

Princeton Public Schools - ISD 477  
Tuesday, November 7, 2017 at 8:05 PM  
Regular School Board Meeting  
District Office Board Room Located @ City Hall (Use City Hall Entrance)

**Our Mission**

*Princeton is an innovative leader in instruction, developing in EVERY learner the ability to succeed in an ever-changing world.*

**Our Vision**

*Princeton will equip every student to be career and college ready through personalized instruction, community partnerships and collaboration.*

1. **PROCEDURAL ITEMS**
2. Call to Order and Pledge of Allegiance
3. Roll Call
4. Citizen Comments
5. **REPORTS**
  - a. Board Members Committee Reports
  - b. Student Council Report
  - c. Superintendent Report
6. **APPROVE AGENDA**
7. **DISCUSS and ACT on PREVIOUS BOARD MEETING MINUTES** 3
8. **CONSENT AGENDA**

*The consent agenda consists of non-controversial items that the Board adopts routinely without debate. Any single member may remove an item from consent agenda by requesting removal at the time the consent agenda is moved for adoption. The full text of items approved by consent may be found at the conclusion of the agenda.*

  - a. Personnel 5
  - b. Fundraiser 6
  - c. Gift/Donation 8
9. **INFORMATION**
  - a. The Big Read Update-Presented by Cindy Brovold 11
  - b. Audit Presentation-Presented by Bergen KDV 21
  - c. Strategic Plan-Goal 2 Presentation-Sarah Marxhausen 130
10. **ACTION**
  - a. Acceptance of Audit

*I move to accept the 2016-2017 Audit that was prepared by Bergen KDV*

b. Food Service Summary-Presented by Sarah Marxhausen

136

*I move to accept the Food Service tentative contract as presented.*

**11. ADDITIONS TO AGENDA**

**12. FUTURE MEETINGS**

The Big Read Spaghetti Dinner- 11/15-5:00-7:00

Para Negotiations-11/16-3:30-5:30

Secretary Negotiations-11/16-5:45-8:00

Wellness Committee Meeting-11/20-3:30

Finance Meeting-11/20-4:30

Policy meeting-11/21-5:00

School Board Study Session- 11/21- 6:00

**13. ADJOURN**

**Call to Order and Pledge of Allegiance**

The regular meeting of the School Board of District #477 was called to order by Chair Deb Ulm on the **17th day of October, at 5:00 p.m.** in the District Center Board Room.

Roll Call: Members Present: Howard Vaillancourt, Deb Ulm, Eric Strandberg, Chad Young, Sue VanHooser

Members Absent: Eric Minks, Craig Johnson  
Chad Young arrived at 5: 30.

Others present: Superintendent Julia Espe, Director of Business Services Michelle Czech, Director of Human Resources Sarah Marxhausen

Student Council Representative: None

Citizen Comments: None

**REPORTS**

**Board committee meeting(s) and school events each Board member attended.**

Howard Vaillancourt	Activities Meeting
Deb Ulm	Agenda Planning
Sue VanHooser	SEE Meeting, Community Ed

Student Council Report: None

Superintendent Report: Right now the district is helping staff and families cope during this difficult time with the recent loss of an employee.

**APPROVE AGENDA**

Motion made by Sue VanHooser, seconded by Eric Strandberg **to approve the agenda as presented.** Motion passed unanimously.

**DISCUSS and ACT on PREVIOUS BOARD MEETING MINUTES**

Motion made by Howard Vaillancourt seconded by Eric Strandberg, **to approve the October 3rd, regular meeting minutes.** Motion passed unanimously.

**CONSENT AGENDA**

Motion made by Howard Vaillancourt, seconded by Sue VanHooser **to approve the consent agenda as presented.** Personnel, Fundraiser, Gift/Donation, Hand to Hand

Preschool Handbook, ECFE Handbook.

**STUDY SESSION-** The board started their Work Session with Dennis Cheesebrow at 5:03 p.m. The board discussed topics such as:

- Roles and Responsibilities of
  - Community
  - Families
  - Staff
  - Administration
  - Superintendent
  - School Board
- Governance
- Restructuring of School Board Work

Howard Vaillancourt made a motion to adjourn. Eric Strandberg seconded the motion. The Work Session adjourned at 7:14 p.m.

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Chair Deb Ulm

---

Clerk Eric Minks

Recorder-Kari Plafcan

**11.07.17**

<b>Status</b>	<b>Last Name</b>	<b>First Name</b>	<b>Building</b>	<b>Job Title</b>	<b>Group</b>	<b>Replacing</b>	<b>Effective Date</b>	<b>Wage</b>
New Hire	Valdivieso Ferrandiz	Pedro	High School	Assistant Girls Basketball Coach	Activities	Kate Rysavy	10.17	\$3,560.00
<b>Status</b>	<b>Last Name</b>	<b>First Name</b>	<b>Building</b>	<b>Job Title</b>	<b>Group</b>	<b>Replacing</b>	<b>Effective Date</b>	<b>Wage</b>
Resignation	Overfield	Amanda	High School	Breakfast shift-Food Server	Food Service	N/A	10.12.17	
<b>Status</b>	<b>Last Name</b>	<b>First Name</b>	<b>Building</b>	<b>Job Title</b>	<b>Group</b>	<b>Replacing</b>	<b>Effective Date</b>	<b>Wage</b>
Extra Duty	Benner	Bobbi	Middle School	.5 Student Council	Activities	Joan Becker	10.9.17	\$989.00
Extra Duty	Steinbrecher	Jon	Middle School	.5 Student Council	Activities	Joan Becker	10.9.17	\$989.00
<b>Status</b>	<b>Last Name</b>	<b>First Name</b>	<b>Building</b>	<b>Job Title</b>	<b>Group</b>	<b>Replacing</b>	<b>Effective Date</b>	<b>Wage</b>
LOA	Ross	Erik	Middle School	Teacher	PEA	N/A	12.4.17-12.21.17	
LOA	Tonn	Shirley	Primary School	SpEd Para	Para	N/A	10.26.17-12.7.17	
LOA	Beach	John	Intermediate School	Principal	Admin	N/A	11.15.17-01.02.18 (aprox.)	

## FUNDRAISING APPROVAL FORM

Date of fundraiser: <i>Nov 1 - Nov 13</i>		Projected profit: \$ <i>3000.00</i>		Amount earned:	
Group or organization proposing the fundraiser: <i>Princeton FFA</i>				Item(s) being sold: <i>Fruit, cheese, sausage Butterbraids</i>	
Company/organization supplying items to be sold: <i>Minnitex, Kittleson, McCone</i>					
The money raised will be used for: <i>Ag Careers TOURS / Educational Camps</i>					
The school board recognizes a desire and a need for fundraising to support district programs or student activities. The school board also recognizes a need for some constraint to prevent fundraising activities from becoming too numerous and overly demanding on employees, students, and the general public.				Place a checkmark beside each box to indicate whether the criteria for fundraising are met.	
Pupils may engage in raising funds, under the control of the school, for certain approved activities and for a limited number of charities, subject to the following conditions:					
				Yes	No
1.	Individual student participation is optional. Students will not be pressured to sell products or solicit funds and will not be required to meet a sales quota to participate in an activity or field trip.			X	
2.	The charity involved has been selected by the student body as one in which they wish to participate (if applicable).			X	
3.	Addressed envelopes are available to people who prefer to donate directly rather than purchase a product.			X	
4.	The raising of funds shall not be done during normal class time. Students will be informed that they are not to fundraise during class time.			X	
5.	Information is going home with the students to the parents explaining the district's fundraising policy.			X	
6.	I have discussed this fundraiser with the administrator and have identified the purpose of the fundraiser.			X	
7.	The students participating in the fundraiser have been informed that they are representing the school, the student organization and the community in a responsible manner. All rules pertaining to student conduct and discipline extend to student fundraising activities.			X	
8.	Door-to-door sales are discouraged, but if approved, students may be allowed to sell door-to-door according to the following standards: • K-8: Only allowed if a parent or guardian is with the student • 9-12: Groups of two or more students working together.			X	
I have reviewed Policy #511 Fundraising and agree to its provisions:					
Date: <i>Oct 24, 2017</i>		Teacher/Sponsor Signature: <i>[Signature]</i>			
As administrator, I understand that approval of this fundraiser means that all provisions of the above policy have been complied with to my satisfaction. _____ APPROVED _____ NOT APPROVED					
Date: <i>10/27/17</i>		Administrator Signature: <i>[Signature]</i>			
Date: <i>11.1.17</i>		Superintendent Signature: <i>[Signature]</i>			
Date:		School Board Chair Signature:			



PRINCETON PUBLIC SCHOOLS  
**ACCEPTANCE OF GIFTS FORM**

In compliance with school district Policy 706 (Acceptance of Gifts), this form must be completed for approval by the School Board before the district receives the gift or donation.

Please obtain Principal or Director signature prior to sending to board for approval.

Donor name: Best Buy Foundation C/o Cyber Grants  
300 Brickstone Sq. Suite 601  
Andover, MA 01810

Description of gift: \$2,500.00 Check # 310083  
Grant funds.

Pre-Condition, Condition, or Limitation on use:  
In support of the application  
of functions and patterns - provide  
students with access to new technologies -

How this gift specifically relates to the program or school: Purchase of a  
LEGO MINDSTORMS Education EV3 Core set  
for STEAM program activities.

This gift meets all requirements of Policy 706  
 Accepted  Not Accepted [Signature] Date: 10/20/17  
Principal or Director

Accepted  Not Accepted [Signature] Date: 11.1.17  
Superintendent

Accepted  Not Accepted \_\_\_\_\_ Date: \_\_\_\_\_  
School Board Chairperson

Code Assigned: \_\_\_\_\_ Program Name \_\_\_\_\_  
Routing:  
Principal or Director (thank you note attached)  Copy to Building   
Business Services   
Board Approval  Revised: May 14, 2013

PRINCETON PUBLIC SCHOOLS  
**ACCEPTANCE OF GIFTS FORM**

In compliance with school district Policy 706 (Acceptance of Gifts), this form must be completed for approval by the School Board before the district receives the gift or donation.

Please obtain Principal or Director signature prior to sending to board for approval.

Donor name: Princeton JD Volleyball

Description of gift: \$500.00 Monetary gift.

Pre-Condition, Condition, or Limitation on use:

Use towards volleyball equipment, uniforms, or facilities for volleyball program.

How this gift specifically relates to the program or school: to enhance the school volleyball program.

This gift meets all requirements of Policy 706

Accepted  Not Accepted [Signature] Date: 10/12/17  
Principal or Director

Accepted  Not Accepted [Signature] Date: 11.1.17  
Superintendent

Accepted  Not Accepted \_\_\_\_\_ Date: \_\_\_\_\_  
School Board Chairperson

Code Assigned: \_\_\_\_\_ Program Name \_\_\_\_\_

Routing:  
Principal or Director (thank you note attached)  Copy to Building   
Business Services   
Board Approval

Revised: May 14, 2013

PRINCETON PUBLIC SCHOOLS

**ACCEPTANCE OF GIFTS FORM**

In compliance with school district Policy 706 (Acceptance of Gifts), this form must be completed for approval by the School Board before the district receives the gift or donation.

Please obtain Principal or Director signature prior to sending to board for approval.

Donor name: People's Bank of Commerce

Description of gift: \$ 55.00 Check # 285893

Pre-Condition, Condition, or Limitation on use: Contribution for Community Organization (from Employee Jeans Fridays)

How this gift specifically relates to the program or school: Lunch Accounts for students who can't afford to pay

This gift meets all requirements of Policy 706

Margit Segman  
Staff Name

Accepted  Not Accepted \_\_\_\_\_ Date: \_\_\_\_\_  
Principal or Director

Accepted  Not Accepted Julia Espe Date: 10.23.17  
Superintendent

Accepted  Not Accepted \_\_\_\_\_ Date: \_\_\_\_\_  
School Board Chairperson

Code Assigned: \_\_\_\_\_ Program Name \_\_\_\_\_

Routing:

Principal or Director (thank you note attached)

Copy to Building

Business Services

Board Approval



# ISD 477

Presented by:  
Princeton Public Schools  
District Wide Reading  
Committee

Working to foster a love  
for reading as a core  
community value.



# *Intent of the Project*



- To share the love of reading throughout the community
- To establish a culture of literacy in every home
- To bond community relationships through literature rich conversations
- To deepen an understanding for the *Value of Belonging*



# ***Our Vision and Dream for The Big Read***

WHAT IS IT?



# *Why 3 different reads?*



- To better meet the needs of ALL students in our district
- To improve engagement of all schools in the read
- To express, speak and carry through a unifying theme



# The “How” of our Proposed Dream



**One Big Read**



**Three Great Titles**





# ***We're dreaming big!***



- All PreK-12 students will be involved in the read
- We're planning a kick-off events and distribution practices for all schools and the community
- Our district tech team is helping us create online audio interactions



# Why “*The Value of Belonging?*”



- We want to redefine bullying in a positive way
- We want our community members to know they are valued
- We want our students to develop compassion for one another
- We want to build tolerance and understanding for differences



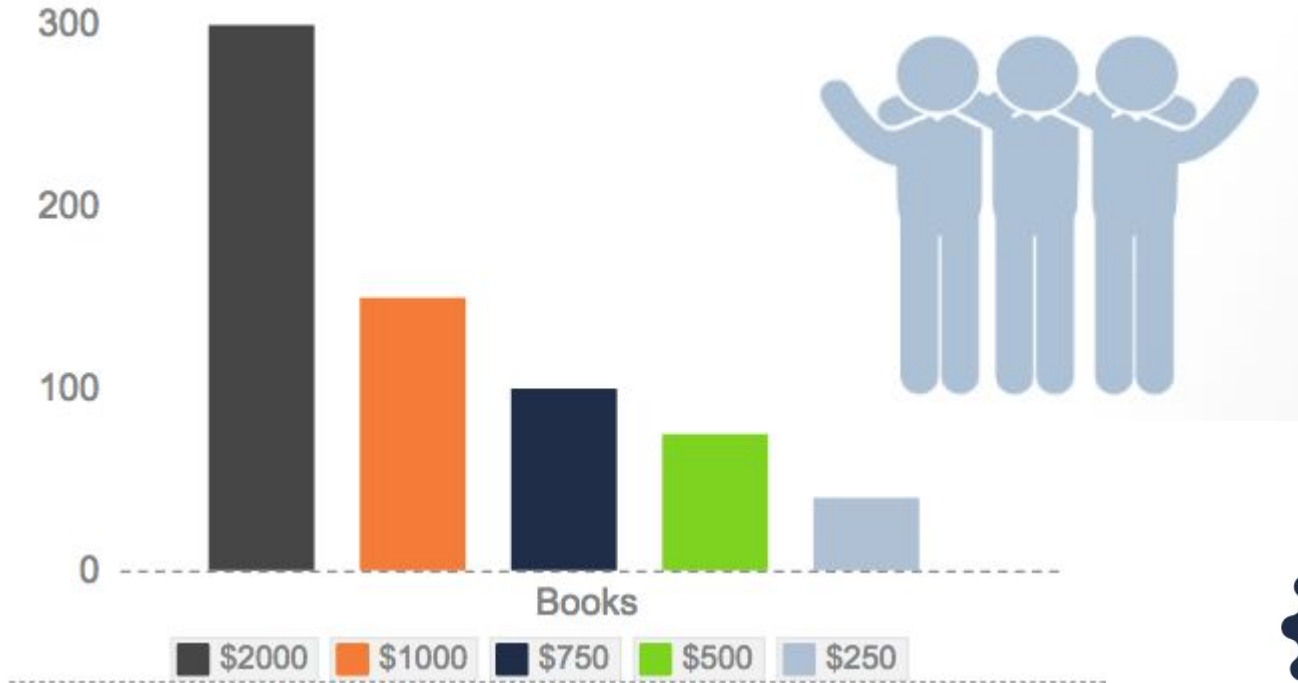
# Highlight



jonathan **FRIESEN**  
THE AUTHOR THE SPEAKER



# An Entire Community



Thank you for helping us reach our goal by January 1, 2018

**Donations welcome at**  
District Center or  
[isd477.org](http://isd477.org) - webstore



Checks can be made payable to:  
District 477  
706 1st Street  
Princeton MN 55371



**Independent School District No. 477  
Princeton, Minnesota**

**Communications Letter**

**June 30, 2017**



**Independent School District No. 477  
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**Report on Matters Identified as a Result of  
the Audit of the Financial Statements**

To the School Board and Management  
Independent School District No. 477  
Princeton, Minnesota

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 477, Princeton, Minnesota as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error, or fraud may occur and not be detected by such controls. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a significant deficiency

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. The significant deficiency identified is stated within this letter.

The accompanying memorandum also includes financial analysis provided as a basis for discussion. The matters discussed herein were considered by us during our audit and they do not modify the opinion expressed in our Independent Auditor's Report dated October 27, 2017, on such statements.



This communication is intended solely for the information and use of management, the School Board, others within the District, and state oversight agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*BerganKDV, Ltd.*

St. Cloud, Minnesota  
October 27, 2017

**Independent School District No. 477  
Significant Deficiency**

**PREPARATION OF FINANCIAL STATEMENTS AND RELATED NOTE DISCLOSURES**

As a function of the audit process, auditors are required to gain an understanding of the District's internal control, including the financial reporting process.

The District does not have an internal control system designed to provide for the preparation of the financial statements and related note disclosures in accordance with accounting principles generally accepted in the United States of America. As auditors, we were requested to draft the financial statements and accompanying notes to financial statements. This circumstance is not unusual in a district of your size.

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected, on a timely basis. Even though all management decisions related to financial reporting are made by the District's management and approval of the financial statements and accompanying note disclosures lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

**Independent School District No. 477  
Required Communication**

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of and for the year ended June 30, 2017. Professional standards require that we provide you with the following information related to our audit.

**OUR RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA, *GOVERNMENT AUDITING STANDARDS*, AND THE UNIFORM GUIDANCE**

As stated in our engagement letter, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance.

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with the Uniform Guidance, we examined, on a test basis, evidence about the District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Compliance Supplement applicable to each of its major federal programs for the purpose of expressing an opinion on the District's compliance with those requirements. While our audit provided a reasonable basis for our opinion, it did not provide a legal determination on the District's compliance with those requirements.

Generally accepted accounting principles provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to the RSI, which supplements the basic audit financial statements, is to apply certain limited procedures in accordance with generally accepted auditing standards. However, the RSI was not audited and, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance, we do not express an opinion or provide any assurance on the RSI.

Our responsibility for the supplementary information accompanying the financial statements, as described by professional standards, is to evaluate the presentation of the supplementary information in relation to the financial statements as a whole and to report on whether the supplementary information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

**Independent School District No. 477  
Required Communication**

**PLANNED SCOPE AND TIMING OF THE AUDIT**

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Our audit included obtaining an understanding of the District and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the District or to acts by management or employees acting on behalf of the District.

**QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES**

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in the notes to financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2017. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Depreciation – The District is currently depreciating its capital assets over their estimated useful lives, as determined by management, using the straight-line method.

General Education and Special Education Aid – General Education Aid is an estimate until average daily membership (ADM) values are final. Since this is normally not done until after the reporting deadline, this Aid is an estimate. Special Education Aid is also dependent upon ADM value; however, in addition to those, this Aid is dependent on the availability of monies and complex formulas that are finalized after reporting deadlines.

Net Other Post Employment Benefits (OPEB) Obligation and Net Pension Obligation – These liabilities are based on actuarial studies of future obligations of the District for post employment and pension benefits.

Net Pension Liability, Deferred Outflows of Resources Related to Pension Activity and Deferred Inflows of Resources Related to Pension Activity – These balances are based on an allocation by the pension plans using estimates based on contributions.

**Independent School District No. 477  
Required Communication**

**QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES (CONTINUED)**

We evaluated the key factors and assumptions used to develop the accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

**DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

**CORRECTED AND UNCORRECTED MISSTATEMENTS**

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. We identified the following uncorrected misstatement of the financial statements. Management has determined their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

- State receivables
- Unavailable revenue related to delinquent property taxes

**DISAGREEMENTS WITH MANAGEMENT**

For purposes of this letter, a disagreement with management is a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

**MANAGEMENT REPRESENTATIONS**

We requested certain representations from management that are included in the management representation letter.

**MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Independent School District No. 477  
Required Communication**

**OTHER AUDIT FINDINGS OR ISSUES**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**OTHER MATTERS**

We applied certain limited procedures to the RSI that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content and methods of preparing the information to determine that the information complies with accounting principles generally accepted in United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

**Independent School District No. 477  
Financial Analysis**

The following pages provide graphic representation of select data pertaining to the financial position and operations of the District for the past five years. Our analysis of each graph is presented to provide a basis for discussion of past performance and how implementing certain changes may enhance future performance. We suggest you view each graph and document if our analysis is consistent with yours.

**AVERAGE DAILY MEMBERSHIP AND PUPIL UNITS**

The largest single funding source for Minnesota school districts is basic General Education Aid. Each year, the State Legislature sets a basic formula allowance. Total basic general education revenue is calculated by multiplying the formula allowance by the number of pupil units for which a district is entitled to aid. Pupil units are calculated using a legislatively determined weighting system applied to ADM. Over the years, various modifications have been made to this calculation, including changes in weighting and special consideration for declining enrollment districts.

<u>Year</u>	<u>General Education Aid Formula Allowance</u>	
	<u>Amount</u>	<u>Percent Increase</u>
2008	5,074	2.0%
2009	5,124	1.0%
2010	5,124	0.0%
2011	5,124	0.0%
2012	5,174	1.0%
2013	5,224	1.0%
2014	5,302	1.5%
2015*	5,831	1.9%
2016	5,948	2.0%
2017	6,067	2.0%
2018	6,188	2.0%

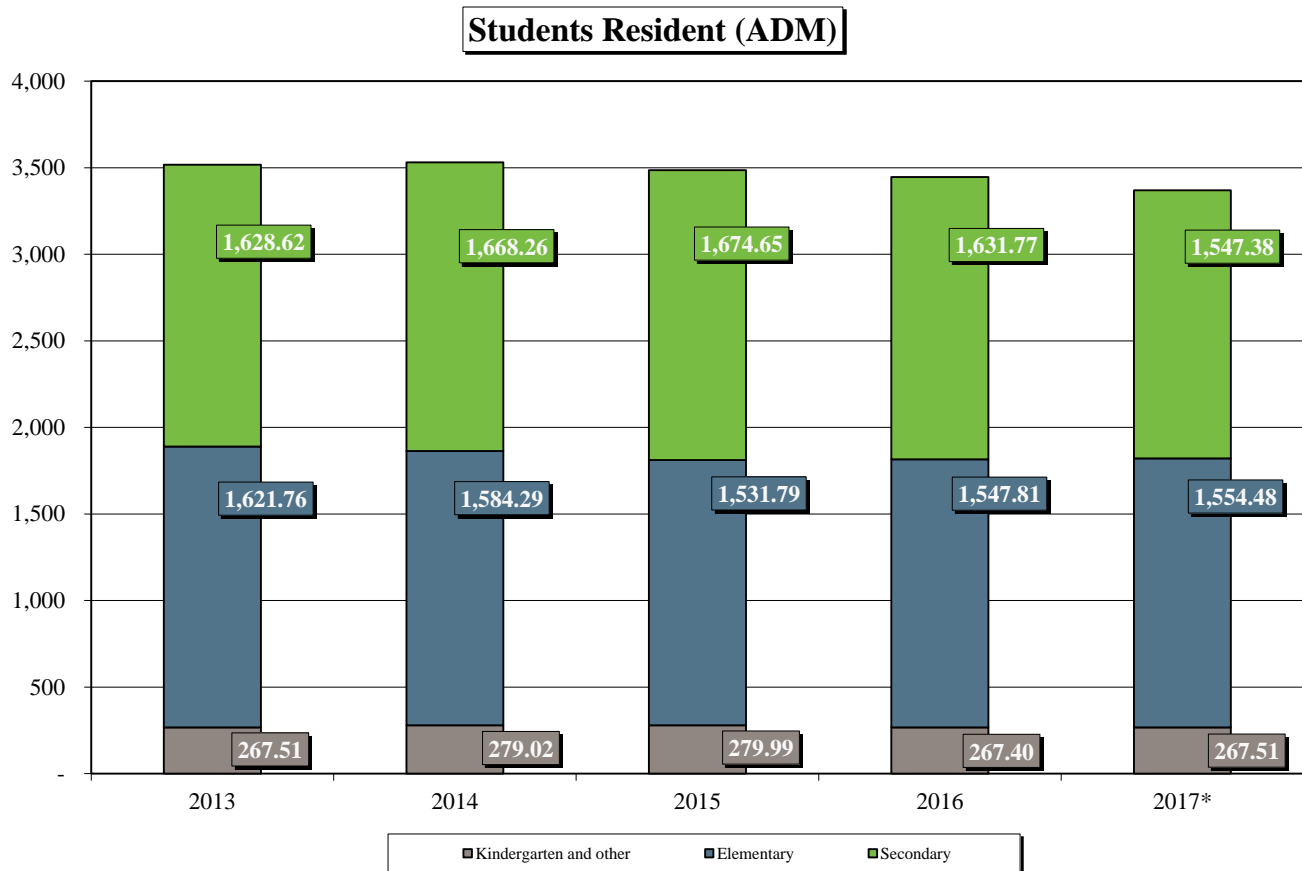
\* General Education Aid - Of the \$529 increase over 2014, \$105 is for inflation at 1.9%; the remaining \$424 is a shifting of revenue to adjust for pupil weight changes, pension adjustments changes and other restructuring.

**Independent School District No. 477  
Financial Analysis**

**AVERAGE DAILY MEMBERSHIP**

<b>ADM</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017*</b>
Kindergarten and other	267.51	279.02	279.99	267.40	267.51
Elementary	1,621.76	1,584.29	1,531.79	1,547.81	1,554.48
Secondary	1,628.62	1,668.26	1,674.65	1,631.77	1,547.38
<b>Total Resident ADM</b>	<b>3,517.89</b>	<b>3,531.57</b>	<b>3,486.43</b>	<b>3,446.98</b>	<b>3,369.37</b>

The following summarizes resident ADM of the District over the past five years ended June 30:



\*Estimate

The chart and graph above illustrate the decrease in resident ADM encountered by the District in the five years presented. Total resident ADM has decreased 4.2% since 2013 and decreased by 2.3% from 2016 to 2017.

To calculate a majority of the District's education aids, the ADM amounts are converted into pupil units by weighting, based on the student's grade level. These weighting factors are presented in the table on the following page.

**Independent School District No. 477  
Financial Analysis**

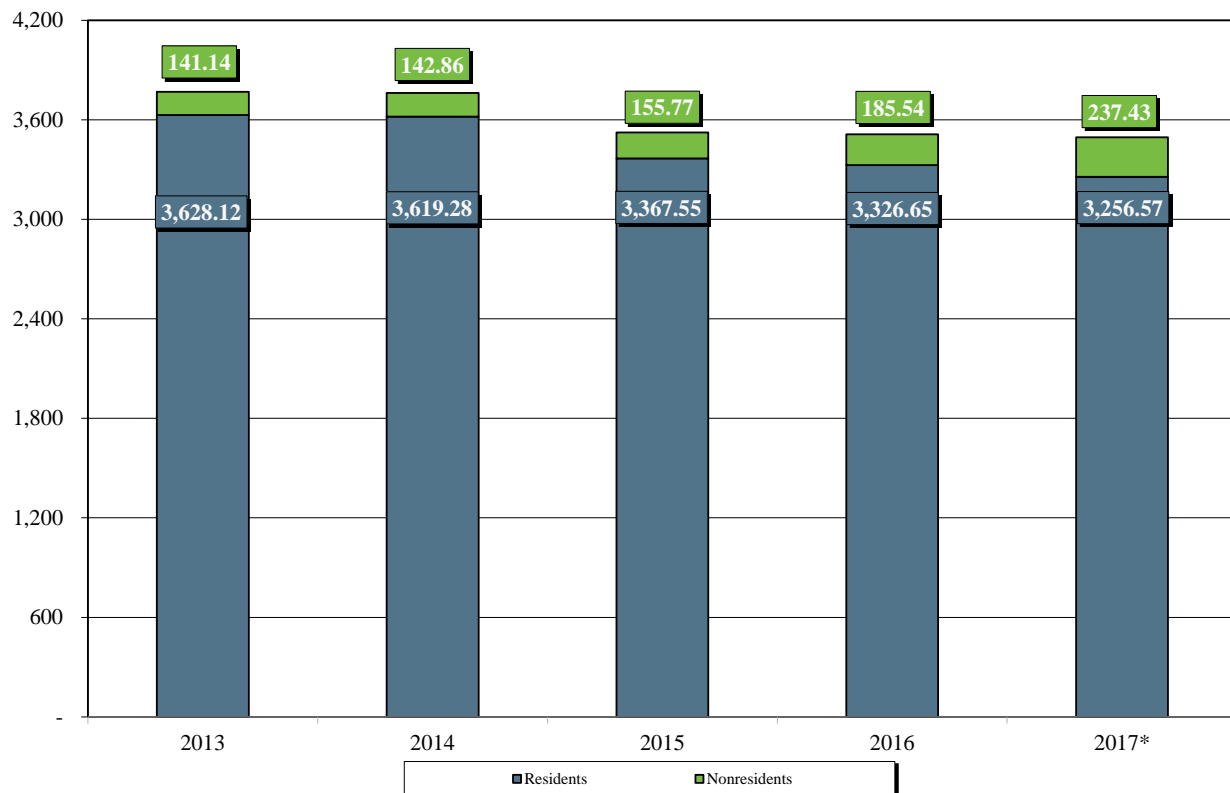
**WEIGHTED AVERAGE DAILY MEMBERSHIP SERVED/PUPIL UNITS**

Pupil Units Weighting						
	Pre-Kindergarten	Kindergarten Disabled	Kindergarten	Elementary Grades 1-3	Elementary Grades 4-6	Secondary
2013 through 2014	1.25	1.00	0.612	1.115	1.06	1.30
2015 through 2017	1.00	1.00	1.000	1.000	1.00	1.20

WADM/PUN	2013	2014	2015	2016	2017*
Residents	4,064.89	4,089.53	3,821.36	3,773.34	3,678.84
Resident WADM going elsewhere	(436.77)	(470.25)	(453.81)	(446.69)	(422.27)
Nonresident WADM coming in	141.14	142.86	155.77	185.54	237.43
<b>Total WADM Served/PUN</b>	<b>3,769.26</b>	<b>3,762.14</b>	<b>3,523.32</b>	<b>3,512.19</b>	<b>3,494.00</b>

The weighting factors changed in 2015 as noted above. As a result, the District's weighted student account appears to have decreased significantly from 2014 to 2015. The District's weighted student count would have decreased 32.30 or approximately 0.9% to 3,729.84 without considering the weighting factor changes. The weighted student count decreased 18.19 or 0.5% from 2016 to 2017.

**Students Served (WADM/PUN)**

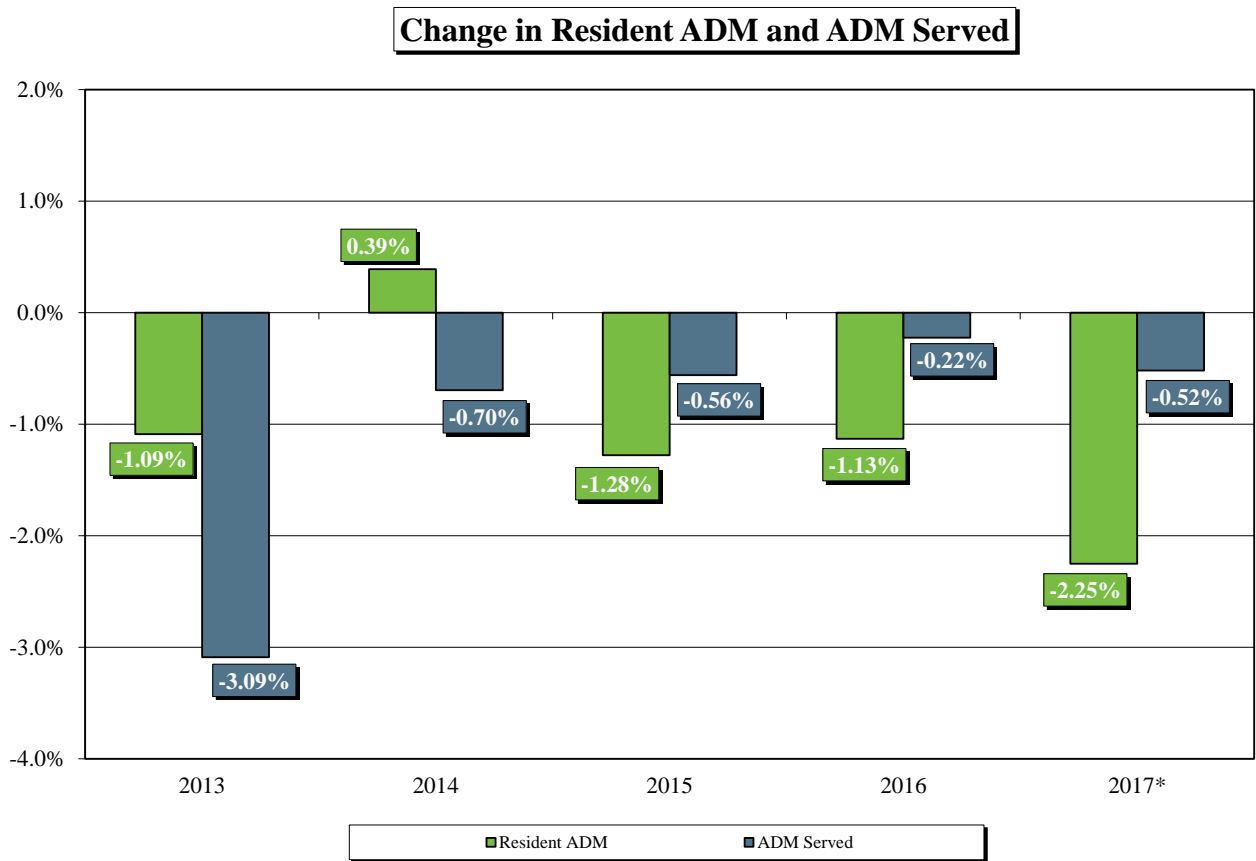


\* Estimate

**Independent School District No. 477  
Financial Analysis**

**RESIDENT AVERAGE DAILY MEMBERSHIP/AVERAGE DAILY MEMBERSHIP SERVED**

The following graph illustrates the percent change in resident ADM and ADM served over the past five years.



\* Estimate

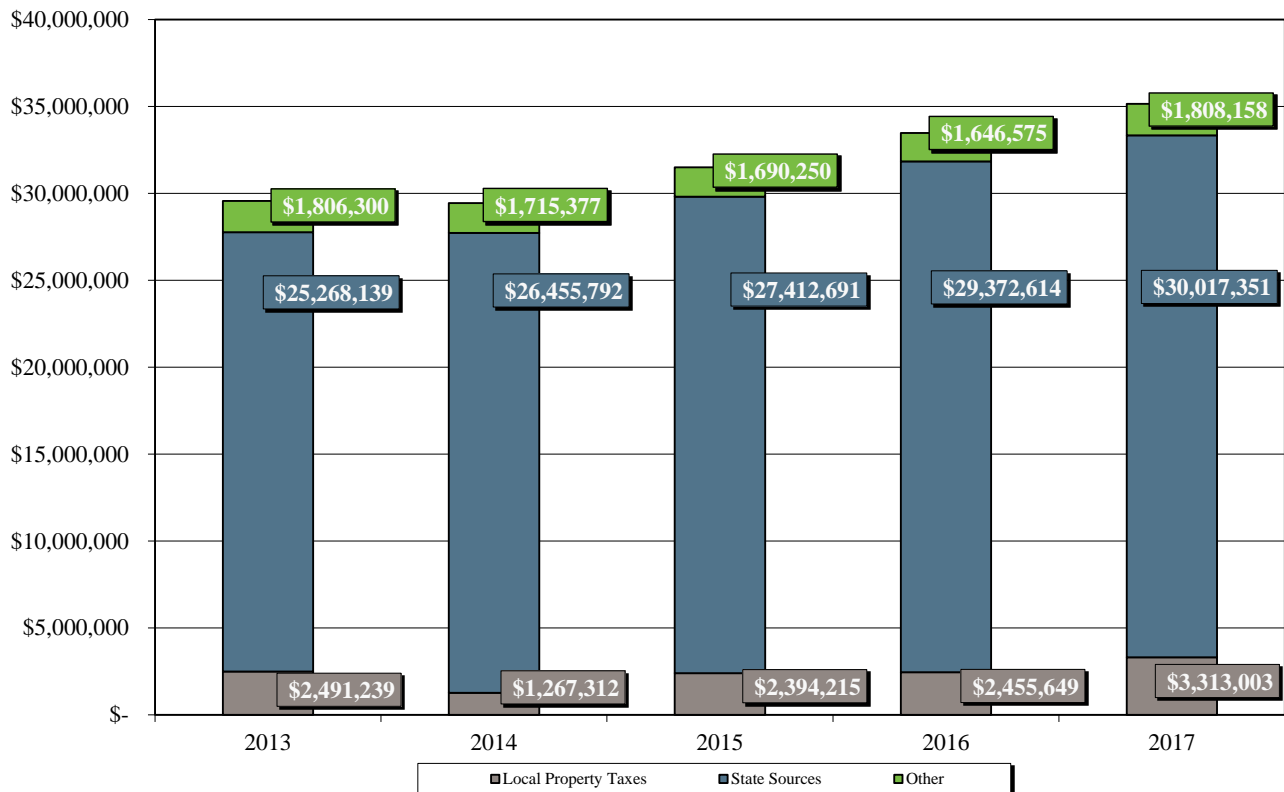
**Independent School District No. 477  
Financial Analysis**

**GENERAL FUND SOURCES OF REVENUE**

Total General Fund revenue increased \$1,663,674, or 5.0%, from \$33,474,838 in 2016, to \$35,138,512 in 2017. Overall, revenues were \$5,572,834, or 18.8%, more in 2017, compared to four years ago.

State revenue, which makes up the largest percentage of the District's revenue at 85.4%, increased approximately \$644,737 due to a combination of a 2.0% increase in the General Education formula allowance, an increase in special education entitlement due to increased expenditures, and the Early Childhood grant for the Family Center. Local property tax revenues, which represent 9.4% of the District's revenues, increased \$857,354 due to an increased tax levy primarily related to Long-Term Facilities Maintenance (LTFM) and the lease levy. Other revenue, which includes other local and county, federal and sales and other conversions of assets, represents the remaining 5.2% of the District's revenue and increased \$161,583 due to an increase in Title I and one-time rebates through e-rate.

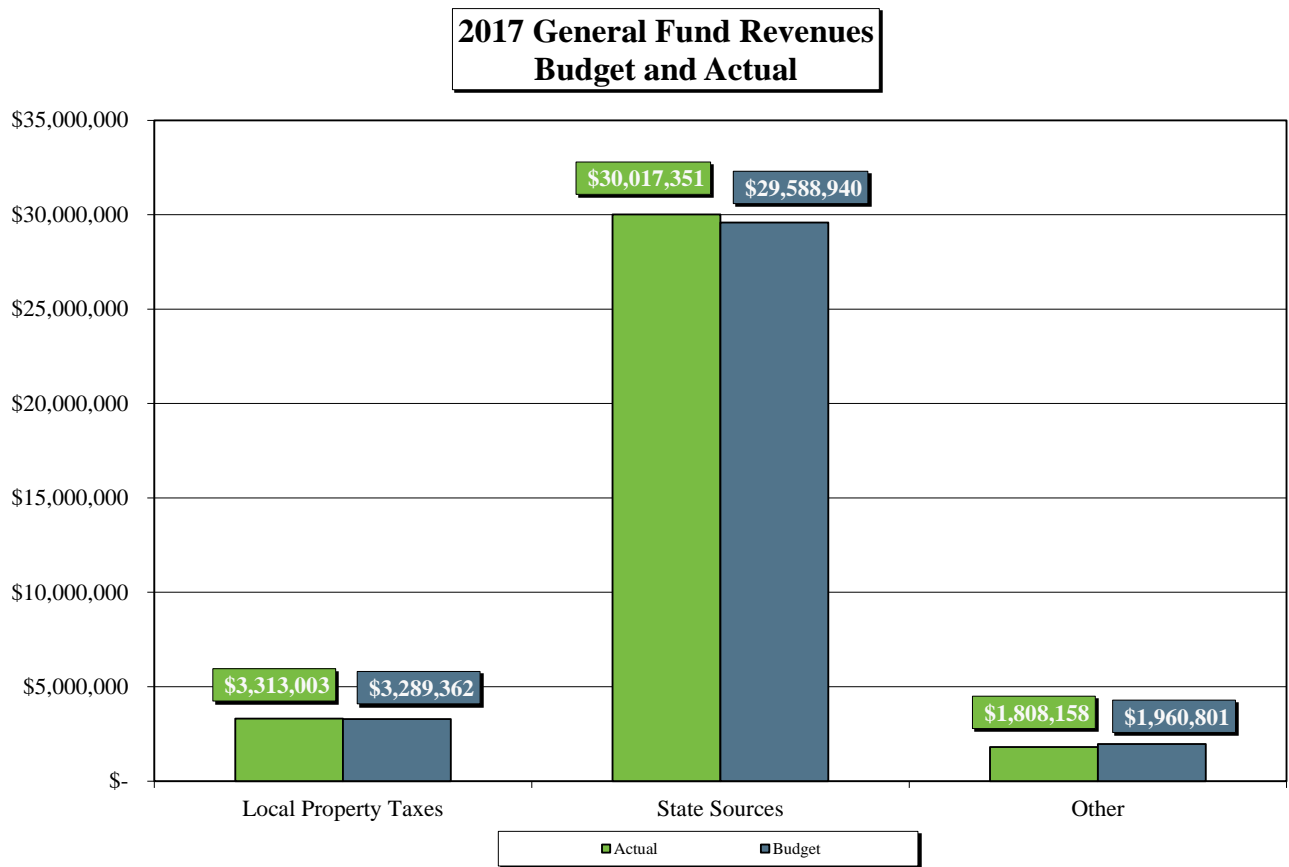
**General Fund Sources of Revenue**



**Independent School District No. 477  
Financial Analysis**

**GENERAL FUND BUDGET AND ACTUAL**

Overall, total revenue was over budget by \$299,409 or 0.9%. State revenue was over budget by \$428,411 as a result of special education entitlement exceeding expectations.



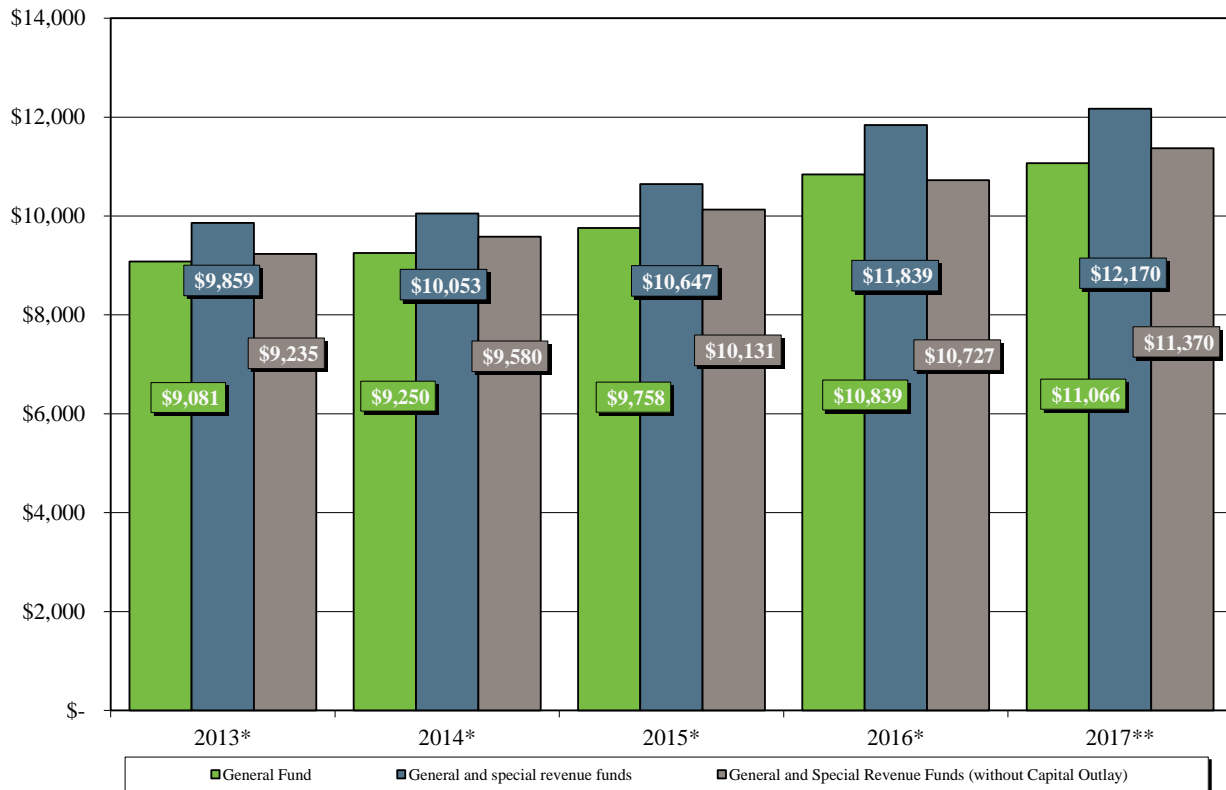
**Independent School District No. 477  
Financial Analysis**

**EXPENDITURES PER STUDENT**

Expenditures per student (ADM served) for all programs are summarized as follows:

	2013*	2014*	2015*	2016*	2017**
General Fund	\$ 9,081	\$ 9,250	\$ 9,758	\$ 10,839	\$ 11,066
General and special revenue funds	9,859	10,053	10,647	11,839	12,170
General and special revenue funds (without capital outlay)	9,235	9,580	10,131	10,727	11,370

**Expenditures Per Student ADM Served**



\* Source: *School District Profiles*

\*\* Estimate

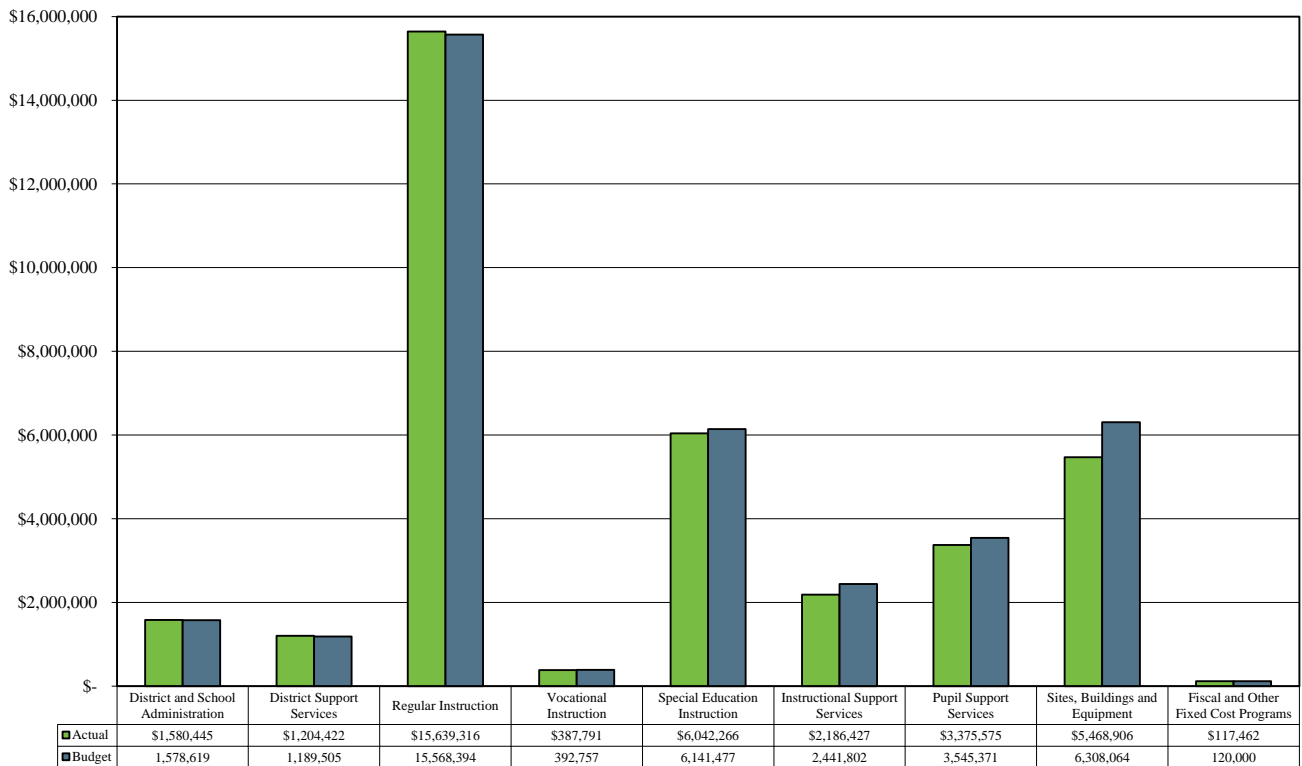
The District experienced an increase in expenditures per student ADM from 2016 to 2017, which was the result of an increase in expenditures of \$1,110,313 or 3.2% and a 0.52% decrease in the students served. The average 2016 expenditure per ADM served for districts in the 2,000-3,999 enrollment category was \$11,088 for the General Fund and \$12,128 for the General and Special Revenue Funds, so the District has been consistently lower than other districts of comparable size.

## Independent School District No. 477 Financial Analysis

### GENERAL FUND BUDGET AND ACTUAL

In total, General Fund expenditures were under budget by \$1,283,379 or 3.4%. As noted in the graph below, all categories came in under budget, with the exception of District and School Administration, District Support Services, and Regular Instruction. The largest budget variance can be seen in the Sites, Buildings, and Equipment category, which was \$839,158 under budget primarily due to roofing and tennis court projects that were budgeted for 2017 but did not take place until 2018. Instructional Support Services was \$255,375 under budget as a result of using a conservative budget for staff development.

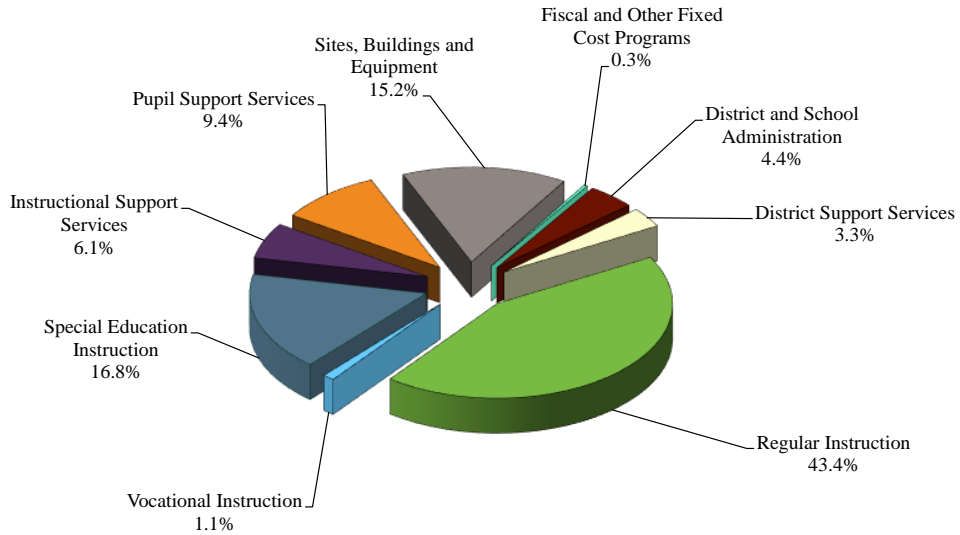
**2017 General Fund Expenditures  
Budget and Actual**



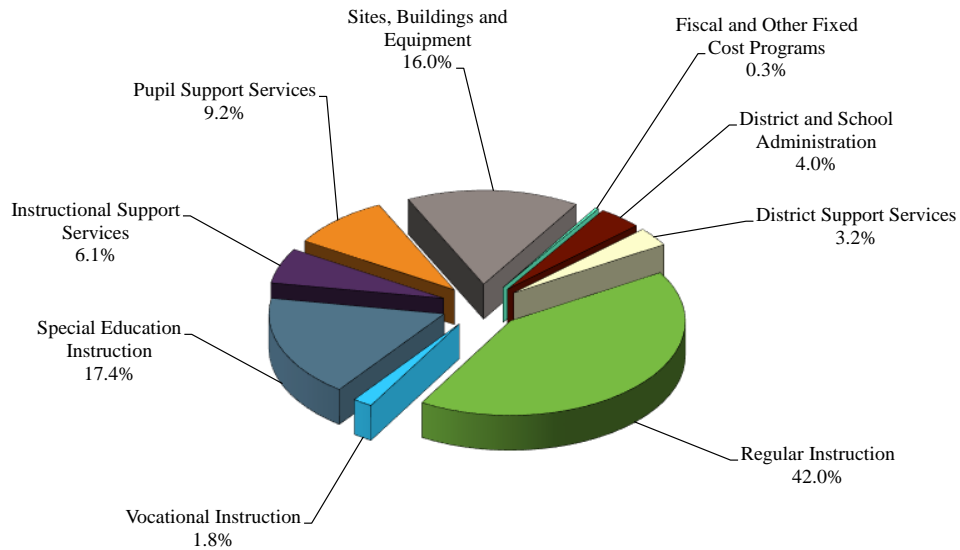
## Independent School District No. 477 Financial Analysis

### GENERAL FUND OPERATIONS

**2017 General Fund Expenditures**



**2016 General Fund Expenditures**



**Independent School District No. 477**  
**Financial Analysis**

**GENERAL FUND OPERATIONS (CONTINUED)**

The following table presents five years of comparative operating results for the District's General Fund:

	2013	2014	2015	2016	2017
Revenues	\$29,565,678	\$ 29,438,481	\$31,497,156	\$33,474,838	\$ 35,138,512
Expenditures	29,701,058	30,064,312	31,454,610	34,892,297	36,002,610
Excess of revenues over (under) expenditures	(135,380)	(625,831)	42,546	(1,417,459)	(864,098)
Other financing sources	140,499	-	-	4,917	203,298
Fund balance, July 1	13,129,439	13,134,558	12,508,727	12,551,273	11,138,731
<b>Fund Balance, June 30</b>	<b>\$ 13,134,558</b>	<b>\$ 12,508,727</b>	<b>\$ 12,551,273</b>	<b>\$ 11,138,731</b>	<b>\$ 10,477,931</b>

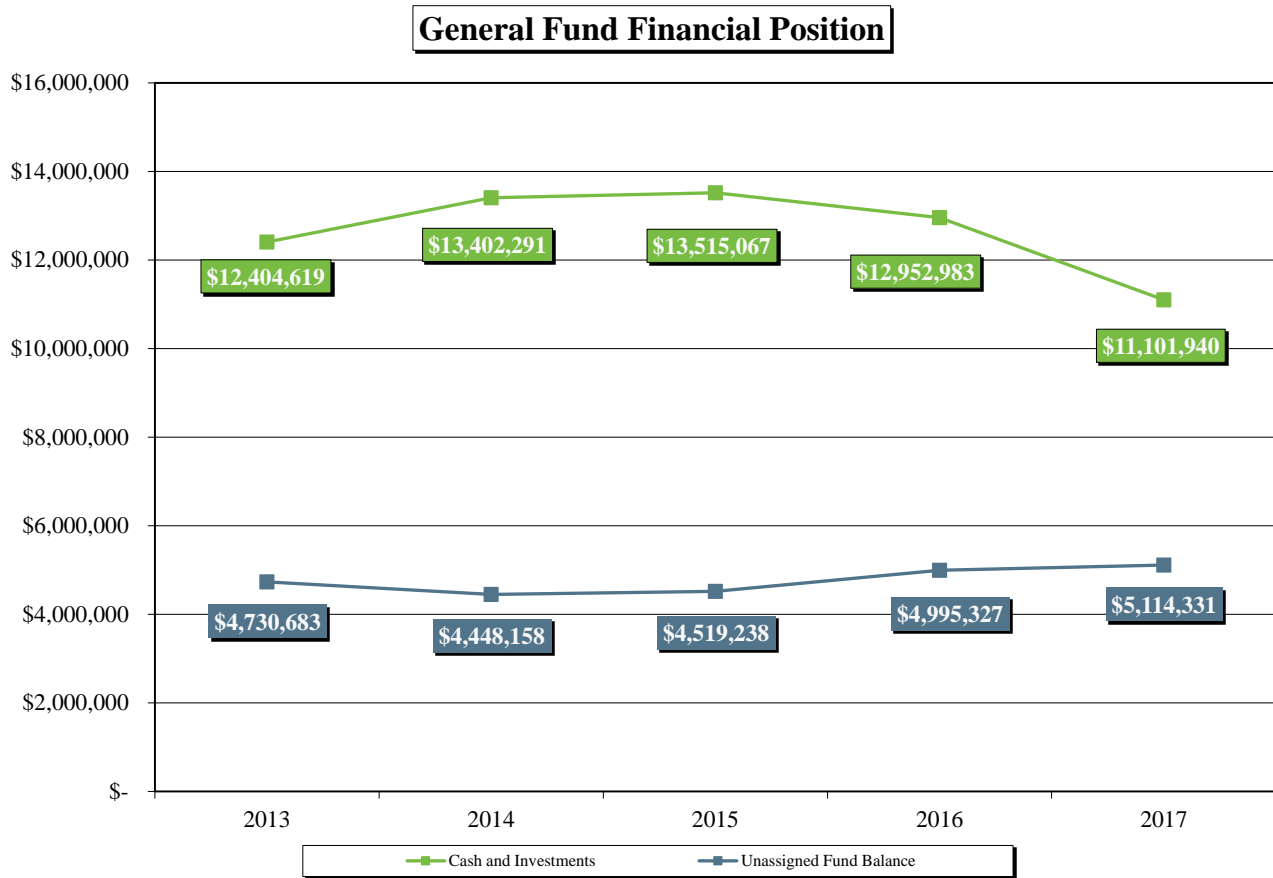
  

For the Year Ended June 30,	2013	2014	2015	2016	2017
Nonspendable	\$ 115,513	\$ 120,915	\$ 77,231	\$ 92,348	\$ 81,513
Reserved/restricted for					
Staff development	-	31,944	70,515	149,135	199,312
Operating capital	2,556,205	2,612,930	2,497,971	2,544,091	2,225,980
Deferred maintenance	53,532	63,449	57,437	163,061	-
Health and safety	(47,281)	(85,013)	(45,255)	(40,795)	-
Gifted and talented	45,509	53,654	39,426	40,619	24,360
LTFM	-	-	-	-	606,617
Medical Assistance	-	-	-	-	7,057
Committed for					
Severance pay	728,692	695,993	699,936	703,394	812,308
Assigned for					
Student activities	98,397	102,958	138,627	161,061	124,117
Staff development	91,536	-	-	-	-
Q-Comp	55,711	53,235	80,869	123,419	161,349
Technology	667,930	410,504	115,278	37,264	48,463
Building improvements	3,600,000	3,600,000	3,600,000	1,428,076	422,542
Program initiatives	400,000	400,000	700,000	741,731	649,982
ERRP	38,131	-	-	-	-
Unassigned	4,730,683	4,448,158	4,519,238	4,995,327	5,114,331
<b>Total</b>	<b>\$ 13,134,558</b>	<b>\$ 12,508,727</b>	<b>\$ 12,551,273</b>	<b>\$ 11,138,731</b>	<b>\$ 10,477,931</b>

Between 2016 and 2017 total fund balance decreased by \$660,800, including a \$119,004 increase in the unassigned portion. The unassigned balance of \$5,114,331 represents slightly less than two months of expenditures (based on year 2017 levels) or 13.7% of the 2017 annual budget. The District's fund balance policy requires a minimum General Fund unassigned fund balance of 10.0% of the annual budget.

**Independent School District No. 477  
Financial Analysis**

**GENERAL FUND OPERATIONS (CONTINUED)**



While the General Fund unassigned fund balance has seen an increase of \$383,648 since 2013, the General Fund cash and investment balance has decreased \$1,302,679 over the same time frame. Part of the reason for the decrease in cash and investment balances over this time is due to the projects taking place during the year as the state of Minnesota’s holdback percentage has remained fairly consistent over the years.

**Independent School District No. 477  
Financial Analysis**

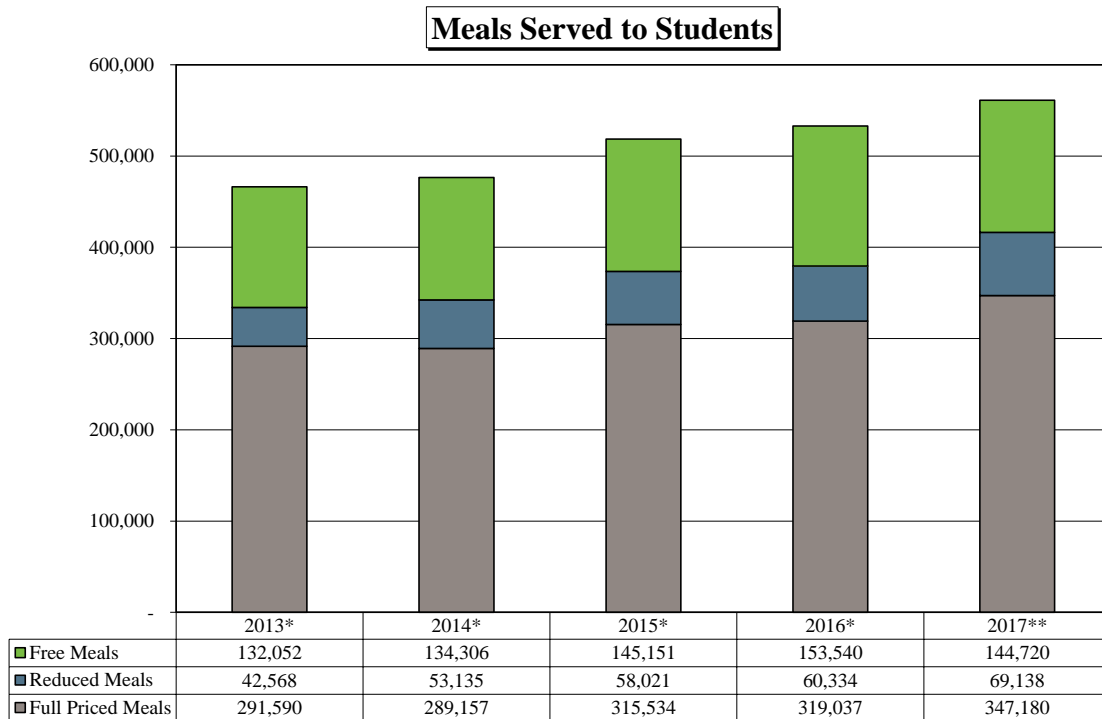
**FOOD SERVICE FUND**

The following table presents five years of comparative operating results for the District's Food Service Fund.

For the Year Ended June 30,	2013		2014		2015		2016		2017	
Revenues	\$	1,381,076	\$	1,533,309	\$	1,694,727	\$	1,780,006	\$	1,872,834
Expenditures		1,430,246		1,630,740		1,660,046		1,772,360		1,792,621
Excess of revenues over (under) expenditures		(49,170)		(97,431)		34,681		7,646		80,213
Fund balance, July 1		495,433		446,263		348,832		383,513		391,159
<b>Fund Balance, June 30</b>	<b>\$</b>	<b>446,263</b>	<b>\$</b>	<b>348,832</b>	<b>\$</b>	<b>383,513</b>	<b>\$</b>	<b>391,159</b>	<b>\$</b>	<b>471,372</b>

During the year ending June 30, 2017, revenues increased \$92,828 as a result of increased free and reduced meal reimbursement and an increase in lunch prices. Expenditures remained fairly consistent with the prior year as they only increased \$20,261. The MDE recommends districts maintain a net cash fund balance not to exceed three months of expenditures based on a nine month operating year.

The following chart reflects the number and type of meals served to students over the five previous years.



\* Source: *Food and Nutrition Services: District Financial Report* by the MDE

\*\* Source: SNP claim information submitted to the MDE by the District

**Independent School District No. 477  
Financial Analysis**

**COMMUNITY SERVICE FUND**

The following table presents five years of comparative operating results for the District's Community Service Fund.

<b>For the Year Ended June 30,</b>	<b>2013</b>		<b>2014</b>		<b>2015</b>		<b>2016</b>		<b>2017</b>	
Revenues	\$	1,131,170	\$	1,058,378	\$	1,225,924	\$	1,410,076	\$	1,480,860
Expenditures		1,114,255		977,749		1,205,011		1,444,848		1,584,186
Excess of revenues over (under) expenditures		16,915		80,629		20,913		(34,772)		(103,326)
Fund balance, July 1		277,904		294,819		375,448		396,361		361,589
<b>Fund Balance, June 30</b>	<b>\$</b>	<b>294,819</b>	<b>\$</b>	<b>375,448</b>	<b>\$</b>	<b>396,361</b>	<b>\$</b>	<b>361,589</b>	<b>\$</b>	<b>258,263</b>

The Community Service Fund expenditures exceeded revenues for the second time in five years. During the year ending June 30, 2017, revenues increased 5.0% while expenditures increased 9.6%. Revenues and expenditures increased primarily due to the all-day preschool program starting in 2017, increased school readiness and child care fees, and increased staffing for new programming. All categories of restricted fund balance remained positive at year end.

**Independent School District No. 477  
Legislative Summary**

The following is a brief summary of current legislative changes and issues affecting the funding of Minnesota school districts. More detailed and extensive summaries are available from the Minnesota Department of Education (MDE).

**STATE AID APPROPRIATIONS**

The formula allowance for 2017 General Education Aid was increased \$119 (2%) to \$6,067. For 2018, the formula allowance is set at \$6,188, which is also an increase of 2%.

**COMPENSATORY REVENUE**

The compensatory pilot grants have been added permanently to regular compensatory revenue at the 2017 level. A percentage of the total compensatory revenue must be used for extended time activities. These percentages are 1.7% for 2018, 3.5% for 2019, and for 2020 and later it will be 3.5% plus the percentage change in the formula from 2019.

**STUDENT ACHIEVEMENT LEVY**

The Student Achievement Levy is reduced from \$20 million to \$10 million for 2018 and eliminated for 2019.

**LEAD IN SCHOOL DRINKING WATER**

By July 1, 2018, districts will be required to begin testing school water for lead. Testing must be completed for all schools within five years. School districts and charter schools must adopt a plan to test school water for lead at least every five years. Lead test results must be made available to the public and parents must be notified when this information is available.

The testing may be included in the ten year facilities plans and districts can use long-term facilities maintenance revenue for lead testing and remediation costs.

**PAYMENTS TO NONOPERATING FUNDS**

The payment schedule for nonoperating fund aids is moving to six monthly installments from July through December rather than 12 monthly installments.

**SCHOOL BUILDING BOND AGRICULTURAL CREDIT**

Effective for taxes payable in 2018, there will be a property tax credit on all property classified as agricultural. The credit will be equal to 40% of the tax on the property attributable to school district bonded debt levies. Total amounts available will be \$34.8 million in 2019, \$45.2 million in 2020, and \$52.5 million in 2021.

**Independent School District No. 477  
Legislative Summary**

**LONG-TERM FACILITIES MAINTENANCE REVENUE**

Beginning in 2017, deferred maintenance, health and safety and alternative facilities revenues were rolled into a new long-term facilities maintenance revenue program. This new revenue equals the sum of the product of:

- 1) \$193/APU for 2017, \$292 for 2018, and \$380 for 2019 and later, and
- 2) The lesser of 1 or the ratio of the district's average building age to 35 years
- 3) The approved cost of indoor air quality, fire alarm and suppression and asbestos abatement projects with a cost per site of \$100,000 or more

The 25 large districts currently eligible for alternative facilities revenue continue to be eligible based on approved project costs without a state-imposed per pupil limit.

Districts may choose to issue bonds for the program, levy on a pay as you go basis, or a combination of the two.

Districts are guaranteed to receive at least as much revenue and state aid as they would have received under existing law.

**NUTRITION CONTRACTS**

There is now an exception to the statute limiting school district contracts to two years with an option on the part of the district to renew for an additional two years. The exception states that a contract between a school board and a food service management company that complies with Code of Federal Regulations, title 7, section 210.16, may be renewed annually after its initial term for not more than four years.

**EQUITY REVENUE**

For 2017 through 2019, nonmetro school district are eligible for a 16% increase in the sliding portion of their equity revenue. The seven county metro area schools continue to receive a 25% increase over their initial calculation for revenue.

Beginning in 2020, all districts will receive the same 25% increase over the initial calculation for revenue.

For 2017 all revenue increases will be paid out as additional state aid.

**Independent School District No. 477  
Legislative Summary**

**SPECIAL EDUCATION**

An adjustment to the prior year data and the fiscal year 2016 old formula revenue base used to calculate the hold harmless and group cap will be necessary for closed or restructured programs.

Although there was a change in Federal law removing student awaiting foster care from the definition of "homeless", these students will still be included in the special education funding calculations.

**NONPUBLIC PUPIL AID**

The definition of "textbook" has been modified to include the on-line books with annual subscription costs. The definition of "software or other educational technology" has been modified to include registration fees for online advanced placement courses.

**VOLUNTARY PREKINDERGARTEN/SCHOOL READINESS PLUS**

A new school readiness plus program has been created for 2018 and 2019 only. This program changes the voluntary preK cap from a limit on the total state aid entitlement to a limit on the number of participants. For 2018 this cap will be 6,160 for voluntary preK and school readiness plus and will be 7,160 for 2019. The cap of 6,160 for 2018 covers the 3,160 2017 voluntary preK participants that have renewed their applications for 2018 plus 3,000 new participants. After 2019 the school readiness plus will be eliminated and the cap for voluntary preK will be 3,160 participants.

**HOME VISITING REVENUE**

Effective for 2018, on the Pay 2017 levy, the formula for home visiting revenue is increased from \$1.60 to \$3.00 times the population under age 5 residing in the District on September 1 of the last school year.

**PUPIL TRANSPORTATION FUNDING**

Beginning in 2018, sparsity revenue will increase by 18.2% of the difference between the lesser of the district's actual regular and excess transportation costs, including bus depreciation for the previous year or 105% of the district's cost for the second previous year, and the sum of 4.66% of the district's basic revenue, transportation sparsity revenue and charter school transportation adjustment from the previous year.

**REVIEW AND COMMENT**

The commissioner will now include comments from district residents in the review and comment on capital projects.

School boards must now hold a public meeting to review the commissioner's review and comment on a proposal before the bond election.

**Independent School District No. 477**  
**Legislative Summary**

**NEW FINANCE CODES**

Starting in 2018, there are multiple new finance codes for tracking revenue. Finance code 175 will be used to track revenue related to Title VII – Impact Aid. This finance code will close to balance sheet code 475, Restricted for Title VII Impact Aid. Finance code 185 will be used to track revenue from private sources. This finance code will close to balance sheet 485, restricted for private sources. Finance code 176 will be used to track revenue from payments in lieu of taxes (PILT). This finance code will close to balance sheet 476, restricted for payments in lieu of taxes.

**SPECIAL ELECTIONS**

District's no longer have the ability to choose any date for special elections. Special elections must now be held on the second Tuesday in February, April, May, August, or election day.

**Independent School District No. 477**  
**Emerging Issues**

**Executive Summary**

The following is an executive summary of financial and business related updates to assist you in staying current on emerging issues in accounting and finance. This summary will give you a preview of the new standards that have been recently issued and what is on the horizon for the near future. The most recent and significant updates include:

- **Accounting Standard Update – GASB Statement No. 75 - Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions** – 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 their OPEB liabilities.

The following are extensive summaries of each of the current updates. As your continued business partner, we are committed to keeping you informed of new and emerging issues. We are happy to discuss these issues with you further and their applicability to your District.

**ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 - ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting, and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

GASB Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide:

- Governments that are responsible only for OPEB liabilities related to their own employees and that provide OPEB through a defined benefit OPEB plan administered through a trust that meets specified criteria will report a *net OPEB liability*—the difference between the total OPEB liability and assets accumulated in the trust and restricted to making benefit payments.
- Governments that participate in a cost-sharing OPEB plan that is administered through a trust that meets the specified criteria will report a liability equal to their *proportionate share of the collective OPEB liability* for all entities participating in the cost-sharing plan.

**Independent School District No. 477**  
**Emerging Issues**

**ACCOUNTING STANDARD UPDATE – GASB STATEMENT NO. 75 - ACCOUNTING AND FINANCIAL REPORTING FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

- Governments that do not provide OPEB through a trust that meets specified criteria will report the *total OPEB liability* related to their employees.

GASB Statement 75 carries forward from Statement 45 the option to use a specified alternative measurement method in place of an actuarial valuation for purposes of determining the total OPEB liability for benefits provided through OPEB plans in which there are fewer than 100 plan members (active and inactive). This option was retained in order to reduce costs for smaller governments.

GASB Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

Information provided above was obtained from [www.gasb.org](http://www.gasb.org).

**Independent School District No. 477  
Princeton, Minnesota**

**Financial Statements**

**June 30, 2017**



**Independent School District No. 477  
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**Independent School District No. 477  
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**Independent School District No. 477  
Board of Education and Administration  
June 30, 2017**

<u>Board of Education</u>	<u>Position</u>	<u>Term Expires</u>
Deb Ulm	Chairperson	January 1, 2019
Chad Young	Vice Chairperson	January 1, 2021
Eric Strandberg	Treasurer	January 1, 2021
Eric Minks	Clerk	January 1, 2019
Sue VanHooser	Director	January 1, 2021
Craig Johnson	Director	January 1, 2019
Howard Vaillancourt	Director	January 1, 2021
<u>Administration</u>		
Julia Espe	Superintendent	
Michelle Czech	Director of Business Services	

## Independent Auditor's Report

To the School Board  
Independent School District No. 477  
Princeton, 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. 477, Princeton, 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. 477, Princeton, Minnesota, as of June 30, 2017, and the respective changes in financial position thereof, and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### *Other Information*

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



## **Other Matters (Continued)**

### *Other Information (Continued)*

The accompanying supplementary information identified in the Table of Contents and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 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.

*BergankDV, Ltd.*

St. Cloud, Minnesota  
October 27, 2017

## **Independent School District No. 477 Management's Discussion And Analysis**

This section of Independent School District No. 477 – Princeton Public Schools' (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the 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 a reporting model that is required by the Governmental Accounting Standards Board's (GASB) Statement No. 34 – *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* issued in June 1999. GASB Statement No. 34 establishes reporting requirements that include additional financial statements, expanded disclosure, and supplemental information, including the MD&A (this section).

Comparative information between the current year and the prior year are included in the MD&A as required.

### **FINANCIAL HIGHLIGHTS**

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

- The District during 2016-2017 finalized construction on the new K-2 Primary Building and other projects which were part of the \$29,955,000 construction bond and district assigned building fund. The projects included a New Primary, addition and remodel to the High School and a remodeled Early Childhood building.
- The District purchased two properties during the 2016-2017 school year. The Buildings and Grounds Department is located at 203 4<sup>th</sup> Ave S, the acquired building replaced a storage building located on the Middle School property. The Student Services property is located at 1506 1<sup>st</sup> St. and was acquired to house the following programs: online, ALC, Adult programing, and other district-wide staff.
- In 2016 we ended with 3,210.31 ADM's and in 2017 we ended with 3,202.83 ADM's, which is a slight loss of 7.48 ADM.
- The District's unassigned fund balance increased by \$119,004, which makes the unassigned fund balance at 16% of our unassigned budgeted expenses for 2018. The School Board's policy requires the unassigned fund balance to be at least 10%.
- The District's assigned fund balance decreased by \$1,085,098. These are assigned funds for specific program needs and are considered one time funds. This decrease was due to planned spending on our building projects and onetime expenses in program initiatives (Spanish Immersion, ALC, Online, etc.).
- The District's restricted/reserved fund balances increased by \$207,215. These funds are required by the state to be set aside for a specific purpose. The increase was largely due to Long Term Facility Maintenance projects starting in the summer of 2017 which crosses two fiscal years.

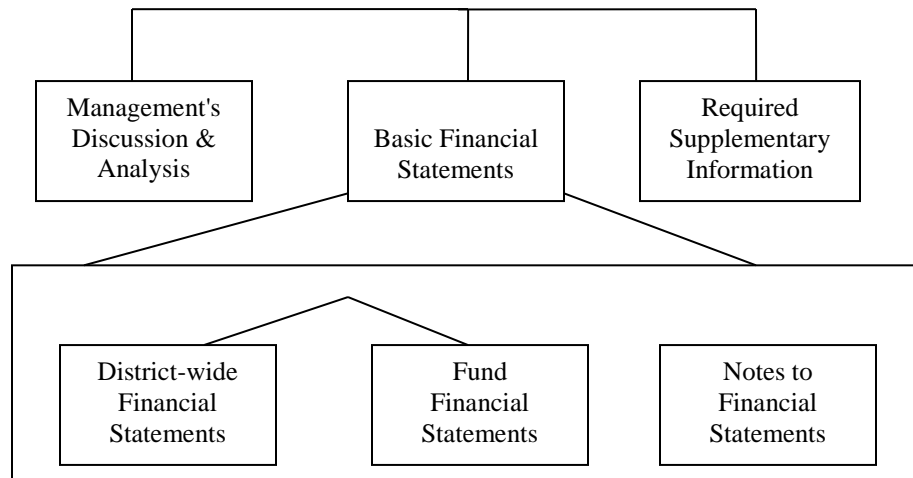
# Independent School District No. 477 Management's Discussion And Analysis

## OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are district-wide financial statements that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are fund-financial statements that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The governmental funds statements tell how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.
- The District currently does not have any fiduciary funds.

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



Summary < -----> Detail

**Independent School District No. 477  
Management's Discussion And Analysis**

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

**DISTRICT-WIDE STATEMENTS**

<b>Fund Financial Statements</b>		
	<b>District-Wide Statements</b>	<b>Governmental Funds</b>
Scope	Entire District (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance.
Required financial statements	<ul style="list-style-type: none"> <li>❖ Statement of Net Position</li> <li>❖ Statement of Activities</li> </ul>	<ul style="list-style-type: none"> <li>❖ Balance Sheet</li> <li>❖ Statement of Revenues, Expenditures, and Changes in Fund Balances</li> </ul>
Accounting Basis and measurement focus	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial focus.
Type of assets/liability information	All assets and liabilities, both financial and capital, short-term and long-term.	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included.
Type of inflow/outflow information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable.

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

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

- Over time, increases or decreases in the District's net position 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 nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

## **Independent School District No. 477 Management's Discussion And Analysis**

### **DISTRICT-WIDE STATEMENTS (CONTINUED)**

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

- **Governmental Activities** – All 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 it is properly using certain revenues (e.g., federal grants).

The District has one kind of fund:

- **Governmental Funds** – All of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information following the governmental funds statements that explains the relationship (or differences) between them.

### **Net Position**

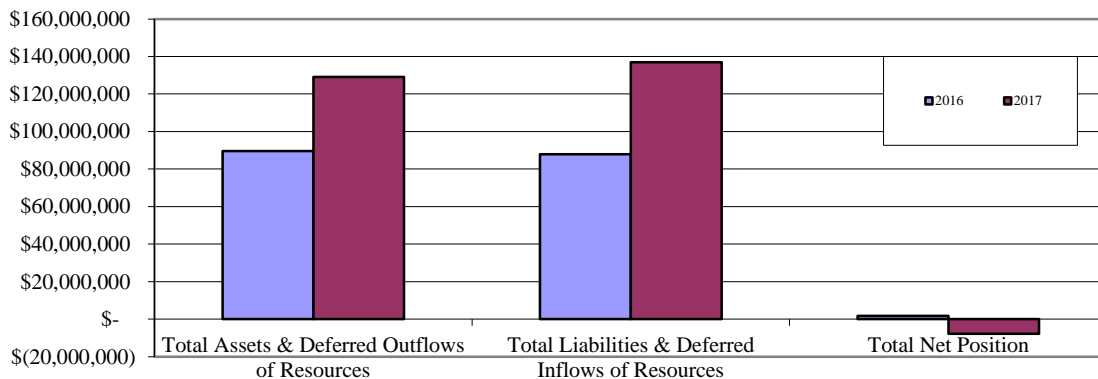
The District's combined net position was (\$7,786,834) on June 30, 2017 (see details in Table A-1). The net position decreased significantly because of the recognition of PERA and TRA pension liabilities at a 4.66% discount rate instead of 8% which caused a huge increase in the district's liability in the government wide statements.

**Independent School District No. 477  
Management's Discussion And Analysis**

**DISTRICT-WIDE STATEMENTS (CONTINUED)**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

	2016	2017
<b>Assets</b>		
Current assets	\$ 31,519,940	\$ 26,986,230
Capital assets	54,103,472	57,698,821
Total assets	85,623,412	84,685,051
<b>Deferred Outflows of Resources</b>		
	3,983,517	44,351,661
Total assets and deferred outflows of resources	\$ 89,606,929	\$ 129,036,712
<b>Liabilities</b>		
Current liabilities	\$ 7,268,627	\$ 4,438,763
Long-term liabilities	71,507,484	125,016,696
Total liabilities	78,776,111	129,455,459
<b>Deferred Inflows of Resources</b>		
	9,155,883	7,368,087
<b>Net Position</b>		
Net investment in capital assets	9,848,913	9,972,076
Restricted net position	3,726,805	3,883,302
Unrestricted net position	(11,900,783)	(21,642,212)
Total net position	1,674,935	(7,786,834)
Total liabilities, deferred inflows of resources, and net position	\$ 89,606,929	\$ 129,036,712



**Independent School District No. 477  
Management's Discussion And Analysis**

**DISTRICT-WIDE STATEMENTS (CONTINUED)**

**Table A-2  
SUMMARY OF REVENUES AND EXPENSES**

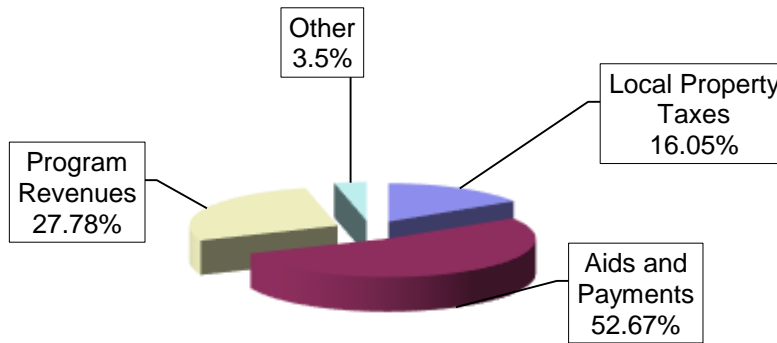
	Year	
	2016	2017
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 2,836,173	\$ 2,530,100
Operating grants and contributions	7,811,350	8,069,384
Capital grants and contributions	579,903	1,406,113
General revenues		
Property taxes	6,129,684	6,938,232
Aids and payments from the state	22,920,999	22,753,990
Other sources	166,141	1,514,199
Total revenues	<u>40,444,250</u>	<u>43,212,018</u>
<b>Expenses</b>		
Administration	1,416,758	1,946,464
District support services	1,141,975	1,362,160
Elementary and secondary regular education	14,709,673	21,648,489
Vocational education	635,114	547,431
Special education	6,064,171	7,860,930
Instructional support services	2,135,427	2,656,202
Pupil support services	3,252,134	3,860,425
Site, buildings, and equipment	4,798,849	6,297,179
Fiscal and other fixed cost programs	105,928	117,462
Food Service	1,831,857	1,845,167
Community education and services	1,451,018	1,890,949
Unallocated depreciation	604,348	922,485
Interest and fiscal charges - long-term debt	1,737,054	1,718,444
Total expenses	<u>39,884,306</u>	<u>52,673,787</u>
Change in net position	559,944	(9,461,769)
<b>Net Position</b>		
Beginning	<u>1,114,991</u>	<u>1,674,935</u>
Ending	<u>\$ 1,674,935</u>	<u>\$ (7,786,834)</u>

**Independent School District No. 477  
Management's Discussion And Analysis**

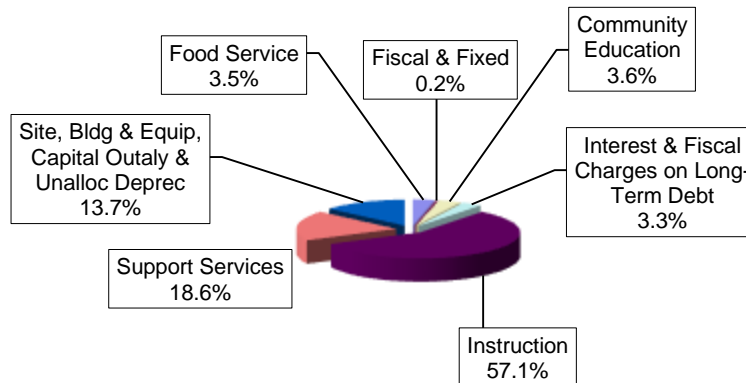
**DISTRICT-WIDE STATEMENTS (CONTINUED)**

The District's total revenue in 2017 consisted of program revenues of \$12,005,597, property taxes of \$6,938,232, aid payment from the State of Minnesota of \$22,753,990 and \$1,514,199 from miscellaneous other sources. 2017 expenses totaling \$52,673,787 consisted mainly of regular, vocational and special education instruction costs of \$30,056,850. Other areas of cost included: support services (District, administrative, instructional and pupil) \$9,825,251, site, buildings and equipment \$6,297,179, fiscal and other fixed-cost program \$117,462, food service \$1,845,167, community education and services \$1,890,949, unallocated depreciation \$922,485 and interest and fiscal charges on long-term debt \$1,718,444.

**2017 Revenues Table A-3**



**2017 Expenses Table A-4**



**Independent School District No. 477  
Management's Discussion And Analysis**

**DISTRICT-WIDE STATEMENTS (CONTINUED)**

The net cost of governmental activities is their total costs less program revenues applicable to each category. Table A-5 presents these costs.

**Table A-5**

	2016		2017	
	Total Cost of Services	Net (Expense) Revenue	Total Cost of Services	Net (Expense) Revenue
Administration	\$ 1,416,758	\$ (1,397,755)	\$ 1,946,464	\$ (1,929,731)
District support services	1,141,975	(1,133,089)	1,362,160	(1,357,792)
Elementary and secondary				
Regular instruction	14,709,673	(11,063,170)	21,648,489	(18,331,694)
Vocational instruction	635,114	(558,026)	547,431	(464,924)
Special education instruction	6,064,171	(2,335,064)	7,860,930	(3,853,164)
Instructional support services	2,135,427	(2,131,329)	2,656,202	(2,577,462)
Pupil support services	3,252,134	(3,234,024)	3,860,425	(3,799,415)
Site, buildings, and equipment	4,798,849	(3,978,658)	6,297,179	(4,882,768)
Fiscal and other fixed-cost programs	105,928	(105,928)	117,462	(117,462)
Food service	1,831,857	(52,737)	1,845,167	23,877
Community education and services	1,451,018	(325,698)	1,890,949	(736,726)
Unallocated depreciation	604,348	(604,348)	922,485	(922,485)
Debt service:				
Interest and fiscal charges on long-term debt	1,737,054	(1,737,054)	1,718,444	(1,718,444)
<b>Total</b>	<b>\$ 39,884,306</b>	<b>\$ (28,656,880)</b>	<b>\$ 52,673,787</b>	<b>\$ (40,668,190)</b>

**FUND BALANCE**

The decrease in the total general fund balance is due to planned expenditures from an assigned building fund for projects started in the 2016-2017 school year and the purchase of two properties.

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the 2017 year, its governmental funds reported a combined fund balance of \$16,656,303. The combined fund balance decreased 1,499,449 from 2016 due to building project expenses and properties purchased during the year.

**REVENUE AND EXPENDITURES**

District's governmental funds revenue totaled \$42,375,316, while total expenditures were \$48,849,417 and other financing sources totaled \$4,974,652. A summary of the revenues and expenditures reported on the governmental fund financial statements appears in Table A-6 on the next page.

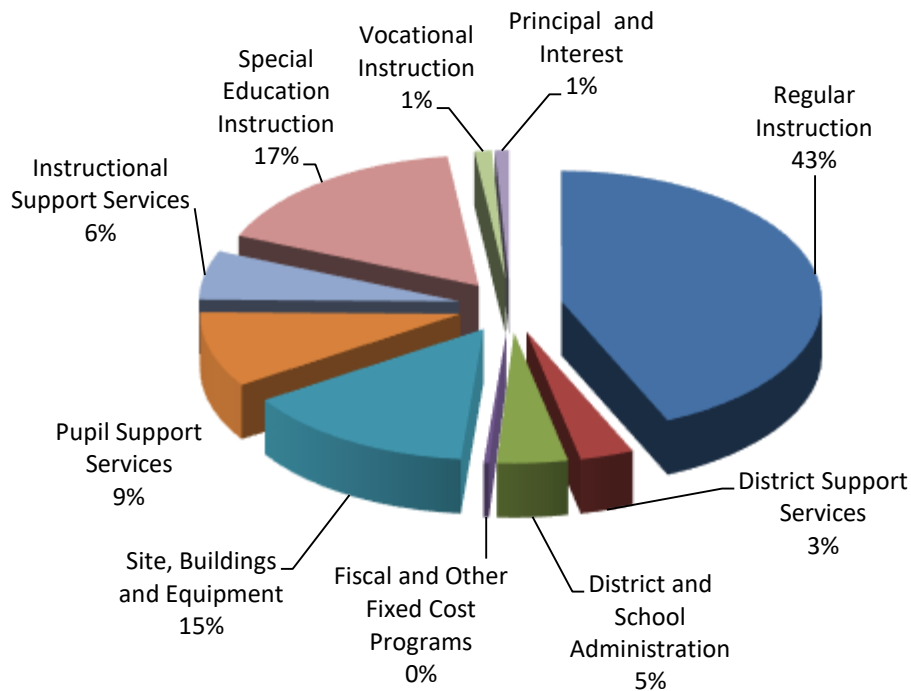
**Independent School District No. 477  
Management's Discussion And Analysis**

**REVENUE AND EXPENDITURES (CONTINUED)**

**Table A-6  
Revenues and Expenditures – Governmental Funds**

	<u>Revenue</u>	<u>Expenditures</u>	<u>Other Financing Sources</u>	<u>Fund Balance Increase</u>
General	\$ 35,138,512	\$ 36,002,610	\$ 203,298	\$ (660,800)
Food Service	1,872,834	1,792,621	-	80,213
Community Service	1,480,860	1,584,186	-	(103,326)
Debt Service	3,750,273	3,750,407	4,771,354	4,771,220
Capital Projects	132,837	5,719,593	-	(5,586,756)
<b>Total</b>	<b><u>\$ 42,375,316</u></b>	<b><u>\$ 48,849,417</u></b>	<b><u>\$ 4,974,652</u></b>	<b><u>\$ (1,499,449)</u></b>

**2017 GENERAL FUND EXPENDITURES**



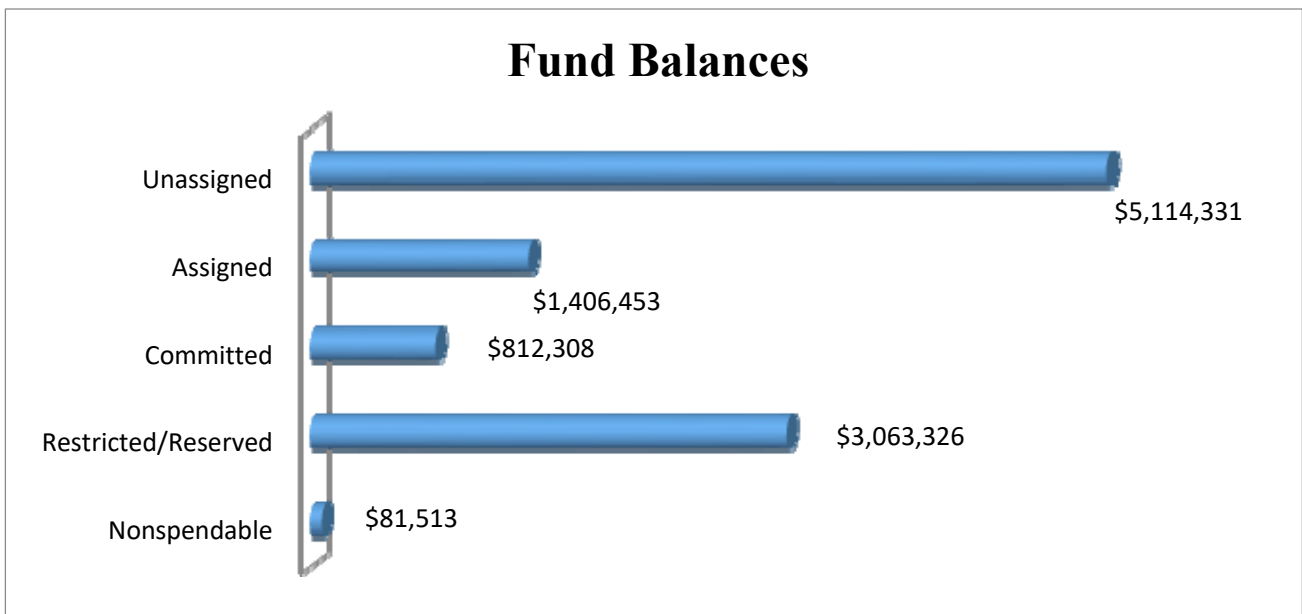
**Independent School District No. 477  
Management's Discussion And Analysis**

**GENERAL FUND BUDGETARY HIGHLIGHTS**

During the year ended June 30, 2017, the District formally revised its budget one time. The revision is always necessary because when the initial budget is prepared and adopted (a budget must be in place prior to the beginning of the year on July 1) details of student enrollments, staffing levels and other significant information items are estimates and are continually changing. The budget is a guide and is monitored continually for reasonableness.

The basic General Education Aid revenue from the state per pupil unit is \$6,067 for the 2016-2017 school year. The District also has a board approved operating referendum in the amount of \$300 per pupil unit to help support and maintain class size as well as other operational costs. The General Fund balance is down from the previous year, decreasing the General Fund balance to \$10.5 million, with \$81,513 in non-spendable, \$3.0 million in restricted/reserved, \$812,308 in committed, \$1.4 million in assigned and \$5.11 million in unassigned. (See chart below)

**Table A-7 Fund Balance Comparison**



**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

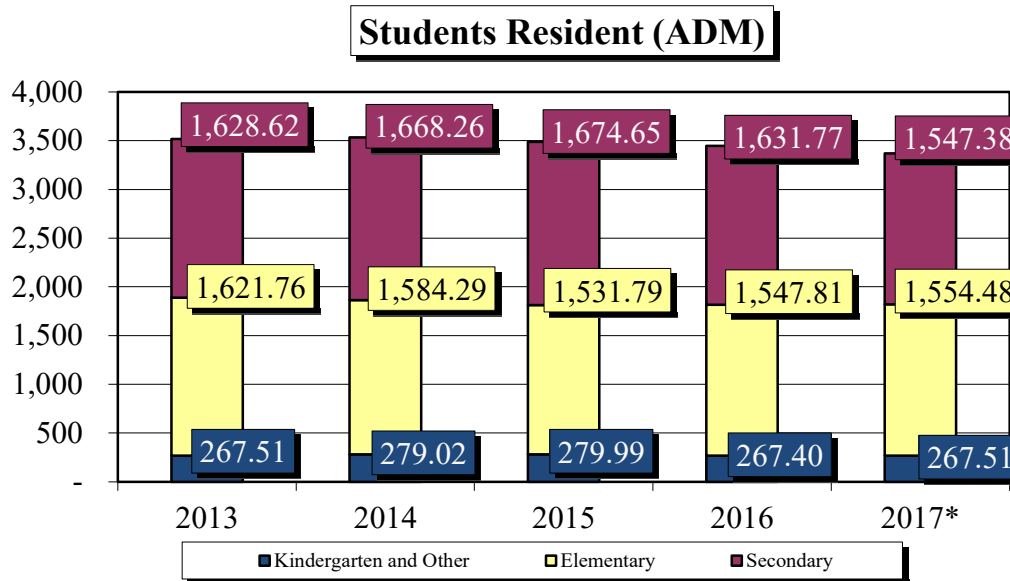
The overall capital assets of the District increased \$3,788,684 before taking depreciation into consideration. This increase is due to site improvements, equipment purchases, property purchases and the completion of construction. After taking depreciation into consideration, net capital assets increased by \$3,595,349. More detailed information regarding capital assets can be found in Note 3 of the financial statements.

**Independent School District No. 477  
Management's Discussion And Analysis**

**Long – Term Debt**

At year-end, the District had \$50,732,465 of long-term liabilities. This consisted of bonded indebtedness of \$48,310,000 and certificates of participation, capital lease and compensated absences payable of \$2,422,465. More detailed information regarding long-term liabilities can be found in Note 4 of the financial statements.

**Table A-8 Students Resident (ADMs)**



\* Estimate

The District's resident average daily membership (ADM) decreased in 2017 and is projected to remain stable or slightly decrease in fiscal year 2018. The above graph illustrates this current trend.

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

- The District has five buildings and even though the District's K-2 building has been replaced the District continues to look at the maintenance concerns regarding its other structures. A ten year facilities plan was completed in the spring of 2017 and will be used to determine the direction the District should go in order to update, replace, and maintain our other facilities. The largest projects on the facilities plan is the High School pool, High School technical education area located in 1970's pole sheds and the Middle School roof.
- The District conducted a demographic study in the spring-summer of 2013. Our enrollment decline began in the year of 2007 and the statistics show the decline continuing for the next five years. The District continues to lose students at a greater rate to open enrollment than what the District brings in. Students are our core business and in an effort to determine why we continue to decline we started sending out surveys in March of 2013. The survey shows families leaving our district for these reasons: Location of school(s) not convenient to the family (34%), Academic concerns (23%), Athletics and Activities (16%), and teachers, class size, before and after school daycare (11%).

## **Independent School District No. 477 Management's Discussion And Analysis**

### **FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)**

- The District had started to address the above concerns in 2014, 2015, 2016, and 2017 we continued to address the concern:
  - District continues to offer transportation to open enrolled students. In 2015-2016 we have group pickup spots in Milaca, Pease, Cambridge, and Zimmerman.
  - The District uses LSI to improve core teaching strategies with goals and targeted intervention strategies. The district has continued to show improvement in academics each year through MCA testing.
  - The District continued to develop a Strategic plan and has identified our Mission Statement, Vision, Core Values, and Goals. The plan had multiple stakeholders input.
  - The District continues to improve the program initiative's plan that was implemented during the 2016 school year. The program initiatives plan brings these opportunities to students:
    - Princeton On-line Academy
    - Targeted Services Program managed by District instead of OakLand
    - Spanish Immersion PK-K to expand as students move through the grades
    - STEM classroom at the Middle School
    - STEAM Initiative at Middle School
    - ALC
    - Tigers in Training program
    - Marketing Audit
  - The District offers before and after school daycare.
  - The District offers all day everyday preschool opportunities.
  - We are continuing the marketing campaign that includes: flyers, Facebook, Twitter, Website and brand were addressed in 2017.

The District goal is to retain and attract students with these strategies over the next couple of years.

- The District continues to plan for more robust educational programming in our classrooms and other new programming. Program initiatives will be used to add new programs to our educational system that will expand educational offerings and help retain enrollment along with other programming needs that will enhance the district attract-ability for both students and staff.

### **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or would like additional information, contact Michelle Czech, Director of Business Services, at the District Center located at 706 First Street, Princeton, Minnesota 55371.

## **BASIC FINANCIAL STATEMENTS**

**Independent School District no. 477**  
**Statement of Net Position**  
**June 30, 2017**

	Governmental Activities
<b>Assets</b>	
Cash and investments (including cash equivalents)	\$ 14,690,038
Cash with Fiscal Agent	4,698,546
Current property taxes receivable	3,261,566
Delinquent property taxes receivable	138,026
Accounts receivable	23,135
Interest receivable	5,509
Due from Department of Education	3,643,016
Due from Federal Government through Department of Education	185,605
Due from other Minnesota school districts	202,977
Inventory	67,994
Prepaid items	69,818
Capital assets not being depreciated	
Land	1,286,492
Capital assets being depreciated	
Land improvements	5,757,435
Buildings	68,271,913
Machinery and equipment	4,286,757
Vehicles	272,497
Less accumulated depreciation	(22,176,273)
Total assets	84,685,051
<b>Deferred Outflows of Resources</b>	
Deferred outflows of resources related to pensions	44,351,661
Total assets and deferred outflows of resources	\$ 129,036,712
<b>Liabilities</b>	
Accounts and contracts payable	\$ 835,894
Salaries and benefits payable	2,519,665
Interest payable	800,891
Due to other Minnesota school districts	202,132
Unearned revenue	80,181
Bond principal payable (net unamortized premium)	
Payable within one year	6,650,000
Payable after one year	43,647,694
Certificates of participation	
Payable within one year	185,000
Payable after one year	1,760,000
Capital Lease Payable:	
Payable within one year	37,098
Payable after one year	116,953
Compensated absences payable	
Payable within one year	22,424
Payable after one year	300,990
Net other post employment benefits (OPEB) obligation	372,320
Net pension liability	71,924,217
Total liabilities	129,455,459
<b>Deferred Inflows of Resources</b>	
Property taxes levied for subsequent year's expenditures	6,554,029
Deferred inflows of resources related to pensions	814,058
Total deferred inflows of resources	7,368,087
<b>Net Position</b>	
Net investment in capital assets	9,972,076
Restricted for	
Debt service	59,834
Capital projects	24,034
Other purposes	3,799,434
Unrestricted	(21,642,212)
Total net position	(7,786,834)
Total liabilities, deferred inflows of resources, and net position	\$ 129,036,712

See notes to financial statements.

**Independent School District No. 477**  
**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	\$ 1,946,464	\$ 16,733	\$ -	\$ -	\$ (1,929,731)
District support services	1,362,160	-	4,368	-	(1,357,792)
Elementary and secondary regular instruction	21,648,489	611,136	2,705,659	-	(18,331,694)
Vocational education instruction	547,431	16,253	66,254	-	(464,924)
Special education instruction	7,860,930	135,678	3,872,088	-	(3,853,164)
Instructional support services	2,656,202	15,099	63,641	-	(2,577,462)
Pupil support services	3,860,425	-	61,010	-	(3,799,415)
Sites and buildings	6,297,179	8,298	-	1,406,113	(4,882,768)
Fiscal and other fixed cost programs	117,462	-	-	-	(117,462)
Food service	1,845,167	847,812	1,021,232	-	23,877
Community education and services	1,890,949	879,091	275,132	-	(736,726)
Unallocated depreciation	922,485	-	-	-	(922,485)
Interest and fiscal charges on long-term debt	1,718,444	-	-	-	(1,718,444)
	<u>\$ 52,673,787</u>	<u>\$ 2,530,100</u>	<u>\$ 8,069,384</u>	<u>\$ 1,406,113</u>	<u>(40,668,190)</u>
General Revenues					
Taxes					
					3,315,981
					298,124
					3,324,127
					22,753,990
					1,408,189
					106,010
					<u>31,206,421</u>
					(9,461,769)
					<u>1,674,935</u>
					<u>\$ (7,786,834)</u>

**Independent School District No. 477**  
**Balance Sheet - Governmental Funds**  
**June 30, 2017**

	General	Debt Service	Capital Projects	Other Nonmajor Funds	Total Governmental Funds
<b>Assets</b>					
Cash and investments	\$ 11,101,940	\$ 2,399,273	\$ 267,870	\$ 920,955	\$ 14,690,038
Cash with Fiscal Agent	-	4,698,546	-	-	4,698,546
Current property taxes receivable	1,499,406	1,605,117	-	157,043	3,261,566
Delinquent property taxes receivable	62,418	69,135	-	6,473	138,026
Accounts receivable	10,414	-	-	12,721	23,135
Interest receivable	5,509	-	-	-	5,509
Due from Department of Education	3,564,906	41,285	-	36,825	3,643,016
Due from Federal Government through Department of Education	176,702	-	-	8,903	185,605
Due from other Minnesota school districts	202,977	-	-	-	202,977
Inventory	15,484	-	-	52,510	67,994
Prepaid items	66,029	-	-	3,789	69,818
<b>Total assets</b>	<b>\$ 16,705,785</b>	<b>\$ 8,813,356</b>	<b>\$ 267,870</b>	<b>\$ 1,199,219</b>	<b>\$ 26,986,230</b>
<b>Liabilities</b>					
Accounts and contracts payable	\$ 571,289	\$ -	\$ 243,836	\$ 20,769	\$ 835,894
Salaries and benefits payable	2,480,404	-	-	39,261	2,519,665
Due to other Minnesota school districts	202,132	-	-	-	202,132
Unearned revenue	2,000	-	-	78,181	80,181
<b>Total liabilities</b>	<b>3,255,825</b>	<b>-</b>	<b>243,836</b>	<b>138,211</b>	<b>3,637,872</b>
<b>Deferred Inflows of Resources</b>					
Unavailable revenue - delinquent property taxes	62,418	69,135	-	6,473	138,026
Property taxes levied for subsequent year's expenditures	2,909,611	3,319,518	-	324,900	6,554,029
<b>Total deferred inflows of resources</b>	<b>2,972,029</b>	<b>3,388,653</b>	<b>-</b>	<b>331,373</b>	<b>6,692,055</b>
<b>Fund Balances</b>					
Nonspendable	81,513	-	-	56,299	137,812
Restricted	3,063,326	5,424,703	24,034	673,336	9,185,399
Committed	812,308	-	-	-	812,308
Assigned	1,406,453	-	-	-	1,406,453
Unassigned	5,114,331	-	-	-	5,114,331
<b>Total fund balances</b>	<b>10,477,931</b>	<b>5,424,703</b>	<b>24,034</b>	<b>729,635</b>	<b>16,656,303</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 16,705,785</b>	<b>\$ 8,813,356</b>	<b>\$ 267,870</b>	<b>\$ 1,199,219</b>	<b>\$ 26,986,230</b>

**Independent School District No. 477  
Reconciliation of the Balance Sheet to  
the Statement of Net Position - Governmental Funds  
June 30, 2017**

Total fund balances - governmental funds \$ 16,656,303

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

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	79,875,094
Less accumulated depreciation	(22,176,273)

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	(48,310,000)
Premium on bonds payable	(1,987,694)
Certificates of participation	(1,945,000)
Capital lease payable	(154,051)
Compensated absences payable	(323,414)
Net OPEB obligation	(372,320)
Net pension liability	(71,924,217)

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 outflows of resources related to pensions	44,351,661
Deferred inflows of resources related to pensions	(814,058)

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.

138,026

Governmental funds do not report a liability for accrued interest on bonds and certificates of participation until due and payable.

(800,891)

Total net position - governmental activities

\$ (7,786,834)

**Independent School District No. 477**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Governmental Funds**  
**Year Ended June 30, 2017**

	General	Debt Service	Capital Projects	Other Nonmajor Funds	Total Governmental Funds
<b>Revenues</b>					
Local property taxes	\$ 3,313,003	\$ 3,327,704	\$ -	\$ 298,486	\$ 6,939,193
Other local and county revenues	1,183,251	9,725	132,837	913,574	2,239,387
Revenue from state sources	30,017,351	412,844	-	403,669	30,833,864
Revenue from federal sources	624,907	-	-	898,933	1,523,840
Sales and other conversion of assets	-	-	-	839,032	839,032
Total revenues	<u>35,138,512</u>	<u>3,750,273</u>	<u>132,837</u>	<u>3,353,694</u>	<u>42,375,316</u>
<b>Expenditures</b>					
<b>Current</b>					
Administration	1,580,445	-	-	-	1,580,445
District support services	1,199,339	-	-	-	1,199,339
Elementary and secondary regular					
Instruction	15,289,235	-	-	-	15,289,235
Vocational education instruction	383,843	-	-	-	383,843
Special education instruction	6,037,520	-	-	-	6,037,520
Instructional support services	2,164,233	-	-	-	2,164,233
Pupil support services	3,365,629	-	-	-	3,365,629
Sites and buildings	3,188,475	-	1,437,433	-	4,625,908
Fiscal and other fixed cost programs	117,462	-	-	-	117,462
Food service	-	-	-	1,769,230	1,769,230
Community education and services	-	-	-	1,583,212	1,583,212
<b>Capital outlay</b>					
District support services	5,083	-	-	-	5,083
Elementary and secondary regular					
Instruction	309,132	-	-	-	309,132
Vocational education instruction	3,948	-	-	-	3,948
Special education instruction	4,746	-	-	-	4,746
Instructional support services	22,194	-	-	-	22,194
Pupil support services	9,946	-	-	-	9,946
Sites and buildings	2,013,893	-	4,282,160	-	6,296,053
Food service	-	-	-	23,391	23,391
Community education and services	-	-	-	974	974
<b>Debt service</b>					
Principal	220,949	1,905,000	-	-	2,125,949
Interest and fiscal charges	86,538	1,845,407	-	-	1,931,945
Total expenditures	<u>36,002,610</u>	<u>3,750,407</u>	<u>5,719,593</u>	<u>3,376,807</u>	<u>48,849,417</u>
Excess of revenues (under) expenditures	(864,098)	(134)	(5,586,756)	(23,113)	(6,474,101)
<b>Other Financing Sources</b>					
Bond proceeds	-	4,670,000	-	-	4,670,000
Bond premium	-	101,354	-	-	101,354
Capital lease issuance	195,000	-	-	-	195,000
Insurance recoveries	8,298	-	-	-	8,298
Total other financing sources	<u>203,298</u>	<u>4,771,354</u>	<u>-</u>	<u>-</u>	<u>4,974,652</u>
Net change in fund balances	(660,800)	4,771,220	(5,586,756)	(23,113)	(1,499,449)
<b>Fund Balances</b>					
Beginning of year	<u>11,138,731</u>	<u>653,483</u>	<u>5,610,790</u>	<u>752,748</u>	<u>18,155,752</u>
End of year	<u>\$ 10,477,931</u>	<u>\$ 5,424,703</u>	<u>\$ 24,034</u>	<u>\$ 729,635</u>	<u>\$ 16,656,303</u>

See notes to financial statements.

**Independent School District No. 477  
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 \$ (1,499,449)

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

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

Capital outlays	5,754,854
Depreciation expense	(1,705,076)
Disposal of capital assets	(454,429)

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

15,352

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

(175,174)

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.

Pension expense	(8,769,982)
-----------------	-------------

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

2,125,949

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.

(25,192)

Governmental funds report the effect of bond premiums when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

137,339

The issuance of long-term debt provides current financial resources to governmental funds and has no affect on the net position. These amounts are reported in the governmental funds as a source of financing. These amounts are not shown as revenues in the Statement of Activities but rather constitute long-term liabilities in the Statement of Net Position.

Bonds	(4,670,000)
Capital leases	(195,000)

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.

(961)

Change in net position - governmental activities

\$ (9,461,769)

See notes to financial statements.

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**Independent School District No. 477**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances -**  
**Budget and Actual - General Fund**  
**Year Ended June 30, 2017**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Over (Under)
	Original	Final		
<b>Revenues</b>				
Local property taxes	\$ 3,289,362	\$ 3,289,362	\$ 3,313,003	\$ 23,641
Other local and county revenues	1,105,055	1,304,488	1,183,251	(121,237)
Revenue from state sources	29,390,111	29,588,940	30,017,351	428,411
Revenue from federal sources	591,287	656,313	624,907	(31,406)
Sales and other conversion of assets	-	-	-	-
Total revenues	<u>34,375,815</u>	<u>34,839,103</u>	<u>35,138,512</u>	<u>299,409</u>
<b>Expenditures</b>				
<b>Current</b>				
Administration	1,745,021	1,578,619	1,580,445	1,826
District support services	1,171,248	1,188,573	1,199,339	10,766
Elementary and secondary regular Instruction	15,305,307	15,398,326	15,289,235	(109,091)
Vocational education instruction	565,137	386,206	383,843	(2,363)
Special education instruction	6,297,913	6,141,477	6,037,520	(103,957)
Instructional support services	2,267,125	2,370,002	2,164,233	(205,769)
Pupil support services	3,509,206	3,505,371	3,365,629	(139,742)
Sites and buildings	3,192,543	3,229,851	3,188,475	(41,376)
Fiscal and other fixed cost programs	112,000	120,000	117,462	(2,538)
<b>Capital outlay</b>				
District support services	120,000	932	5,083	4,151
Elementary and secondary regular Instruction	19,000	129,068	309,132	180,064
Vocational education instruction	6,551	6,551	3,948	(2,603)
Special education instruction	-	-	4,746	4,746
Instructional support services	101,000	71,800	22,194	(49,606)
Pupil support services	40,000	40,000	9,946	(30,054)
Sites and buildings	2,434,000	2,811,675	2,013,893	(797,782)
<b>Debt service</b>				
Principal	180,000	221,000	220,949	(51)
Interest and fiscal charges	86,538	86,538	86,538	-
Total expenditures	<u>37,152,589</u>	<u>37,285,989</u>	<u>36,002,610</u>	<u>(1,283,379)</u>
Excess of revenues over (under) expenditures	(2,776,774)	(2,446,886)	(864,098)	1,582,788
<b>Other Financing Sources</b>				
Insurance recoveries	-	-	8,298	8,298
Capital lease issuance	-	-	195,000	195,000
Total other financing sources	<u>-</u>	<u>-</u>	<u>203,298</u>	<u>203,298</u>
Net change in net position	<u>\$ (2,776,774)</u>	<u>\$ (2,446,886)</u>	(660,800)	<u>\$ 1,786,086</u>
<b>Fund Balances</b>				
Beginning of year			<u>11,138,731</u>	
End of year			<u>\$ 10,477,931</u>	

See notes to financial statements.

**Independent School District No. 477**  
**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; therefore, all the activity of the student activities is included in the General Fund.

**B. Basic Financial Statement Information**

The government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or 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.

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**B. Basic Financial Statement Information (Continued)**

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. Major individual governmental funds are reported as separate columns in the fund financial 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. 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.

**2. Recording of Expenditures**

Expenditures are generally recorded when a liability is incurred. The exceptions to this general rule are 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 restricted resources first when an expenditure is incurred for a purpose for which both restricted and unrestricted fund balances are available. 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.

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. Measurement Focus and Basis of Accounting (Continued)**

**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 and energy loan principal, interest, and related costs.

Capital Projects Fund – 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.

**D. Deposits and Investments**

Cash and investments and cash with fiscal agent 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.

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 investment pools are measured at amortized cost.

Cash and investments at June 30, 2017 were comprised of deposits, shares in the Minnesota School District Liquid Asset Fund (MSDLAF), shares in the Minnesota Trust (MNTrust) Investment Shares Portfolio, shares in MNTrust Term Series, U.S. Treasury State and Local Government Series Time Deposit, brokered cash, and negotiable Certificates of Deposit. The MSDLAF and MNTrust securities are valued at amortized cost, which approximates fair value.

*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.

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. Deposits and Investments (Continued)**

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

In accordance with GASB Statement No. 79, the various 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 Investment Shares Portfolio. 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 represents uncollected taxes for the past six years and are deferred and included in the deferred outflows 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.

**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 fiscal 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.

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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. Benton, Isanti, Mille Lacs, and Sherburne Counties are the collecting agency for the levy and remit(s) 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 \$1,500 with an estimated useful life in excess of one year. 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 estimated fair market value at the date of donation.

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

Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purpose. Useful lives vary from 10 to 50 years for land improvements and buildings and 5 to 20 years for furniture 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. Deferred outflow of resources relating to pension activity is reported in the Government-Wide Statement of Net Position. A deferred outflow of resources related to pensions is recorded for various estimate differences that will be amortized and recognized over future years.

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**K. Deferred Outflows/Inflows of Resources (Continued)**

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. The third item is a deferred inflows of resources related to pensions and 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.

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**

The District does not compensate employees upon termination of employment for unused vacation. However, substantially all full-time employees are allowed to carry over maximum balances to be used shortly after year-end.

All employees are entitled to sick leave. Noncertified employees are not compensated for unused sick leave upon a qualified termination of employment. Certified employees are compensated for unused sick leave upon termination of employment, in conjunction with severance pay as described in Note 1.N. Sick leave pay is shown as an expenditure in the year paid.

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**N. Post Employment Severance and Health Benefits**

Full-time custodians, paraprofessional and food service employees are eligible for severance pay upon retirement.

Custodians hired prior to January 1, 2005, retiring after the age of 62 are entitled to receive unused accumulated sick leave up to 60% of 140 days maximum if they serve five years with the District.

Paraprofessionals hired prior to June 30, 2007 are paid up to 50% of the 100 days maximum sick leave accrual. Paraprofessionals hired after July 1, 1991 must have 15 years of service to receive this benefit. Food service employees earn one day of sick leave for each month up to 160 days. It is paid out at 50% of unused days up to a 50 day maximum pay out for employees over age 60 and over five years of service to the District.

As of June 30, 2017, the District had a balance for compensated absences payable, related to severance, of \$323,414.

**O. 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.

**P. 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. 477**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Q. Fund Equity**

**1. Classifications**

In the fund financial statements, governmental funds report fund classifications that comprise a hierarchy based primarily on the extent to which the District is bound to honor the constraints on the specific purpose for which amounts in these funds can be spent. If resources from more than one fund balance classification could be spent, the school will follow the approved district plan for each of the areas. If there is no plan, the District will strive to spend resources from fund balance classifications in the following order: restricted, committed, assigned, and unassigned.

- **Nonspendable Fund Balance** – These are amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact and include items that are inherently unspendable, such as, but not limited to, inventories, prepaid items, long-term receivables, nonfinancial assets held for resale, or the permanent principal of endowment funds.
- **Restricted Fund Balance** – These are amounts that are comprised of funds that have legally enforceable constraints placed on their use that either are externally imposed by resource providers or creditors (such as through debt covenants), grantors, contributors, voters, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.
- **Committed Fund Balance** – These are amounts that can only be used for specific purposes pursuant to constraints imposed by formal action (resolution) by the School Board.
- **Assigned Fund Balance** – These are amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by either the Superintendent or the Director of Business Services.
- **Unassigned Fund Balance** – These are amounts that are the residual amounts in the General Fund not reported in any other classification. Unassigned amounts in the General Fund are technically available for expenditure for any purpose. The General Fund is the only fund that can report a positive unassigned fund balance. Other funds would report a negative unassigned fund balance should the total of nonspendable, restricted, and committed fund balances exceed the total net resources of that fund.

**2. Minimum Fund Balance**

The District shall strive to maintain a minimum unassigned fund balance of 10% of the annual budget in the General Fund.

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**R. Net Position**

Net position represents the difference between assets and deferred outflows of resources; and liabilities and deferred inflows outflows 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.

**S. 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.

**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 fiscal 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, Capital Projects, and Debt Service Funds.
4. Budgets for the General, Special Revenue, Capital Projects, 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.

**Independent School District No. 477**  
**Notes to Financial Statements**

**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: Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District has a deposit policy that requires the District's deposits to be collateralized as required by *Minnesota Statutes* 118.03 for an amount exceeding Federal Deposit Insurance Corporation (FDIC), SAIF, BIF, or FCUA coverage. *Minnesota Statutes* requires all deposits be protected by federal depository insurance, corporate surety bonds, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by FDIC insurance or corporate surety bonds. 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. The District's deposits had a book balance as shown below.

**1. District Governmental Funds Pooled**

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

Checking	\$ 317,623
MNTrust certificates of deposit	<u>3,449,900</u>
Total deposits	<u><u>\$ 3,767,523</u></u>

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS**

**B. Investments**

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

Investment Type	Investment Maturity (In Years)			Rating
	Fair Value	Less Than 1 Year	1 to 3 Years	
<b>Pooled</b>				
MSDLAF	\$ 699,791	\$ 699,791	\$ -	AAA
MSDLAF MAX	1,362,557	1,362,557	-	AAA
MNTrust Investment Shares Portfolio	3,095,453	3,095,453	-	AAA
MNTrust Term Series	5,000,000	5,000,000	-	AAA
Negotiable Certificates of Deposit	496,844	-	496,844	N/A
Total pooled investments	<u>10,654,645</u>	<u>10,157,801</u>	<u>496,844</u>	
<b>Non pooled</b>				
Bond proceeds investments				
MNTrust Investment Shares Portfolio	<u>267,870</u>	<u>267,870</u>	-	AAA
Total bond proceeds investments	<u>267,870</u>	<u>267,870</u>	-	
Cash with fiscal agent				
US Treasury State and Local Govt Series Time Deposit	4,698,544	4,698,544	-	N/A
Brokered cash	<u>2</u>	<u>2</u>	-	N/A
Total cash with fiscal agent investments	<u>4,698,546</u>	<u>4,698,546</u>	-	
Total investments	<u>\$ 15,621,061</u>	<u>\$ 15,124,217</u>	<u>\$ 496,844</u>	

**Concentration of Credit Risk:** The District's investment policy places no limit on the amount the District may invest in any one issuer, though it does state the District shall diversify its investments to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions, or maturities.

**Interest Rate Risk:** This is the risk the market value of securities in the portfolio will fall due to changes in market interest rates. The District policy indicates the District will minimize this risk by structuring the investment portfolio so securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity and investing operating funds primarily in shorter-term securities, money market mutual funds or similar investment pools and limiting the average maturity of the portfolio in accordance with the policy.

**Credit Risk:** The District's investment policy refers to *Minnesota Statutes* 118A.04 and 118A.05. Statutes limit investments in the top two ratings issued by nationally recognized statistical rating organizations. The District will minimize credit risk by limiting investments to the types of securities listed in Section IX of their investment policy, prequalifying the financial institutions, brokers/dealers, intermediaries and advisers which will do business in accordance with Section V and diversifying the investment portfolio so the impact of potential losses from any one type of security or from any one individual issuer will be minimized. Investments are rated as indicted in the tables above.

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)**

**B. Investments (Continued)**

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

The District has the following recurring fair value measurement as of June 30, 2017:

- \$496,844 of investments are valued using significant other observable inputs (Level 2 inputs).

The following is a summary of total deposits and investments:

Deposits (Note 3. A. )	\$ 3,767,523
Investments	
Pooled	10,654,645
Non pooled - bond proceeds	267,870
Non pooled - cash with fiscal agent	4,698,546
Total deposits and investments	\$ 19,388,584

Deposits and investments at June 30, 2017, are presented as follows:

Statement of Net Position	
Cash and investments	\$ 14,690,038
Cash with fiscal agent	4,698,546
Total	\$ 19,388,584

**Independent School District No. 477**  
**Notes to Financial Statements**

**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	\$ 1,286,492	\$ -	\$ -	\$ 1,286,492
Construction in progress	25,191,317	4,355,790	29,547,107	-
Total capital assets not being depreciated	<u>26,477,809</u>	<u>4,355,790</u>	<u>29,547,107</u>	<u>1,286,492</u>
Capital assets Being depreciated				
Land improvements	1,842,431	3,917,255	2,251	5,757,435
Buildings	43,483,300	26,463,290	1,674,677	68,271,913
Furniture and equipment	4,005,423	562,126	280,792	4,286,757
Vehicles	277,447	3,500	8,450	272,497
Total capital assets being depreciated	<u>49,608,601</u>	<u>30,946,171</u>	<u>1,966,170</u>	<u>78,588,602</u>
Less accumulated Depreciation for				
Land improvements	1,081,479	160,029	2,251	1,239,257
Buildings	18,043,736	1,251,442	1,221,802	18,073,376
Furniture and equipment	2,641,593	272,998	279,238	2,635,353
Vehicles	216,130	20,607	8,450	228,287
Total accumulated depreciation	<u>21,982,938</u>	<u>1,705,076</u>	<u>1,511,741</u>	<u>22,176,273</u>
Total capital assets being depreciated, net	<u>27,625,663</u>	<u>29,241,095</u>	<u>454,429</u>	<u>56,412,329</u>
Governmental activities, capital assets, net	<u>\$ 54,103,472</u>	<u>\$ 33,596,885</u>	<u>\$ 30,001,536</u>	<u>\$ 57,698,821</u>

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 3 – CAPITAL ASSETS (CONTINUED)**

Depreciation expense of \$1,705,076 for the year ended June 30, 2017, was charged to the following governmental functions:

Administration	379
District support services	11,764
Elementary and secondary regular instruction	68,314
Vocational instruction	1,853
Special education instruction	1,775
Instructional support services	37,623
Pupil support	93,893
Sites and buildings	539,119
Food service	23,984
Community service	3,887
Unallocated	<u>922,485</u>
 Total depreciation expense	 <u><u>\$ 1,705,076</u></u>

**NOTE 4 – LONG-TERM DEBT**

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

	<u>Issue Date</u>	<u>Interest Rates</u>	<u>Original Issue</u>	<u>Final Maturity</u>	<u>Principal Outstanding</u>	<u>Due Within One year</u>
Long-term liabilities						
G.O. bonds including						
Refunding bonds						
2008A Alternative						
Facilities Bonds	12/30/08	3.50%-4.50%	\$ 7,160,000	02/01/24	\$ 4,350,000	\$ 4,350,000
2008B Building Bonds	12/30/08	2.85%-4.60%	2,010,000	02/01/23	995,000	995,000
2014A School Building						
Bonds	07/24/14	3.00%-4.00%	29,955,000	02/01/35	29,720,000	270,000
2014B School Building						
Refunding bonds	11/25/14	2.00%-5.00%	9,120,000	02/01/24	8,575,000	1,035,000
2016A Refunding Bonds	12/15/16	2.00%	4,670,000	02/01/24	<u>4,670,000</u>	<u>-</u>
Total G.O. bonds					<u>48,310,000</u>	<u>6,650,000</u>
 Certificates of participation	11/23/10	2.00%-4.50%	2,925,000	02/01/26	1,945,000	185,000
Capital lease obligations					154,051	37,098
Compensated absences payable					<u>323,414</u>	<u>22,424</u>
 Total all long-term liabilities					 <u><u>\$ 50,732,465</u></u>	 <u><u>\$ 6,894,522</u></u>

Long-term bond and certificates of participation liabilities listed above were issued to finance acquisition and construction of capital facilities or to refinance (refund) previous bond issues. Other long-term liabilities, including capital lease obligations and compensated absences, are typically paid from the General Fund.

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

**A. Components of Long-Term Liabilities (Continued)**

On December 15, 2016, the District issued \$4,670,000 G.O. Refunding Bonds, Series 2016A for a refunding of the 2008A G.O. Alternative Facilities Bonds and the 2008B G.O. Capital Facilities Bonds. The net present value savings from the refunding was \$348,836 with an aggregate difference in debt service payments of \$371,582. The call date of the 2008A and 2009B Bonds is February 1, 2018.

**B. Minimum Debt Payments for Bonds**

Minimum annual principal and interest payments required to retire bond and certificates of participation liabilities:

Year Ending June 30,	G.O. Bonds		
	Principal	Interest	Total
2018	\$ 6,650,000	\$ 1,821,675	\$ 8,471,675
2019	2,160,000	1,517,950	3,677,950
2020	2,235,000	1,438,950	3,673,950
2021	2,320,000	1,353,800	3,673,800
2022	2,405,000	1,264,800	3,669,800
2023-2027	11,485,000	4,983,950	16,468,950
2028-2032	12,410,000	3,107,850	15,517,850
2033-2035	8,645,000	654,900	9,299,900
Total	<u>\$ 48,310,000</u>	<u>\$ 16,143,875</u>	<u>\$ 64,453,875</u>

Year Ending June 30,	Certificate of Participation		
	Principal	Interest	Total
2018	\$ 185,000	\$ 81,138	\$ 266,138
2019	190,000	75,125	265,125
2020	200,000	67,525	267,525
2021	205,000	59,525	264,525
2022	215,000	51,325	266,325
2023-2026	950,000	108,563	1,058,563
Total	<u>\$ 1,945,000</u>	<u>\$ 443,201</u>	<u>\$ 2,388,201</u>

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 4 – LONG-TERM DEBT (CONTINUED)**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Long-term liabilities				
G.O. bonds	\$ 45,545,000	\$ 4,670,000	\$ 1,905,000	\$ 48,310,000
Certificates of participation	2,125,000	-	180,000	1,945,000
Capital lease obligations	-	195,000	40,949	154,051
Compensated absences payable	338,766	10,794	26,146	323,414
	<u>338,766</u>	<u>10,794</u>	<u>26,146</u>	<u>323,414</u>
Total long-term liabilities	<u>\$ 48,008,766</u>	<u>\$ 4,875,794</u>	<u>\$ 2,152,095</u>	<u>\$ 50,732,465</u>

**D. Capital Lease Obligation**

On October 7, 2016, the District entered into a lease purchase agreement for the acquisition of a scoreboard. The capital lease obligations and corresponding equipment totaled \$195,000. The capital lease agreement included annual principal and interest payments of \$40,949, through 2021.

The assets acquired with the capital leases were as follows:

Carrying value	\$ 41,199
Less accumulated depreciation	<u>(2,060)</u>
Assets net of depreciation	<u>\$ 39,139</u>

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

<u>Year Ending June 30,</u>	
2018	\$ 40,949
2019	40,950
2020	40,949
2021	<u>40,950</u>
Total minimum lease payments	163,798
Less amount representing interest	<u>(9,747)</u>
Present value of minimum lease payments	<u>\$ 154,051</u>

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 5 – FUND BALANCES/NET POSITION**

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.

**A. Fund Balances**

Fund balances are classified on the following page to reflect the limitations and restrictions of the respective funds.

	General Fund	Debt Service	Capital Project	Other Nonmajor Funds	Total
Nonspendable for					
Inventory	\$ 15,484	\$ -	\$ -	\$ 52,510	\$ 67,994
Prepaid Items	66,029	-	-	3,789	69,818
Total nonspendable	<u>81,513</u>	<u>-</u>	<u>-</u>	<u>56,299</u>	<u>137,812</u>
Restricted/reserved for					
Staff Development	199,312	-	-	-	199,312
Operating Capital	2,225,980	-	-	-	2,225,980
Gifted and Talented	24,360	-	-	-	24,360
LTFM	606,617	-	-	-	606,617
Medical Assistance	7,057	-	-	-	7,057
Community Education	-	-	-	149,889	149,889
Early Childhood and Family Education	-	-	-	100,334	100,334
School Readiness	-	-	-	5,124	5,124
Fund Purpose	-	5,424,703	24,034	417,989	5,866,726
Total restricted/reserved	<u>3,063,326</u>	<u>5,424,703</u>	<u>24,034</u>	<u>673,336</u>	<u>9,185,399</u>
Committed for					
Separation Benefits	812,308	-	-	-	812,308
Assigned for					
Q-Comp	161,349	-	-	-	161,349
Technology	48,463	-	-	-	48,463
Building Improvements	422,542	-	-	-	422,542
Program Initiatives	649,982	-	-	-	649,982
Student Activities	124,117	-	-	-	124,117
Total assigned	<u>1,406,453</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,406,453</u>
Unassigned	<u>5,114,331</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,114,331</u>
Total fund balance	<u>\$ 10,477,931</u>	<u>\$ 5,424,703</u>	<u>\$ 24,034</u>	<u>\$ 729,635</u>	<u>\$ 16,656,303</u>

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)**

**A. Fund Balance (Continued)**

Nonspendable for Inventory – This balance represents the portion of fund balance that is not available as amounts have already been spent on inventory.

Nonspendable for Prepaid Items – This balance represents the portion of fund balance that is not available as the amounts have already been spent by the District on items for the next year.

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

Restricted/Reserved for Gifted and Talented – The part of General Education Aid revenue for the gifted and talented program that is unspent at year end must be restricted in this Balance Sheet account.

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/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 School Readiness – This balance represents the resources available to provide for services for school readiness programs (*Minnesota Statutes* 124D.16).

Restricted for Fund Purpose – This balance represents the accumulation of the activity to provide the food service program, the remaining aggregate resources for community service programs after other restrictions are removed, the resources available for the payment of bond principal, interest, and related costs and resources available for capital projects.

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 5 – FUND BALANCES/NET POSITION (CONTINUED)**

**A. Fund Balance (Continued)**

Committed for Separation Benefits – This balance represents the resources set aside for the payment of retirement benefits.

Assigned for Q-Comp – This balance represents resources set aside for payments required through the teachers' Q-Comp Program.

Assigned for Technology – This balance represents the resources set aside for future technology purchases.

Assigned for Building Improvements – This balance represents the resources set aside for future capital purchases.

Assigned for Program Initiatives – This balance represents resources set aside for the program initiatives as determined by the Board.

Assigned for Student Activities – This balance represents the accumulation of the student activity accounts that are under School Board control.

**B. Net Position**

Net position restricted for other purposes on the Statement of Net Position is comprised of the total positive net position of the General Fund, Food Service, and Community Service Funds.

**NOTE 6 – DEFINED BENEFIT PENSION PLANS – STATE-WIDE**

The District participates in various pension plans, total pension expense for the year ended June 30, 2017, was \$11,243,202. The components of pension expense are noted in the following plan summaries.

**Teachers' Retirement Association**

**A. Plan Description**

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

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.

**Independent School District No. 477  
Notes to Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**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*

<u>Tier 1</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	First ten years of service	2.2% per year
	All years after	2.7% per year
Coordinated	First ten years of service are up to July 1, 2006	1.2% per year
	First ten years of service years are up 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 up to July 1, 2006, or after	1.9% per year

With these provisions:

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

*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.

**Independent School District No. 477**  
**Notes to Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**B. Benefits Provided (Continued)**

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

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

**C. Contribution Rate**

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

	Employee	Employer
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
Add 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. 477**  
**Notes to Financial Statements**

**NOTE 6 – 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

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**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. 477  
Notes to Financial Statements**

**NOTE 6 – 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
Domestic stocks	45%	5.50%
International stocks	15	6.00
Bonds	18	1.45
Alternative assets	20	6.40
Unallocated cash	2	0.50
Total	<u>100%</u>	

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

**E. Discount Rate**

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

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 6 – 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 \$65,355,538 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 0.2740% at the end of the measurement period and 0.2738% 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	\$ 65,355,538
State's proportionate share of the net pension liability associated with the District	6,559,937

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 \$10,426,647. It recognized \$915,987 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u>                    </u>	<u>                    </u>
Differences between expected and actual economic experience	\$ 678,650	\$ 1,820
Net difference between projected and actual earnings on plan investments	2,704,718	-
Changes of assumptions	37,267,465	-
Changes in proportion	10,310	190,408
District's Contributions to TRA subsequent to the measurement date	1,128,596	-
	<u>1,128,596</u>	<u>-</u>
	<u>\$ 41,789,739</u>	<u>\$ 192,228</u>

**Independent School District No. 477**  
**Notes to Financial Statements**

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

**Teachers' Retirement Association (Continued)**

**G. Net Pension Liability (Continued)**

\$1,128,596 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 relation 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		\$ 7,958,217
2019		7,958,222
2020		8,961,493
2021		8,341,149
2022		7,249,834
Total		\$40,468,915

**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 (7.0%)	Current (8.0%)	1% increase (9.0%)
\$ 84,194,268	\$ 65,355,538	\$ 50,012,006

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](http://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. 477**  
**Notes to Financial Statements**

**NOTE 6 – 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 plan 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 Fund (General Employees Plan)

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

**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. 477**  
**Notes to Financial Statements**

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

**Public Employees' Retirement Association (Continued)**

**C. Contributions**

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

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 the fiscal year 2017. The District's contributions to the General Employees Fund for the year ended June 30, 2017, were \$403,043. 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 \$6,568,679 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 \$85,835. 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 0.0809%, which was an decrease of 0.0009% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2016, the District recognized pension expense of \$816,555 for its proportionate share of General Employees Plans pension expense. Included in this amount, the District recognized \$25,594 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Fund.

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

**Independent School District No. 477**  
**Notes to Financial Statements**

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

**Public Employees' Retirement Association (Continued)**

**D. Pension Costs (Continued)**

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 20,185	\$ 535,175
Changes in actuarial assumptions	1,421,707	-
Difference between projected and actual investments earnings	716,987	-
Changes in proportion and differences between contributions made and District's proportionate share of contributions	-	86,655
District's contributions to PERA subsequent to the measurement date	403,043	-
 Total	 \$ 2,561,922	 \$ 621,830

\$403,043 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:

Year Ended June 30,	Pension Expense Amount
2018	\$ 415,878
2019	260,139
2020	623,762
2021	237,270
 Total	 \$ 1,537,049

**Independent School District No. 477  
Notes to Financial Statements**

**NOTE 6 – 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:

GERF

Assumptions	GERF
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.

**Independent School District No. 477**  
**Notes to Financial Statements**

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

**Public Employees' Retirement Association (Continued)**

**E. Actuarial Assumptions (Continued)**

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

The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term</u>
Domestic stocks	45%	5.50%
Internal stocks	15%	6.00
Bonds	18%	1.45
Alternative assets	20%	6.40
Cash	2%	0.50
Total	<u>100%</u>	

**F. Discount Rate**

The discount rate used to measure the total pension liability in 2016 was 7.5%, a reduction from 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.

**Independent School District No. 477**  
**Notes to Financial Statements**

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

**Public Employees' Retirement Association (Continued)**

**G. Pension Liability Sensitivity**

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

	1% Decrease in Discount Rate (6.5%)	Discount Rate (7.5%)	1% Increase in Discount Rate (8.5%)
District's proportionate share of the PERA net pension liability	\$ 9,329,471	\$ 6,568,679	\$ 4,294,538

**H. Pension Plan Fiduciary Net Position**

Detailed information about 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](http://www.mnpera.org).

**NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN**

**A. Plan Description**

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

**B. Funding Policy**

Retirees contribute to the health care plan at the same rate as District employees. This results in the retirees receiving an implicit rate subsidy. Contribution requirements are established by the District, based on the contract terms with BlueCross BlueShield. The required contributions are based on projected pay-as-you-go financing requirements. For year 2017, the District contributed \$271,450 to the plan. As of June 30, 2017, there were approximately 12 retirees receiving health benefits from the District's health plan. The plan has a total of 443 active participants and dependents.

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

The District's annual 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 of 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. 477**  
**Notes to Financial Statements**

**NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**C. Annual OPEB Cost and Net OPEB Costs Obligation (Continued)**

ARC	\$	450,621
Interest on net OPEB obligation		5,914
Adjustment to ARC		(9,911)
Annual OPEB cost (expense)		446,624
Contributions Made		(271,450)
Decrease in net OPEB Obligation		175,174
Net OPEB obligation - beginning of year		197,146
 Net OPEB obligation - end of year	 \$	 372,320

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2015, 2016, and 2017 were as follows:

Year Ended	Annual OPEB Cost	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
06/30/15	\$ 419,932	\$ 401,190	96%	\$ 137,369
06/30/16	421,330	361,554	86%	197,146
06/30/17	446,624	271,450	61%	372,320

**D. Funded Status and Funding Progress**

As of July 1, 2016, the most recent actuarial valuation date, the District had no assets deposited to fund the plan. The actuarial accrued liability for benefits was \$3,759,741 and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$3,759,741. The covered payroll (annual payroll of active employees covered by the plan) was \$18,703,417 and the ratio of the UAAL to the covered payroll was 20.1%.

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.

**Independent School District No. 477**  
**Notes to Financial Statements**

**NOTE 7 – POST EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**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 seven years. Both rates included a 2.5% inflation rate. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at June 30, 2016, ranges from 22 to 30 years.

**NOTE 8 – GASB STANDARDS ISSUED BUT NOT YET IMPLEMENTED**

GASB has issued GASB Statement No. 75 relating to accounting and financial reporting for postemployment benefits other than pensions. The new statement requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about OPEB liabilities.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**Independent School District No. 477**  
**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	\$ -	\$ 3,772,278	\$ 3,772,278	0.0%	\$ 15,319,370	24.6%
07/01/14	-	3,629,488	3,629,488	0.0%	15,775,846	23.0%
07/01/16	-	3,759,741	3,759,741	0.0%	18,703,417	20.1%

\* See Note 8 in the notes to financial statements for more details on this Schedule.

**Independent School District No. 477**  
**Schedule of District's and Non-Employer Proportionate Share**  
**of Net Pension Liability**  
**Last Ten Years General Employees Retirement Funds**

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Share of State of Minnesota's Proportionate 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	0.0840%	\$ 3,945,899	\$ -	\$ 3,945,899	\$ 4,411,903	89.4%	78.7%
2015	0.0818%	4,239,301	-	4,239,301	4,729,107	89.6%	78.2%
2016	0.0809%	6,568,679	85,835	6,654,514	5,019,720	130.9%	68.9%

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

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

For Fiscal Year Ended June 30,	District's Proportion of the Net Pension Liability (Asset)	District's Proportionate Share of the Net Pension Liability (Asset)	District's Share of State of Minnesota's Proportionate 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	0.2908%	\$ 13,399,855	\$ 942,791	\$ 14,342,646	\$ 13,276,486	100.9%	81.5%
2015	0.2738%	16,937,238	2,077,621	19,014,859	13,896,547	121.9%	76.8%
2016	0.2740%	65,355,538	6,559,937	71,915,475	14,252,667	458.5%	44.9%

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

**Independent School District No. 477  
Schedule of District Contributions  
General Employees Retirement Funds  
Last Ten Years**

<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	\$ 319,863	\$ 319,863	\$ -	\$ 4,411,903	7.25%
2015	354,683	354,683	-	4,729,107	7.50%
2016	376,479	376,479	-	5,019,720	7.50%
2017	403,043	403,043	-	5,373,907	7.50%

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

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

<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	\$ 929,354	\$ 929,354	\$ -	\$ 13,276,486	7.0%
2015	1,042,241	1,042,241	-	13,896,547	7.5%
2016	1,068,950	1,068,950	-	14,252,667	7.5%
2017	1,128,596	1,128,596	-	15,047,947	7.5%

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

**Independent School District No. 477**  
**Notes to the Required Supplementary Information**

**TRA Retirement Fund**

**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%.

**Independent School District No. [477]  
Notes to the Required Supplementary Information**

**General Employees Fund (Continued)**

**2016 Changes (Continued)**

- 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.

**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. 477  
Combining Balance Sheet -  
Nonmajor Governmental Funds  
Year Ended June 30, 2017**

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Funds</u>
	<u>Food Service</u>	<u>Community Service</u>	
<b>Assets</b>			
Cash and investments	\$ 452,575	\$ 468,380	\$ 920,955
Current property taxes receivable	-	157,043	157,043
Delinquent property taxes receivable	-	6,473	6,473
Accounts receivable	555	12,166	12,721
Due from Department of Education	-	36,825	36,825
Due from Federal Government through Department of Education	8,903	-	8,903
Inventory	52,510	-	52,510
Prepaid items	1,950	1,839	3,789
	<u>516,493</u>	<u>682,726</u>	<u>1,199,219</u>
Total assets	<u>\$ 516,493</u>	<u>\$ 682,726</u>	<u>\$ 1,199,219</u>
<b>Liabilities</b>			
Accounts payable	\$ 6,919	\$ 13,850	\$ 20,769
Salaries and benefits payable	140	39,121	39,261
Unearned revenue	38,062	40,119	78,181
Total liabilities	<u>45,121</u>	<u>93,090</u>	<u>138,211</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenue - delinquent property taxes	-	6,473	6,473
Property taxes levied for subsequent year's expenditures	-	324,900	324,900
Total deferred inflows of resources	<u>-</u>	<u>331,373</u>	<u>331,373</u>
<b>Fund Balances</b>			
Nonspendable	54,460	1,839	56,299
Restricted	416,912	256,424	673,336
Total fund balances	<u>471,372</u>	<u>258,263</u>	<u>729,635</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 516,493</u>	<u>\$ 682,726</u>	<u>\$ 1,199,219</u>

**Independent School District No. 477**  
**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 Nonmajor Funds</u>
	<u>Food Service</u>	<u>Community Service</u>	
<b>Revenues</b>			
Local property taxes	\$ -	\$ 298,486	\$ 298,486
Other local and county revenues	12,042	901,532	913,574
Revenue from state sources	122,827	280,842	403,669
Revenue from federal sources	898,933	-	898,933
Sales and other conversion of assets	839,032	-	839,032
Total revenues	<u>1,872,834</u>	<u>1,480,860</u>	<u>3,353,694</u>
<b>Expenditures</b>			
Current			
Food service	1,769,230	-	1,769,230
Community education and services	-	1,583,212	1,583,212
Capital outlay			
Food service	23,391	-	23,391
Community education and services	-	974	974
Total expenditures	<u>1,792,621</u>	<u>1,584,186</u>	<u>3,376,807</u>
Excess of revenues over (under) expenditures	80,213	(103,326)	(23,113)
<b>Fund Balances</b>			
Beginning of year	<u>391,159</u>	<u>361,589</u>	<u>752,748</u>
End of year	<u>\$ 471,372</u>	<u>\$ 258,263</u>	<u>\$ 729,635</u>

**Independent School District No. 477**  
**Uniform Financial Accounting and Reporting Standards**  
**Compliance Table**  
**Year Ended June 30, 2017**

	Audit	UFARS	Audit-UFARS		Audit	UFARS	Audit-UFARS
<b>01 General Fund</b>				<b>06 Building Construction Fund</b>			
Total revenue	\$ 35,146,810	\$ 35,146,811	\$ (1)	Total revenue	\$ 132,837	\$ 132,837	\$ -
Total expenditures	36,002,610	36,002,610	-	Total expenditures	5,719,593	5,719,594	(1)
<i>Nonspendable:</i>				<i>Restricted/reserved:</i>			
460 Nonspendable	81,513	81,513	-	407 Capital Projects Levy	-	-	-
<i>Restricted/reserved:</i>				409 Alternative Facility Program	-	-	-
403 Staff Development	199,312	199,312	-	413 Building Projects Funded by COP/LP	-	-	-
406 Health and Safety	-	-	-	<i>Restricted:</i>			
407 Capital Projects Levy	-	-	-	464 Restricted	24,034	24,034	-
408 Cooperative Programs	-	-	-	<i>Unassigned:</i>			
409 Alternative Facility Program	-	-	-	463 Unassigned	-	-	-
413 Project Funded By Cop	-	-	-	<b>07 Debt Service Fund</b>			
414 Operating Debt	-	-	-	Total revenue	\$ 3,750,273	\$ 3,750,273	\$ -
416 Levy Reduction	-	-	-	Total expenditures	3,750,407	3,750,409	(2)
424 Operating Capital	2,225,980	2,225,980	-	<i>Restricted/reserved:</i>			
426 \$25 Taconite	-	-	-	425 Bond refunding	4,698,546	4,698,546	-
427 Disabled Accessibility	-	-	-	451 QZAB and QSCB payments	-	-	-
428 Learning and Development	-	-	-	<i>Restricted:</i>			
434 Area Learning Center	-	-	-	464 Restricted	726,157	726,156	1
435 Contracted Alternative Programs	-	-	-	<i>Unassigned:</i>			
436 State Approved Alternative Program	-	-	-	463 Unassigned	-	-	-
438 Gifted and Talented	24,360	24,360	-	<b>08 Trust Fund</b>			
440 Teacher Development and Evaluation	-	-	-	Total revenue	\$ -	\$ -	\$ -
441 Basic Skills Programs	-	-	-	Total expenditures	-	-	-
445 Career Technical Programs	-	-	-	<i>Reserved:</i>			
446 First Grade Preparedness	-	-	-	419 Encumbrances	-	-	-
448 Achievement and Integration Revenue	-	-	-	<i>Unreserved:</i>			
449 Safe School Crime	-	-	-	422 Unassigned fund balance (net position)	-	-	-
450 Transition For Pre-kindergarten	-	-	-	<b>09 Agency Fund</b>			
451 Qzab And QSCB Payments	-	-	-	<i>Unreserved:</i>			
452 OPEB Liabilities not Held in Trust	-	-	-	422 Unreserved/undesignated	\$ -	\$ -	\$ -
453 Unfunded Severance and Retirement Levy	-	-	-	<b>20 Internal Service Fund</b>			
467 Long-term Facilities Maintenance	606,617	606,617	-	Total revenue	\$ -	\$ -	\$ -
472 Medical Assistance	7,057	7,057	-	Total expenditures	-	-	-
<i>Restricted:</i>				<i>Reserved:</i>			
464 Restricted	-	-	-	419 Encumbrances	-	-	-
<i>Committed:</i>				<i>Unreserved:</i>			
418 Committed for separation benefits	812,308	812,308	-	422 Unassigned fund balance (net position)	-	-	-
461 Committed	-	-	-	<b>25 OPEB Revocable Trust</b>			
<i>Assigned:</i>				Total revenue	\$ -	\$ -	\$ -
462 Assigned	1,406,453	1,406,452	1	Total expenditures	-	-	-
<i>Unassigned:</i>				<i>Reserved:</i>			
422 Unassigned fund balance (net position)	5,114,331	5,114,331	-	419 Encumbrances	-	-	-
<b>02 Food Services Fund</b>				<i>Unreserved:</i>			
Total revenue	\$ 1,872,834	\$ 1,872,835	\$ (1)	422 Unassigned fund balance (net position)	-	-	-
Total expenditures	1,792,621	1,792,622	(1)	<b>45 OPEB Irrevocable Trust</b>			
<i>Nonspendable:</i>				Total revenue	\$ -	\$ -	\$ -
460 Nonspendable	54,460	54,460	-	Total expenditures	-	-	-
<i>Restricted/reserved:</i>				<i>Reserved:</i>			
452 OPEB liabilities not held in trust	-	-	-	419 Encumbrances	-	-	-
<i>Restricted:</i>				<i>Unreserved:</i>			
464 Restricted	416,912	416,913	(1)	422 Unassigned fund balance (net position)	-	-	-
<i>Unassigned:</i>				<b>47 OPEB Debt Service</b>			
463 Unassigned	-	-	-	Total revenue	\$ -	\$ -	\$ -
<b>04 Community Service Fund</b>				Total expenditures	-	-	-
Total revenue	\$ 1,480,860	\$ 1,480,862	\$ (2)	<i>Reserved:</i>			
Total expenditures	1,584,186	1,584,188	(2)	425 Bond refundings	-	-	-
<i>Nonspendable:</i>				<i>Unreserved:</i>			
460 Nonspendable	1,839	1,839	-	422 Unreserved/undesignated	-	-	-
<i>Restricted/reserved:</i>							
426 \$25 Taconite	-	-	-				
431 Community Education	149,889	149,889	-				
432 ECFE	100,334	100,334	-				
440 Teacher Development and Evaluation	-	-	-				
444 School Readiness	5,124	5,124	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liabilities not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted	1,077	1,079	(2)				
<i>Unassigned:</i>							
463 Unassigned	-	-	-				

**Independent School District No. 477**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2017**

Federal Funding Source	Federal CFDA Number	Grant Name	Expenditures
<b>Through Minnesota Department of Education</b>			
USDOA	10.559	Summer Food Service	\$ 48,389
USDOA	10.553	School Breakfast	114,819
USDOA	10.555	Type A Lunch and Commodities Programs	733,440
USDOA	10.556	Special Milk Program	<u>2,285</u>
Total Child Nutrition Cluster and USDOA			898,933
USDOED	84.010	Title I, Part A	317,837
USDOED	84.367	Title II, Part A - Teacher and Principal Training and Recruiting	80,411
<b>Through Independent School District No. 11 - Anoka-Hennepin</b>			
USDOED	84.048A	Carl Perkins	10,912
<b>Through Rum River Special Education Cooperative</b>			
USDOED	84.027	Special Education	163,947
USDOED	84.173	Preschool Incentive	23,817
<b>Through Minnesota Department of Education</b>			
USDOED	84.027A	Multi-tiered Systems of Support with Fidelity - Math Focus	<u>24,486</u>
Total Special Education Cluster			212,250
USDOED	84.181	Infants and Toddlers Program	<u>3,497</u>
Total USDOED			<u>624,907</u>
Total Federal Expenditures			<u><u>\$ 1,523,840</u></u>

**Independent School District No. 477**  
**Notes to Schedule of Expenditures of Federal Awards**

**NOTE 1 – BASIS OF PRESENTATION**

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

**NOTE 2 – PASS-THROUGH GRANT NUMBERS**

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

**NOTE 3 – INVENTORY**

Inventories of commodities donated by the U.S. Department of Agriculture are recorded at market value in the Food Service Fund as inventory. Revenue and expenditures are recorded when commodities are used.

**NOTE 4 – INDIRECT COST RATE**

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

**Report on Internal Control over Financial Reporting  
and on Compliance and other Matters Based on an Audit  
of Financial Statements Performed in Accordance  
with *Government Auditing Standards***

**Independent Auditor's Report**

To the School Board  
Independent School District No. 477  
Princeton, 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. 477, Princeton, Minnesota, as of and for the year ending June 30, 2017, and the related notes to financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 27, 2017.

**Internal Control over Financial Reporting**

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant 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 a deficiency in internal control, described in the Schedule of Findings and Questioned Costs in Accordance with Uniform Guidance that we consider to be a significant deficiency, 2007-002.

### **Compliance and Other Matters**

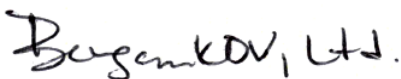
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Cost in Accordance with Uniform Guidance. 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 results 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.



St. Cloud, Minnesota  
October 27, 2017

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

**Independent Auditor's Report**

To the School Board  
Independent School District No. 477  
Princeton, Minnesota

**Report on Compliance for Each Major Federal Program**

We have audited the compliance of Independent School District No. 477, Princeton, Minnesota with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Cost in Accordance with the Uniform Guidance.

**Management's Responsibility**

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

**Auditor's Responsibility**

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide legal determination of the compliance of Independent School District No. 477.



### **Opinion on Each Major Federal Program**

In our opinion, Independent School District No. 477 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

### **Report on Internal Control over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

St. Cloud, Minnesota  
October 27, 2017

**Independent School District No. 477  
Schedule of Findings and Questioned Costs in  
Accordance with Uniform Guidance**

**SECTION I – SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes, Audit Finding 2007-002
Noncompliance material to financial statements noted?	No

**Federal Awards**

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

**Identification of Major Programs**

CFDA No.:	10.553, 10.555, 10.556 and 10.559
Name of Federal Program or Cluster:	Child Nutrition Cluster
Dollar threshold used to distinguish between type A and type B programs:	\$750,000
Auditee qualified as low risk auditee?	No

**Independent School District No. 477  
Schedule of Findings and Questioned Costs in  
Accordance with Uniform Guidance**

**SECTION II – FINANCIAL STATEMENT FINDING**

**Audit Finding 2007-002 – Preparation of Financial Statements**

*Criteria or Specific Requirement:*

Statement on Auditing Standards (SAS) No. 112 states entities should be able to adequately prepare and/or understand their financial statements.

*Condition:*

As a function of the audit process, auditors are required to gain an understanding of the District's internal control, including the financial reporting process.

The District does not have an internal control system designed to provide for the preparation of the financial statements being audited. As auditors, we were requested to draft the financial statements and accompanying notes to financial statements. This circumstance is not unusual in a district of your size.

This condition increases the risk that errors could occur which would not be prevented, or detected and corrected in a timely manner. Even though all management decisions related to financial reporting are made by the District's management and approval of the financial statements lies with management, it is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

*Context:*

This finding impacts the District's ability to internally prepare the financial statements.

*Effect:*

The financial disclosures in the financial statements could be incomplete.

*Cause:*

District personnel do not have adequate training to apply accounting principles generally accepted in the United States of America internally.

*Recommendation:*

Obtain additional training on accounting principles generally accepted in the United States of America to adequately apply them internally.

**Independent School District No. 477  
Schedule of Findings and Questioned Costs in  
Accordance with Uniform Guidance**

**SECTION II – FINANCIAL STATEMENT FINDING (CONTINUED)**

**Audit Finding 2007-002 – Preparation of Financial Statements (Continued)**

*Management's Response:*

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Finding  
There is no disagreement with the audit finding.
2. Actions Planned in Response to Finding  
Administration will have the auditing firm of BerganKDV, Ltd. prepare the annual financial statements for the District. In addition, the Director of Business Services will review the financial statement disclosures.
3. Official Responsible to Ensuring CAP  
Julia Espe, Superintendent, and Michelle Czech, Director of Business Services, are the officials responsible for ensuring corrective action of the deficiency.
4. Planned Completion Date for CAP  
The planned completion date for the CAP is June 30, 2016.
5. Plan to Monitor Completion of CAP  
The School Board will be monitoring this CAP.

**SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

There were no federal award findings or questioned costs.

**SECTION IV – SCHEDULE OF PRIOR AUDIT FINDINGS**

**Audit Finding 2015-001 –Material Audit Adjustment**

During the course of our prior year engagement, we proposed a material audit adjustment that would not have been identified as a result of the District's existing internal controls and, therefore, could have resulted in a material misstatement of the District's financial statements.

In order to ensure financial statements were free from material misstatement, an audit adjustment was required to properly include federal tuition adjustments.

**CORRECTIVE ACTION TAKEN:**

No material audit adjustments were required.

## Report on Legal Compliance

### Independent Auditor's Report

To the School Board  
Independent School District No. 477  
Princeton, 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. 477, Princeton, 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 October 27, 2017.

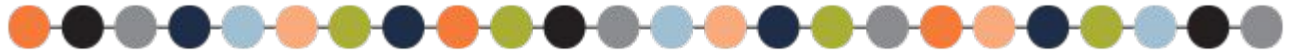
The *Minnesota Legal Compliance Audit Guide for School Districts* promulgated by the State Auditor pursuant to *Minnesota Statutes* § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements,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

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

The purpose of this report is 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.



St. Cloud, Minnesota  
October 27, 2017



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## Goal 2: College & Career Readiness



#477chat

# Opportunities for students to learn about civic, financial, entrepreneurial, health, information, media and environmental literacies

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- ❖ Community & school discussions of skills and competencies of required skills
- ❖ Collaboration- Students & staff developing cognitively complex tasks for students to show 21st Century skills in collaboration, critical thinking, communication and creativity
  - Science Fair, Ramp up to Readiness, STEM Summit
- ❖ Plan Development- Sharing 21st Century Skills in the school & community



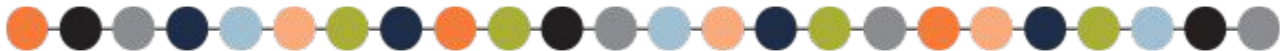


# Students display the life and career skills of self-direction, flexibility, adaptability, cross-cultural awareness, responsibility, productivity and accountability

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- ❖ Educate & Communicate = staff, families and communities about these traits and how to enhance them
  - Self- assessments
- ❖ Community works together to assist students' work in developing or improving these traits



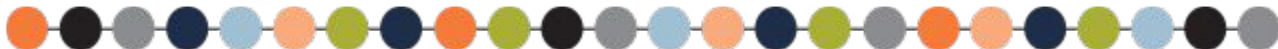


# Next Steps

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- ❖ Continue to provide cognitively complex lessons & opportunities for students
- ❖ Assess students on 21st Century Skills
- ❖ MREA Conference, Nov. 12- 14
  - “Voice for Greater MN Education”
  - Supports developing future-ready students
  - Career & College Ready components
- ❖ Career Crawl, Nov. 22
- ❖ Board presentations



## 2017-2019 Food Service Tentative Contract Summary

1. Change from 2 year contract to three-year contract (2017-2020).
2. Update Language in contract to ensure clarity of current practice- ADD:  
*“All employees (not including substitutes) assuming duties in a higher classification shall receive the applicable rate of pay for that classification at the same step they are on in their own classification.”*
3. Health Insurance District Annual Contributions
  - a. 2017-2018 (Single- \$5,842.72 , Employee + Children- \$6,924.25 , Family- \$7,963.19)
  - b. 2018-2020 (Single- \$6,134.80, Employee + Children- \$7,270.45 , Family- \$8,361.35)
4. Banquet work  
Additional \$4/hr to hourly wage shall be paid for evening banquet work.
5. Performance Incentive (yearly)
  - a. 75% student participation for lunch = \$100.00 per employee
  - b. 80% student participation for lunch = \$150.00 per employee
  - c. 40% student participation for breakfast = \$100.00 per employee
  - d. 45% student participation for breakfast = \$150.00 per employee
6. Attendance Incentive- ADD:  
“Employees who have completed their probationary period become eligible for an attendance incentive. Employees who do not use sick leave during a contract year shall receive three (3) days of pay. If one (1) day of sick leave is used, employee shall receive two (2) days of pay. If two (2) days of sick leave are used, employee shall receive one (1) one day of pay. Payment shall be issued on the June 30th pay period. Pay is be based on current employee’s contracted hours and rate of pay. “
7. Salary Schedule -ATTACHED
  - a. Add- “Head Cashiers will receive an additional \$0.30 per hour.”
  - b. Add- “Head Cashiers cannot sub within same Helper Classification but may sub within Head Cook Classification”

	<u>2017/2018</u>	<u>2018/2019</u>	<u>2019/2020</u>
HEAD COOKS:			
First Year	<u>17.44</u>	<u>17.94</u>	<u>18.44</u>
Second Year	<u>18.00</u>	<u>18.50</u>	<u>19.00</u>
Third Year	<u>18.56</u>	<u>19.06</u>	<u>19.56</u>
Fourth Year	<u>19.12</u>	<u>19.62</u>	<u>20.12</u>
15 Year Longevity	<u>19.52</u>	<u>20.02</u>	<u>20.52</u>
HELPERS:			
First Year	<u>14.67</u>	<u>15.17</u>	<u>15.67</u>
Second Year	<u>15.23</u>	<u>15.73</u>	<u>16.23</u>
Third Year	<u>15.79</u>	<u>16.29</u>	<u>16.79</u>
Fourth Year	<u>16.35</u>	<u>16.85</u>	<u>17.35</u>
15 Year Longevity	<u>16.75</u>	<u>17.25</u>	<u>17.75</u>
SERVERS:			
First Year	<u>11.86</u>	<u>12.36</u>	<u>12.86</u>
Second Year	<u>12.42</u>	<u>12.92</u>	<u>13.42</u>
Third Year	<u>12.99</u>	<u>13.49</u>	<u>13.99</u>
Fourth Year	<u>13.54</u>	<u>14.04</u>	<u>14.54</u>
15 Year Longevity	<u>13.94</u>	<u>14.44</u>	<u>14.94</u>