assets (Continued)

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 50 years for land improvements, buildings, machinery and equipment, and vehicles.

Capital assets not being depreciated include land and construction in progress. The District does not possess any material amounts of infrastructure capital assets, such as sidewalks and parking lots. Such items are considered to be part of the cost of buildings or other improvable property.

K. 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. The District has one item that qualifies for reporting in this category. A 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. The District has three types of items which qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the governmental funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is property taxes levied for subsequent years, which represent property taxes received or reported as a receivable before the period for which the taxes are levied, and is reported as a deferred inflow of resources in both the government-wide Statement of Net Position and the Governmental Funds Balance Sheet. Property taxes levied for subsequent years are deferred and recognized as an inflow of resources in the government-wide financial statements in the year for which they are levied and in the governmental fund financial statements during the year for which they are levied, if available. A 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.

L. Long-Term Obligations

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

Independent School District No. 879
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Long-Term Obligations (Continued)

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

M. Compensated Absences

Certain District employees earn vacation days based on the number of completed years of service. Vacation is accumulated at various rates and maximum hours are capped at different amounts. Certain employees are compensated for unused vacation upon termination of employment.

Employees are entitled to paid sick leave at various rates for each month of full-time service. Employees are not compensated for unused sick leave upon termination of employment (sick pay is recorded as an expenditure when payment is made).

N. 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.

O. 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.

Independent School District No. 879
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. 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 prepaids and inventory.
- **Restricted Fund Balances** – These amounts are subject to externally enforceable legal restrictions.
- **Committed Fund Balances** – The government's highest level of decision making authority is the School Board. The formal action to establish or modify a commitment must be made by the School Board.
- **Assigned Fund Balances** – The School Board, by majority vote, may assign fund balances to be used for specific purposes when appropriate. The School Board also delegates the power to assign fund balances to the Superintendent or Business Manager.
- **Minimum Fund Balance Policy** – The District will strive to maintain a minimum unassigned General Fund balance of 12% of operating expenditures.

Q. Net Position

Net position represents the difference between assets and 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.

R. 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.

S. Comparative Data

Comparative data for the prior year has been presented only for certain sections of the accompanying financial statements in order to provide an understanding of the changes in the Academy's financial position and operations. This data has been restated where necessary for comparable classifications.

Independent School District No. 879
Notes to Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Budgetary Information

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

1. Prior to July 1, the School Superintendent submits to the School 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. The Superintendent 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 School Board.
3. Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, and Debt Service Funds.
4. Budgets for the General, Special Revenue, and Debt Service Funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America.
5. Budgets are as originally adopted or as amended by the School 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 School Board.

Custodial Credit Risk – Deposits: This is the risk that in the event of the failure of a depository financial institution, the District will not be able to recover deposits or collateral securities that are in possession of an outside party. The District has a policy that requires the District's deposits be collateralized as required by *Minnesota Statutes* for an amount exceeding FDIC, SAIF, BIF, or FCUA coverage. As of June 30, 2017, the District's bank balance 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.

1. District Governmental Funds Pooled

As of June 30, 2017, the District had the following pooled deposits:

Checking	\$ 96,945
Certificates of deposit	<u>1,969,323</u>
Total deposits	<u><u>\$ 2,066,268</u></u>

Independent School District No. 879
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

2. District Governmental Funds Not Pooled

As of June 30, 2017, the District had the following deposits for the G.O. School Building Bonds, Series 2016A:

Certificates of deposit	\$ 32,894,699
Savings deposit account	<u>15</u>
Total deposits	<u><u>\$ 32,894,714</u></u>

B. Investments

1. District Governmental Funds Pooled

As of June 30, 2017, the District had the following pooled investments:

	Fair Value	Less Than One Year	1-2 Years	Moody's/S&P Ratings
MSDLAF - Liquid Class	\$ 2,583,246	\$ 2,583,246	\$ -	AAAm
MSDLAF - Max Class	4,528,118	4,528,118	-	AAAm
IS Account Balance	198,707	198,707	-	AAAm
MN Trust Term Series	4,000,000	4,000,000	-	AAAm
Brokered Certificates of Deposit	<u>1,241,572</u>	<u>992,331</u>	<u>249,241</u>	<u>N/A</u>
Total Investments	<u><u>\$ 12,551,643</u></u>	<u><u>\$ 12,302,402</u></u>	<u><u>\$ 249,241</u></u>	

The District has the following recurring fair value measurements as of June 30, 2016:

- \$1,241,572 of investments are valued using a matrix pricing model (Level 2 inputs)

2. District Governmental Funds Not Pooled

As of June 30, 2017, the District had the following pooled investments for the G.O. School Building Bonds, Series 2016A:

	Fair Value	Less Than One Year	1-2 Years	Moody's/S&P Ratings
IS Account Balance	\$ 1,266,612	\$ 1,266,612	\$ -	AAAm
MN Trust Term Series	3,750,000	3,750,000	-	AAAm
Government Securities	4,736,010	1,495,212	3,240,798	AAAm
Brokered Certificates of Deposit	<u>2,234,092</u>	<u>2,234,092</u>	<u>-</u>	<u>N/A</u>
Total Investments	<u><u>\$ 11,986,714</u></u>	<u><u>\$ 8,745,916</u></u>	<u><u>\$ 3,240,798</u></u>	

Independent School District No. 879
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

2. District Governmental Funds Not Pooled (Continued)

Interest Rate Risk: This is the risk that market values of securities in a portfolio would decrease due to changes in market interest rates. The District's investment policy states the District shall manage its investments in a manner to attain a market yield rate of return through various economics and budgetary cycles, while preserving and protecting the capital in the investment portfolio and taking into account constraints on risk and cash flow requirements.

Credit Risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law limits investments to be in the top two ratings issued by nationally recognized statistical rating organizations. The District's investment policy indicates the District will follow state law. The District's investments were rated in the table above by Standards and Poor's (S&P) and Moody's Investor Services. These investments were in the top two rating categories.

Concentration of Credit Risk: This is the risk of loss attributed to the magnitude of an investment in a single issuer. The District's investment policy states the District will attempt to diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities. **Concentration of Credit Risk:** The District's policy does not allow for an investment in any one issuer that is in excess of five percent of the total investments. At June 30, 2017, the District's G.O. School Building Bonds, Series 2016A investment pool was exposed to concentration of credit risk at June 30, 2017 as the government security investments with Federal Farm Credit Bank (12.47%), Federal National Mortgage Association (12.49%), and Federal Home Loan Bank (12.47%) of the total investments for the G.O. School Building Bonds, Series 2016A.

Custodial Credit Risk – Investments: For investments, 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 collateralized securities that are in the possession of an outside party. The District's investment policy states all investments shall be held in third party safekeeping by an institution designated as a custodial agent.

The District has the following recurring fair value measurements as of June 30, 2016:

- \$6,970,102 of investments are valued using a matrix pricing model (Level 2 inputs)

C. Summary of Deposits and Investments

Summary of deposits and investments as of June 30, 2017:

Deposits (Note 3.A.)	\$ 34,960,982
Petty cash	650
Investments (Note 3.B.)	<u>24,538,357</u>
Total deposits and investments	<u><u>\$ 59,499,989</u></u>

Independent School District No. 879
Notes to Financial Statements

NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

C. Summary of Deposits and Investments (Continued)

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

Statement of Net Position	
Cash and investments	\$ 59,460,811
Statement of Fiduciary Net Position	
Cash and investments - private purpose trust fund	<u>39,178</u>
Total deposits and investments	<u><u>\$ 59,499,989</u></u>

NOTE 3 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities				
Capital assets not being depreciated				
Land	\$ 1,022,151	\$ -	\$ -	\$ 1,022,151
Construction in progress	31,565	24,092,643	-	24,124,208
Total capital assets not being depreciated	<u>1,053,716</u>	<u>24,092,643</u>	<u>-</u>	<u>25,146,359</u>
Capital assets being depreciated				
Improvements	1,574,775	-	-	1,574,775
Buildings	40,652,232	-	-	40,652,232
Equipment	2,278,022	62,602	-	2,340,624
Total capital assets being depreciated	<u>44,505,029</u>	<u>62,602</u>	<u>-</u>	<u>44,567,631</u>
Less accumulated depreciation for				
Improvements	855,684	10,097	-	865,781
Buildings	16,440,639	803,348	-	17,243,987
Equipment	1,600,993	168,343	-	1,769,336
Total accumulated depreciation	<u>18,897,316</u>	<u>981,788</u>	<u>-</u>	<u>19,879,104</u>
Total capital assets being depreciated, net	<u>25,607,713</u>	<u>(919,186)</u>	<u>-</u>	<u>24,688,527</u>
Governmental activities, capital assets, net	<u><u>\$ 26,661,429</u></u>	<u><u>\$ 23,173,457</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 49,834,886</u></u>

Independent School District No. 879
Notes to Financial Statements

NOTE 3 – CAPITAL ASSETS (CONTINUED)

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

Administration	\$ 55,342
Elementary and secondary regular instruction	21,407
Special education instruction	571
Pupil support services	7,722
Sites and buildings	121,203
Community service	11,473
Unallocated	<u>764,070</u>
Total depreciation expense	<u><u>\$ 981,788</u></u>

NOTE 4 – INTERFUND ACTIVITY

Interfund Transfers

The General Fund transferred \$2,406 to the Community Service Fund to cover the deficit in the Preschool Screening accounts.

NOTE 5 – LONG-TERM DEBT

A. Components of Long-Term Liabilities

	Issue Date	Interest Rate	Original Issue	Final Maturity	Principal Outstanding	Due Within One Year
Long-term liabilities						
G.O. bonds, including						
Refunding bonds						
G.O. Alternative Facilities						
Bonds, series 2008A	04/23/08	3.50%-4.625%	\$ 4,865,000	02/01/28	\$ 3,630,000	\$ 170,000
G.O. Capital Facilities Bonds,						
series 2008B	06/10/08	2.25%-3.65%	920,000	02/01/18	105,000	105,000
G.O. bonds,						
series 2008C	07/01/08	3.10%-4.10%	980,000	02/01/24	525,000	65,000
G.O. School Refunding Bonds,						
series 2015A	04/08/15	3.00%-5.00%	13,140,000	02/01/25	10,730,000	1,130,000
G.O. School Building Bonds,						
series 2016A	02/18/16	2.75%-4.00%	62,900,000	02/01/36	<u>61,690,000</u>	<u>1,325,000</u>
Total G.O. bonds					<u>76,680,000</u>	<u>2,795,000</u>
Premium on bonds payable					3,514,315	-
Capital leases					1,458,238	238,318
Vacation payable					<u>36,235</u>	<u>36,235</u>
Total all long-term liabilities					<u><u>\$ 81,688,788</u></u>	<u><u>\$ 3,069,553</u></u>

The long-term bond liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues. The bond obligations are paid from the Debt Service Fund. Severance, vacation, and capital leases are paid from the General Fund.

Independent School District No. 879
Notes to Financial Statements

NOTE 5 – LONG-TERM DEBT (CONTINUED)

B. Changes in Long-Term Liabilities

	Beginning Balance	Additions	Reductions	Ending Balance
Long-term liabilities				
G.O. bonds	\$ 79,285,000	\$ -	\$ 2,605,000	\$ 76,680,000
Premium on bonds payable	3,794,632	-	280,317	3,514,315
Capital leases	1,691,391	-	233,153	1,458,238
Vacation payable	31,874	80,384	76,023	36,235
Total long-term liabilities	<u>\$ 84,802,897</u>	<u>\$ 80,384</u>	<u>\$ 3,194,493</u>	<u>\$ 81,688,788</u>

C. Debt Payment Schedule

Minimum annual principal and interest payments required to retire bonds:

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2018	\$ 2,795,000	\$ 2,636,916	\$ 5,431,916
2019	2,760,000	2,514,184	5,274,184
2020	3,010,000	2,391,884	5,401,884
2021	3,145,000	2,259,034	5,404,034
2022	3,285,000	2,119,846	5,404,846
2023-2027	18,490,000	8,545,169	27,035,169
2028-2032	22,490,000	5,160,430	27,650,430
2033-2036	20,705,000	1,575,900	22,280,900
Total	<u>\$ 76,680,000</u>	<u>\$ 27,203,363</u>	<u>\$ 103,883,363</u>

D. Capital Lease

On May 4, 2007, the District entered into a lease purchase agreement with CitiCapital for the acquisition of building improvements. The capital lease agreement includes monthly principal and interest payments of \$23,950 for each of the 15 years of the agreement.

On January 25, 2013, the District entered into a capital lease agreement for copiers with US Bank Equipment Finance. The capital lease agreement includes monthly principal and interest payments of \$1,100 for each of the five years of the agreement.

Independent School District No. 879
Notes to Financial Statements

NOTE 5 – LONG-TERM DEBT (CONTINUED)

D. Capital Lease (Continued)

On June 24, 2013, the District entered into a capital lease agreement for a postage meter machine with MailFinance. The capital lease includes monthly principal and interest payments of \$172 for each of the five years of the agreement.

The future minimum lease obligations and the net present value of these minimum lease payments are as follows:

Year Ending June 30,	
2018	\$ 294,034
2019	283,082
2020	283,082
2021	283,082
2022	283,082
2023	212,312
Total lease payments	<u>1,638,674</u>
Less amount representing interest	<u>(180,436)</u>
Present value of capital lease	<u><u>\$ 1,458,238</u></u>

The assets acquired with the capital leases have a cost of \$3,246,472 and accumulated depreciation of \$645,073 for a net value of \$2,601,399.

Independent School District No. 879
Notes to Financial Statements

NOTE 6 –FUND BALANCES

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

Fund Equity

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

	General Fund	Debt Service Fund	Capital Project Fund	Other Nonmajor Funds	Total
Nonspendable for					
Inventory	\$ 8,927	\$ -	\$ -	\$ 31,397	\$ 40,324
Prepays items	81,187	-	-	-	81,187
Total nonspendable	<u>90,114</u>	<u>-</u>	<u>-</u>	<u>31,397</u>	<u>121,511</u>
Restricted/reserved for					
Staff development	166,879	-	-	-	166,879
Health and safety	(23,618)	-	-	-	(23,618)
Operating capital	1,210,172	-	-	-	1,210,172
Area learning center	7,301	-	-	-	7,301
Long-term facilities maintenance	825,373	-	-	-	825,373
Medical assistance	811	-	-	-	811
Debt service	-	936,767	-	-	936,767
Capital projects	-	-	39,349,282	-	39,349,282
Food service	-	-	-	238,438	238,438
Community education	-	-	-	64,197	64,197
Early childhood and family education	-	-	-	(9,204)	(9,204)
Adult basic education	-	-	-	966	966
Total restricted/reserved	<u>2,186,918</u>	<u>936,767</u>	<u>39,349,282</u>	<u>294,397</u>	<u>42,767,364</u>
Committed for					
Separation/retirement benefits	125,431	-	-	-	125,431
Assigned for					
Donated funds	288,475	-	-	-	288,475
Student activities	35,475	-	-	-	35,475
Q comp	253,922	-	-	-	253,922
Total assigned	<u>577,872</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>577,872</u>
Unassigned	<u>5,666,050</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,666,050</u>
Total reserved fund balance	<u>\$ 8,646,385</u>	<u>\$ 936,767</u>	<u>\$ 39,349,282</u>	<u>\$ 325,794</u>	<u>\$ 49,258,228</u>

Independent School District No. 879
Notes to Financial Statements

NOTE 6 –FUND BALANCES (CONTINUED)

Fund Equity (Continued)

Nonspendable for Inventory – This balance represents fund balance that has already been spent as inventory.

Nonspendable for Prepaid Items – This balance represents fund balance that has already been spent as prepaid items.

Restricted/Reserved for Staff Development – This balance represents unspent staff development revenues set aside from general education revenue that were restricted/reserved for staff development related to Finance Code 316. Expenditures for staff development must equal at least 2% of the basic general education revenue, unless legal stipulations are met (*Minnesota Statutes* 122A.61, subdivision 1).

Restricted/Reserved for Health and Safety – This balance represents available resources to be used for health and safety projects in accordance with an approved health and safety plan.

Restricted/Reserved for Operating Capital – This balance represents available resources in the General Fund to be used to purchase equipment and facilities.

Restricted/Reserved for Area Learning Center – This balance represents amounts restricted for students attending area learning centers. Each district that sends students to an area learning center must restrict an amount equal to the sum of 1) at least 90 and no more than 100 percent of the district average General Education Revenue per adjusted pupil unit minus an amount equal to the product of the formula allowance according to *Minnesota Statutes* 126C.10, subd. 2, times .0466, calculated without basic skills revenue, local optional revenue, and transportation sparsity revenue, times the number of pupil units attending a state-approved area learning center, plus (2) the amount of basic skills revenue generated by pupils attending the area learning center. The amount restricted may only be spent on program costs associated with the area learning center.

Restricted/Reserved for Long-Term Facilities Maintenance (LTFM) – This balance represents available resources to be used for LTFM projects in accordance with the 10-year plan (*Minnesota Statutes* 123B.595, subd. 12).

Restricted/Reserved for Medical Assistance – This balance represents available resources to be used for medical assistance expenditures (*Minnesota Statutes* 125A.21, subd. 3).

Restricted for Debt Service – This balance represents the resources available for the payment of G.O. bond principal, interest, and related costs.

Restricted for Capital Projects – This balance represents resources available for the acquisition or construction of major capital projects.

Independent School District No. 879
Notes to Financial Statements

NOTE 6 – FUND BALANCES (CONTINUED)

Fund Equity (Continued)

Restricted for Food Service – This balance represents the accumulation of the activity to provide the food service program.

Restricted/Reserved for Community Education – This balance represents the resources available to provide programming such as: nonvocational, recreational and leisure time activities, programs for adults with disabilities, noncredit summer programs, adult basic education programs, youth development and youth service programming, early childhood and family education, and extended day programs.

Restricted/Reserved for Early Childhood and Family Education – This balance represents the resources available to provide for services for early childhood and family education programming.

Restricted/Reserved for Adult Basic Education – This account will represent the balance of carryover monies for all activity involving adult basic education.

Committed for Separation/Retirement Benefits – This balance represents resources segregated from the unassigned fund balance for retirement benefits, including compensated absences, pensions, other post employment benefits (OPEB), and termination benefits (as defined in GASB Statements Nos. 16, 27, 45, 47 and 50 and *Minnesota Statutes* 123B.79, subd. 7).

Assigned for Donated Funds – This balance represents resources segregated from unassigned fund balance for different groups (athletics, media center, principals, etc.) who have done fundraising or receive donations for specific purposes.

Assigned for Student Activities – This balance represents resources segregated from unassigned fund balance for different student activities that have done fundraising or receive donations for specific purposes.

Assigned for Q Comp – This balance represents resources segregated from unassigned fund balances for unspent Q Comp dollars.

Net position restricted for other purposes on the Statement of Net Position are comprised of the total positive General Fund restricted fund balances and the total net position restricted for food service and community service.

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE

The District participates in various pension plans, total pension expense for the year ended June 30, 2017, was \$8,571,547. The components of pension expense are noted in the following plan summaries.

Independent School District No. 879
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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.

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 I 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

Independent School District No. 879
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

B. Benefits Provided (Continued)

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).

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.

Independent School District No. 879
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

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%

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.

Independent School District No. 879
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

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

Mortality 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.

Independent School District No. 879
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

D. Actuarial Assumptions (Continued)

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 following table:

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
	<hr/>	
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.

Independent School District No. 879
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability

On June 30, 2017, the District reported a liability of \$48,587,310 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 0.2037% at the end of the measurement period and 0.1976% for the beginning of the year.

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

District's proportionate share of net pension liability	\$ 48,587,310
State's proportionate share of the net pension liability associated with the District	4,875,894

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 \$7,931,040. It recognized \$680,838 as an increase to this 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 485,956	\$ 1,355
Net difference between projected and actual earnings on plan investments	2,041,266	-
Changes of assumptions	27,683,456	-
Changes in proportion	566,005	89,283
Contributions to TRA subsequent to the measurement date	822,683	-
	<u>822,683</u>	<u>-</u>
Total	<u>\$ 31,599,366</u>	<u>\$ 90,638</u>

Independent School District No. 879
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Teachers' Retirement Association (Continued)

F. Net Pension Liability (Continued)

\$822,683 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018.

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

2018	\$ 6,092,572
2019	6,092,576
2020	6,791,789
2021	6,258,002
2022	<u>5,451,106</u>
Total	<u><u>\$ 30,686,045</u></u>

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 percent lower and 1 percent higher.

District proportionate share of NPL		
1% decrease (3.66%)	Current (4.66%)	1% increase (5.66%)
<u> </u>	<u> </u>	<u> </u>
\$ 62,592,600	\$ 48,587,310	\$ 37,180,495

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.

Independent School District No. 879
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

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.

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 Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1. The annuity accrual rate for a 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.

Independent School District No. 879
Notes to Financial Statements

NOTE 7 – 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 \$282,567. 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 \$4,798,627 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 \$62,701. 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 0.0591%, which was an increase of 0.0031% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$640,507 for its proportionate share of the General Employees Plan's pension expense. Included in this amount, the District recognized \$18,696 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.

Independent School District No. 879
Notes to Financial Statements

NOTE 7 – 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 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	\$ 13,986	\$ 384,417
Changes in actuarial assumptions	1,033,495	-
Difference between projected and actual investments earnings	530,038	-
Change in proportion	120,495	51,672
Contributions paid to PERA subsequent to the measurement date	<u>282,567</u>	<u>-</u>
Total	<u><u>\$ 1,980,581</u></u>	<u><u>\$ 436,089</u></u>

\$282,567 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	\$ 348,374
2019	240,466
2020	499,753
2021	<u>173,332</u>
Total	<u><u>\$ 1,261,925</u></u>

Independent School District No. 879
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

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 %

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.

Independent School District No. 879
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

E. Actuarial Assumptions (Continued)

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
 Total	 <u>100%</u>	

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:

	<u>1% Decrease in Discount Rate (6.5%)</u>	<u>Discount Rate (7.5%)</u>	<u>1% Increase in Discount Rate (8.5%)</u>
District's proportionate share of the PERA net pension liability	\$ 6,815,472	\$ 4,798,627	\$ 3,137,295

Independent School District No. 879
Notes to Financial Statements

NOTE 7 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE (CONTINUED)

Public Employees' Retirement Association (Continued)

H. 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 8 – POST EMPLOYMENT HEALTH CARE PLAN

A. Plan Description

The District provides single-employer defined benefit health care insurance and life insurance upon retirement to certain retirees. 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 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 2017, the District contributed \$331,767 to the plan.

As of July 1, 2016, the last valuation date, there were approximately 20 retirees receiving health benefits from the District's health plan. The plan has a total of 297 active participants and dependents. The plan also has a total of two spouses receiving payments. Of that total, 275 are not yet eligible to receive benefits.

C. Annual Other Post Employment Benefits Cost and Net Other Post Employment Benefits Costs 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 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 table on the following page shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan and changes in the District's net OPEB obligation to the plan.

Independent School District No. 879
Notes to Financial Statements

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

C. Annual Other Post Employment Benefits Cost and Net Other Post Employment Benefits Costs Obligation (Continued)

ARC	\$ 475,268
Interest on net OPEB obligation	250
Adjustment to ARC	(420)
Annual OPEB cost	<u>475,098</u>
Contributions made	<u>(331,767)</u>
Increase in net OPEB obligation	143,331
Net OPEB obligation - beginning of year	<u>8,347</u>
Net OPEB obligation - end of year	<u><u>\$ 151,678</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for the past three years were as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Employer Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
06/30/17	\$ 475,098	\$ 331,767	70%	\$ 151,678
06/30/16	375,316	314,766	84%	8,347
06/30/15	374,658	399,466	107%	(52,203)

D. Funded Status and Funding Progress

As of the July 1, 2016, actuarial study, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$3,881,556 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,881,556. The covered payroll (annual payroll of active employees covered by the plan) was \$12,893,511, and the ratio of the UAAL to the covered payroll was 30.1%.

Independent School District No. 879
Notes to Financial Statements

NOTE 8 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)

D. Funded Status and Funding Progress (Continued)

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.

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.

E. Actuarial Methods and Assumptions

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

At the July 1, 2016, actuarial valuation date, the projected unit credit with 30 year amortization of the unfunded liability method was used. The actuarial assumptions included a 3.0% 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 6.75% initially, reduced incrementally to an ultimate rate of 5% after 7 years. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2016 was 30 years.

NOTE 9 – COMMITMENTS

A. Joint Powers

The District entered in to a joint powers agreement in February 1998 with Wright Technical Center No. 966 (WTC), a cooperative center for vocational education, between and among eight other independent school districts to finance the acquisition and betterment of the addition to the existing WTC facilities.

The addition was financed through capital lease agreements. Each participating district annually authorizes a leading levy to cover their allocated portion of the lease payment based on the formula set out in the joint powers agreement. Participating districts will also be apportioned operating costs and continuing costs for the addition based on the current cost. Separately issued financial statements can be obtained from Wright Technical Center, 1400 Highway 25 North Buffalo, Minnesota 55313-1936.

Independent School District No. 879
Notes to Financial Statements

NOTE 9 – COMMITMENTS (CONTINUED)

B. Construction

Contractor	Revised Contract Amount	Work Completed as of 6/30/17	Amount Remaining on Contract
Ebert Construction	\$ 2,623,183	\$ 2,492,024	\$ 131,159
Peterson Companies	4,202,578	3,662,001	540,577
Jorgenson Construction	18,215,072	7,330,485	10,884,587
Breitbach Construction	28,783,334	7,807,518	20,975,816
ICS Consulting	1,398,340	791,900	606,440
WOLD Architects	3,692,690	3,063,884	628,806

NOTE 10 – 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.

REQUIRED SUPPLEMENTARY INFORMATION

Independent School District No. 879
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)
07/01/12	\$ -	\$ 3,427,975	\$ 3,427,975	0%	\$ 9,892,804	34.65%
07/01/14	-	3,252,827	3,427,975	0%	11,289,258	28.81%
07/01/16	-	3,881,556	3,881,556	0%	12,893,511	30.10%

Independent School District No. 879
Schedule of District's and Non-Employer Proportionate Share
(if Applicable) of Net Pension Liability
General Employees Retirement Fund

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 State of Minnesota's Share of the Net Pension Liability	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.0582%	\$ 2,733,944	\$ -	\$ 2,733,944	\$ 3,057,131	89.4%	78.7%
2015	0.0560%	2,902,211	-	2,902,211	3,237,587	89.6%	78.2%
2016	0.0591%	4,798,627	62,701	4,861,328	3,669,560	130.8%	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
TRA Retirement Fund

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 State of Minnesota's Share of the Net Pension Liability	District's Covered- Employee Payroll	District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	0.2082%	\$ 9,593,706	\$ 674,763	\$ 10,268,469	\$ 9,502,729	101.0%	81.5%
2015	0.1976%	12,223,514	1,499,077	13,722,591	10,030,187	121.9%	76.8%
2016	0.2037%	48,587,310	4,875,894	53,463,204	10,593,453	458.7%	44.9%

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

**Independent School District No. 879
Schedule of District Contributions
General Employee Retirement Fund**

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 221,642	\$ 221,642	\$ -	\$ 3,057,131	7.25%
2015	242,819	242,819	-	3,237,587	7.50%
2016	275,217	275,217	-	3,669,560	7.50%
2017	282,565	282,565	-	3,767,533	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 Fund**

<u>Fiscal Year Ending June 30,</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
2014	\$ 665,191	\$ 665,191	\$ -	\$ 9,502,729	7.00%
2015	752,264	752,264	-	10,030,187	7.50%
2016	794,509	794,509	-	10,593,453	7.50%
2017	822,683	822,683	-	10,969,107	7.50%

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

Independent School District No. 879
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 6 years and female rates set back 5 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 3 years and female rates set back 3 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.

Independent School District No. 879
Notes to the Required Supplementary Information

General Employees Fund (Continued)

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

Independent School District No. 879
Combining Balance Sheet -
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue Funds		
	Food Service	Community Service	Total
Assets			
Cash and investments	\$ 289,928	\$ 315,912	\$ 605,840
Current property taxes receivable	-	118,706	118,706
Delinquent property taxes receivable	-	3,930	3,930
Accounts receivable	1,620	13,150	14,770
Due from Department of Education	-	16,551	16,551
Due from other Minnesota school districts	-	8,784	8,784
Due from other governmental units	-	225	225
Inventory	19,652	11,745	31,397
Total assets	<u>\$ 311,200</u>	<u>\$ 489,003</u>	<u>\$ 800,203</u>
Liabilities			
Accounts payable	\$ 403	\$ 39,497	\$ 39,900
Salaries and benefits payable	19,979	88,253	108,232
Due to other governmental units	-	2,267	2,267
Unearned revenue	32,728	44,883	77,611
Total liabilities	<u>53,110</u>	<u>174,900</u>	<u>228,010</u>
Deferred Inflows of Resources			
Property taxes levied for subsequent year's expenditures	-	243,210	243,210
Unavailable revenue - delinquent property taxes	-	3,189	3,189
Total deferred inflows of resources	<u>-</u>	<u>246,399</u>	<u>246,399</u>
Fund Balances			
Nonspendable	19,652	11,745	31,397
Restricted	238,438	55,959	294,397
Total fund balances	<u>258,090</u>	<u>67,704</u>	<u>325,794</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 311,200</u>	<u>\$ 489,003</u>	<u>\$ 800,203</u>

Independent School District No. 879
Combining Statement of Revenues, Expenditures, and Changes in
Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2017

	<u>Special Revenue Funds</u>		<u>Total</u>
	<u>Food Service</u>	<u>Community Service</u>	<u>Nonmajor Funds</u>
Revenues			
Local property taxes	\$ -	\$ 191,252	\$ 191,252
Other local and county revenues	5,078	1,904,434	1,909,512
Revenue from state sources	46,103	152,914	199,017
Revenue from federal sources	276,595	-	276,595
Sales and other conversion of assets	748,410	97,382	845,792
Total revenues	<u>1,076,186</u>	<u>2,345,982</u>	<u>3,422,168</u>
Expenditures			
Current			
Food service	1,017,797	-	1,017,797
Community education and services	-	2,394,398	2,394,398
Capital outlay			
Community education and services	-	10,393	10,393
Total expenditures	<u>1,017,797</u>	<u>2,404,791</u>	<u>3,422,588</u>
Excess of revenues over expenditures	58,389	(58,809)	(420)
Other financing source			
Transfers in	-	2,406	2,406
Net change in fund balances	58,389	(56,403)	1,986
Fund Balances			
Beginning of year	<u>199,701</u>	<u>124,107</u>	<u>323,808</u>
End of year	<u>\$ 258,090</u>	<u>\$ 67,704</u>	<u>\$ 325,794</u>

Independent School District No. 879
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Detail General Fund
Year Ended June 30, 2017

	2017				2016
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget - Over (Under)	Amounts
Revenues					
Local property taxes					
Property tax levy	\$ 3,634,307	\$ 3,626,466	\$ 3,672,105	\$ 45,639	\$ 2,466,302
County apportionment	50,000	50,000	31,427	(18,573)	38,716
Miscellaneous taxes	25,000	25,000	74,404	49,404	28,076
Total local property taxes	3,709,307	3,701,466	3,777,936	76,470	2,533,094
Other local and county revenues					
Tuition and fees	263,150	310,990	319,615	8,625	368,157
Interest	15,000	49,875	67,938	18,063	32,242
Other local revenues	131,000	668,593	669,060	467	571,383
Total other local and county revenues	409,150	1,029,458	1,056,613	27,155	971,782
Revenue from state sources					
General education aid	17,698,639	18,006,841	18,172,427	165,586	17,116,478
Endowment fund	67,200	86,000	85,919	(81)	79,011
Special education aid	2,180,000	2,443,879	2,525,954	82,075	2,253,190
Educational agricultural and homestead credit	7,100	7,900	7,097	(803)	6,702
Other aids	751,979	1,445,338	848,135	(597,203)	1,021,931
Total revenue from state sources	20,704,918	21,989,958	21,639,532	(350,426)	20,477,312
Revenue from federal sources					
Title I	49,453	51,022	51,022	-	66,379
Special education	126,419	109,385	109,384	(1)	162,269
Other	46,339	47,182	47,182	-	48,172
Total revenue from federal source	222,211	207,589	207,588	(1)	276,820
Sales and other conversion of assets					
Local sales and other conversion of assets	-	15,894	15,894	-	6,927
Total revenues	25,045,586	26,944,365	26,697,563	(246,802)	24,265,935
Expenditures					
Current					
Administration					
Salaries and wages	733,439	752,581	742,881	(9,700)	735,346
Employee benefits	296,749	302,109	293,375	(8,734)	277,208
Purchased services	12,200	11,840	9,180	(2,660)	7,509
Supplies and materials	9,990	34,260	22,093	(12,167)	20,629
Capital expenditures	7,500	7,500	500	(7,000)	4,994
Other expenditures	34,958	75,607	24,003	(51,604)	20,232
Total administration	1,094,836	1,183,897	1,092,032	(91,865)	1,065,918
District support services					
Salaries and wages	354,256	359,076	353,090	(5,986)	378,986
Employee benefits	198,804	179,276	172,867	(6,409)	176,146
Purchased services	230,211	211,813	207,218	(4,595)	218,048
Supplies and materials	29,450	51,917	51,527	(390)	23,666
Capital expenditures	214,000	265,513	259,127	(6,386)	324,583
Other expenditures	49,300	23,694	20,882	(2,812)	46,163
Total district support services	1,076,021	1,091,289	1,064,711	(26,578)	1,167,592

Independent School District No. 879
Schedule of Revenues, Expenditures, and
Changes In Fund Balance -
Budget and Actual - Detail General Fund
Year Ended June 30, 2017

	2017				2016
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)	Actual Amounts
	Original	Final			
Expenditures					
Elementary and secondary regular instruction					
Salaries and wages	\$ 8,012,444	\$ 8,101,787	\$ 7,884,762	\$ (217,025)	\$ 7,814,002
Employee benefits	3,113,424	3,149,849	3,070,773	(79,076)	3,186,256
Purchased services	642,899	781,371	728,920	(52,451)	694,707
Supplies and materials	252,926	651,326	603,436	(47,890)	456,520
Capital expenditures	47,500	159,099	133,609	(25,490)	112,757
Other expenditures	15,407	494,019	72,232	(421,787)	26,761
Total elementary and secondary regular instruction	12,084,600	13,337,451	12,493,732	(843,719)	12,291,003
Vocational education instruction					
Salaries and wages	104,883	105,288	105,187	(101)	101,409
Employee benefits	50,615	50,566	50,075	(491)	47,184
Purchased services	204,100	209,124	206,600	(2,524)	189,401
Supplies and materials	4,000	5,160	3,760	(1,400)	1,915
Other expenditures	-	6,520	764	(5,756)	-
Total vocational education instruction	363,598	376,658	366,386	(10,272)	339,909
Special education instruction					
Salaries and wages	2,528,658	2,548,747	2,513,723	(35,024)	2,439,698
Employee benefits	959,352	1,051,928	1,004,137	(47,791)	862,321
Purchased services	270,820	304,824	296,240	(8,584)	294,120
Supplies and materials	89,017	60,980	53,072	(7,908)	63,218
Capital expenditures	4,950	24,308	23,198	(1,110)	18,503
Other expenditures	18,100	141,852	43,342	(98,510)	23,458
Total special education instruction	3,870,897	4,132,639	3,933,712	(198,927)	3,701,318
Instructional support services					
Salaries and wages	861,101	838,314	822,305	(16,009)	707,617
Employee benefits	315,282	313,352	300,706	(12,646)	252,484
Purchased services	150,008	88,270	74,287	(13,983)	63,743
Supplies and materials	220,428	69,442	60,716	(8,726)	37,378
Capital expenditures	16,170	24,922	22,222	(2,700)	9,177
Other expenditures	2,870	44,523	7,781	(36,742)	14,744
Total instructional support services	1,565,859	1,378,823	1,288,017	(90,806)	1,085,143
Pupil support services					
Salaries and wages	335,266	270,026	264,525	(5,501)	255,567
Employee benefits	299,727	299,489	293,160	(6,329)	343,320
Purchased services	1,547,150	1,709,027	1,699,718	(9,309)	1,579,821
Supplies and materials	10,695	12,257	21,119	8,862	19,311
Capital expenditures	1,100	1,585	470	(1,115)	8,985
Other expenditures	425	15,425	1,800	(13,625)	1,650
Total pupil support services	2,194,363	2,307,809	2,280,792	(27,017)	2,208,654

Independent School District No. 879
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Detail General Fund
Year Ended June 30, 2017

	2017			2016
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Over (Under)
				Actual
				Amounts
Expenditures				
Sites and buildings				
Salaries and wages	\$ 687,635	\$ 649,080	\$ 642,594	\$ (6,486)
Employee benefits	370,415	362,446	343,993	(18,453)
Purchased services	997,826	998,087	771,303	(226,784)
Supplies and materials	290,800	293,092	268,803	(24,289)
Capital expenditures	20,000	48,719	25,497	(23,222)
Other expenditures	12,720	12,720	13,500	780
Total sites and buildings	<u>2,379,396</u>	<u>2,364,144</u>	<u>2,065,690</u>	<u>(298,454)</u>
Fiscal and other fixed cost programs				
Purchased services	<u>97,000</u>	<u>103,200</u>	<u>103,182</u>	<u>(18)</u>
Debt service				
Principal	233,798	233,901	233,901	-
Interest and fiscal charges	<u>64,681</u>	<u>64,578</u>	<u>64,577</u>	<u>(1)</u>
Total debt service	<u>298,479</u>	<u>298,479</u>	<u>298,478</u>	<u>(1)</u>
Total expenditures	<u>25,025,049</u>	<u>26,574,389</u>	<u>24,986,732</u>	<u>(1,587,657)</u>
Excess of revenues over				
(under) expenditures	20,537	369,976	1,710,831	1,340,855
Other Financing Sources				
Proceeds from sale of capital assets	-	624	624	-
Transfers out	<u>-</u>	<u>-</u>	<u>(2,406)</u>	<u>(2,406)</u>
Total other financing sources	<u>-</u>	<u>624</u>	<u>(1,782)</u>	<u>(2,406)</u>
Net change in fund balance	<u>\$ 20,537</u>	<u>\$ 370,600</u>	1,709,049	<u>\$ 1,338,449</u>
Fund Balance				
Beginning of year			<u>6,937,336</u>	<u>6,834,458</u>
End of year			<u>\$ 8,646,385</u>	<u>\$ 6,937,336</u>

Independent School District No. 879
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Detail Food Service Fund
Year Ended June 30, 2017

	2017				2016
	Budgeted Amounts		Actual	Variance with	Actual
	Original	Final	Amounts	Final Budget - Over (Under)	Amounts
Revenues					
Other local and county revenues					
Interest	\$ 400	\$ 2,300	\$ 2,138	\$ (162)	\$ 3,298
Other local revenues	2,000	2,920	2,940	20	1,194
Total other local and county revenues	2,400	5,220	5,078	(142)	4,492
Revenue from state sources					
Lunch program aid	43,770	46,320	46,103	(217)	44,480
Revenue from federal sources					
Lunch aid program	199,722	193,267	192,901	(366)	195,958
Food distribution program	65,000	83,750	83,694	(56)	74,653
Total revenue from federal sources	264,722	277,017	276,595	(422)	270,611
Sales and other conversion of assets					
Sale of food	715,647	728,932	748,410	19,478	698,850
Total revenues	1,026,539	1,057,489	1,076,186	18,697	1,018,433
Expenditures					
Current					
Food service					
Salaries and wages	375,627	375,657	372,150	(3,507)	362,486
Employee benefits	171,913	167,997	154,915	(13,082)	144,664
Purchased services	34,950	42,150	37,166	(4,984)	38,355
Supplies and materials	449,250	471,115	451,582	(19,533)	440,842
Capital expenditures	-	-	-	-	19,364
Other expenditures	5,600	1,985	1,984	(1)	5,516
Total expenditures	1,037,340	1,058,904	1,017,797	(41,107)	1,011,227
Net change in fund balance	\$ (10,801)	\$ (1,415)	58,389	\$ 59,804	7,206
Fund Balance					
Beginning of year			199,701		192,495
Ending of year			\$ 258,090		\$ 199,701

Independent School District No. 879
Schedule of Revenues, Expenditures, and
Changes in Fund Balance -
Budget and Actual - Detail Community Service Fund
Year Ended June 30, 2017

	2017			2016
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Over (Under)
				Actual
				Amounts
Revenues				
Local property taxes				
Property tax levy	\$ 190,165	\$ 190,165	\$ 191,021	\$ 856
Miscellaneous taxes	350	350	231	(119)
Total local property taxes	190,515	190,515	191,252	737
Other local and county revenues				
Tuition and fees	1,713,086	1,741,807	1,804,260	62,453
Interest	1,000	1,000	1,963	963
Other local revenues	51,500	82,003	98,211	16,208
Total other local and county revenues	1,765,586	1,824,810	1,904,434	79,624
Revenue from state sources				
Educational agricultural and homestead credit	1,700	1,700	1,339	(361)
Other aids	154,380	150,330	151,575	1,245
Total revenue from state sources	156,080	152,030	152,914	884
Sales and other conversion of assets				
Sale of food	115,000	103,500	97,382	(6,118)
Total revenues	2,227,181	2,270,855	2,345,982	75,127
Expenditures				
Community education and services				
Salaries and wages	1,383,785	1,374,012	1,515,524	141,512
Employee benefits	394,215	365,846	373,728	7,882
Purchased services	303,172	314,773	320,360	5,587
Supplies and materials	186,612	181,818	162,812	(19,006)
Capital expenditures	18,500	17,293	10,393	(6,900)
Other expenditures	9,286	9,286	21,974	12,688
Total expenditures	2,295,570	2,263,028	2,404,791	141,763
Excess of revenues over				
(under) expenditures	(68,389)	7,827	(58,809)	(66,636)
Other financing sources (uses)				
Transfers in	-	-	2,406	2,406
Net change in fund balance	<u>\$ (68,389)</u>	<u>\$ 7,827</u>	(56,403)	<u>\$ (64,230)</u>
Fund Balance				
Beginning of year			124,107	265,859
End of year			<u>\$ 67,704</u>	<u>\$ 124,107</u>

Independent School District No. 879
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	\$ 26,697,563	\$ 26,697,563	\$ -	Total revenue	\$ 333,335	\$ 333,335	\$ -
Total expenditures	24,986,732	24,986,730	2	Total expenditures	24,092,643	24,092,644	(1)
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable fund balance	90,114	90,114	-	460 Nonspendable fund balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/reserved:</i>			
403 Staff Development	166,879	166,879	-	407 Capital Projects Levy	-	-	-
406 Health and Safety	(23,618)	(23,618)	-	413 Building Projects Funded by COP	-	-	-
407 Capital Projects Levy	-	-	-	467 Long-term Facilities Maintenance	-	-	-
408 Cooperative Programs	-	-	-	<i>Restricted:</i>			
409 Alternative Facility Program	-	-	-	464 Restricted fund balance	39,349,282	39,349,282	-
413 Building Projects Funded by COP/LP	-	-	-	<i>Unassigned:</i>			
414 Operating Debt	-	-	-	463 Unassigned fund balance	-	-	-
416 Levy Reduction	-	-	-				
417 Taconite Building Maintenance	-	-	-	07 Debt Service Fund			
424 Operating Capital	1,210,172	1,210,172	-	Total revenue	\$ 5,691,589	\$ 5,691,589	\$ -
426 \$25 Taconite	-	-	-	Total expenditures	5,266,144	5,266,144	-
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable fund balance	-	-	-
434 Area Learning Center	7,301	7,301	-	<i>Restricted/reserved:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond refunding	-	-	-
436 State Approved Alternative Program	-	-	-	451 QZAB and QSCB payments	-	-	-
438 Gifted and Talented	-	-	-	<i>Restricted:</i>			
440 Teacher Development and Evaluation	-	-	-	464 Restricted fund balance	936,767	936,766	1
441 Basic Skills Programs	-	-	-	<i>Unassigned:</i>			
445 Career Technical Programs	-	-	-	463 Unassigned fund balance	-	-	-
446 First Grade Preparedness	-	-	-				
448 Achievement and Integration	-	-	-	08 Trust Fund			
449 Safe School Crime	-	-	-	Total revenue	\$ 84,113	\$ 84,113	\$ -
450 Transition for Pre-kindergarten	-	-	-	Total expenditures	77,901	77,901	-
451 QZAB and QSCB Payments	-	-	-	<i>Unassigned:</i>			
452 OPEB Liabilities not Held in Trust	-	-	-	422 Unassigned fund balance (net position)	37,258	37,258	-
453 Unfunded Severance and	-	-	-				
467 Long-term Facilities Maintenance	825,373	825,373	-	20 Internal Service Fund			
472 Medical Assistance	811	811	-	Total revenue	\$ -	\$ -	\$ -
<i>Restricted Retirement Levy</i>	-	-	-	Total expenditures	-	-	-
464 Restricted fund balance	-	-	-	<i>Unassigned:</i>			
<i>Committed:</i>				422 Unassigned fund balance (net position)	-	-	-
418 Committed for separation	125,431	125,431	-				
461 Committed	-	-	-	25 OPEB Revocable Trust			
<i>Assigned:</i>				Total revenue	\$ -	\$ -	\$ -
462 Assigned fund balance	577,872	577,872	-	Total expenditures	-	-	-
<i>Unassigned:</i>				<i>Unassigned:</i>			
422 Unassigned fund balance (net position)	5,666,050	5,666,053	(3)	422 Unassigned fund balance (net position)	-	-	-
02 Food Services Fund				45 OPEB Irrevocable Trust			
Total revenue	\$ 1,076,186	\$ 1,076,187	\$ (1)	Total revenue	\$ -	\$ -	\$ -
Total expenditures	1,017,797	1,017,798	(1)	Total expenditures	-	-	-
<i>Nonspendable:</i>				<i>Unassigned:</i>			
460 Nonspendable fund balance	19,652	19,652	-	422 Unassigned fund balance (net position)	-	-	-
<i>Restricted/reserved:</i>							
452 OPEB liabilities not held in trust	-	-	-	47 OPEB Debt Service			
<i>Restricted:</i>				Total revenue	\$ -	\$ -	\$ -
464 Restricted fund balance	238,438	238,437	1	Total expenditures	-	-	-
<i>Unassigned:</i>				<i>Nonspendable:</i>			
463 Unassigned fund balance	-	-	-	460 Nonspendable fund balance	-	-	-
				<i>Restricted:</i>			
04 Community Service Fund				464 Restricted fund balance	-	-	-
Total revenue	\$ 2,345,982	\$ 2,345,980	\$ 2	<i>Unassigned:</i>			
Total expenditures	2,404,791	2,404,789	2	463 Unassigned fund balance	-	-	-
<i>Nonspendable:</i>							
460 Nonspendable fund balance	11,745	11,745	-				
<i>Restricted/reserved:</i>							
426 \$25 Taconite	-	-	-				
431 Community Education	64,197	64,197	-				
432 ECFE	(9,204)	(9,204)	-				
440 Teacher Development and Evaluation	-	-	-				
444 School Readiness	-	-	-				
447 Adult Basic Education	966	966	-				
452 Opeb Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted fund balance	-	-	-				
<i>Unassigned:</i>							
463 Unassigned fund balance	-	-	-				

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**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 School Board
Independent School District No. 879
Delano, Minnesota

We have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 879, Delano, 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 November 7, 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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.



Internal Control over Financial Reporting (Continued)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control that we consider to be a significant deficiency in internal control, Audit Finding 2011-001.

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 response to the finding identified in our audit is described in the accompanying Schedule of Findings and Corrective Action Plans on Legal Compliance and Internal Control. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in dark ink that reads 'BerganKDV Ltd.' followed by a period.

Minneapolis, Minnesota
November 7, 2017

Report on Legal Compliance

Independent Auditor's Report

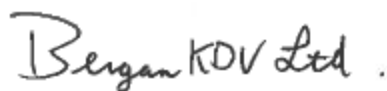
To the School Board
Independent School District No. 879
Delano, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Independent School District No. 879, Delano, Minnesota, as of and for the year ended June 30, 2017, and the related notes to financial statements, and have issued our report thereon dated November 7, 2017.

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



Minneapolis, Minnesota
November 7, 2017

Independent School District No. 879
Schedule of Findings and Corrective Action Plans
on Legal Compliance and Internal Control

CURRENT AND PRIOR YEAR INTERNAL CONTROL FINDING:

Audit Finding 2011-001 – Lack of Segregation of Accounting Duties

During the year ended June 30, 2017, the District had a lack of segregation of accounting duties in the cash disbursements, receipts, and payroll processes due to a limited number of office employees. 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. This lack of segregation of accounting duties can be demonstrated in the following areas, which is not intended to be an all-inclusive list:

- The district accountant enters bank deposit amounts in skyward, along with preparing the monthly bank reconciliations.
- The District Accountant stuffs and mails checks to vendors, along with preparing the monthly bank reconciliations.
- The Business Manager and District Accountant have access to all areas of the accounting system, while performing some initiation and reconciliation duties.

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 examine current segregation of accounting duties and identify areas of concern. As these areas are identified, Administration will develop policies that will address and mitigate such potential problems while working within current financial constraints. Specific areas of greatest concern will be identified first and then addressed, followed up by policies with a plan to reduce the risk of problems. Specifics will be noted in the policies as they are brought before the School Board. An individual who is responsible for the implementation of the specific control will be named, as well as information on how the control added will potentially reduce risk of possible misstatement in the financial statements. As areas are addressed, other areas will be examined and corrected whenever possible.
3. Official Responsible for Ensuring CAP
Matthew Schoen, Superintendent, is the official responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP
The planned completion date for the CAP is ongoing.
5. Plan to Monitor Completion of CAP
The School Board will be monitoring this CAP.