

# Annual Financial Report

Independent School District No. 508

St. Peter, Minnesota

For the Year Ended

June 30, 2017

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ST. PETER, MINNESOTA  
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ST. PETER, MINNESOTA  
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**INTRODUCTORY SECTION**

**INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA**

**FOR THE YEAR ENDED  
JUNE 30, 2017**

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INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
SCHOOL DISTRICT OFFICIALS  
FOR THE YEAR ENDED JUNE 30, 2017

**BOARD OF EDUCATION**

<u>Name</u>	<u>Term on Board Expires</u>	<u>Position</u>
Mark Karlsrud	12/31/19	Chairperson
Ben Leonard	12/31/19	Vice Chair
Charlie Potts	12/31/17	Clerk
Jon Carlson	12/31/17	Treasurer
Bob Meeks	12/31/19	Director
Drew Dixon	12/31/17	Director
Tim Lokensgard	12/31/19	Director

**ADMINISTRATION**

Dr. Paul Peterson	Superintendent
Tim Regner	Business Manager

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**FINANCIAL SECTION**

**INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA**

**FOR THE YEAR ENDED  
JUNE 30, 2017**

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## INDEPENDENT AUDITOR'S REPORT

Members of the School Board  
Independent School District No. 508  
St. Peter, 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 the Independent School District No. 508, St. Peter, Minnesota, (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **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 of 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 above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the District as of June 30, 2017, and the respective changes in financial position and the budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis starting on page 17 and the Schedules of Employer's Share of the Net Pension Liability and the Schedules of Employer's Contributions and the Schedule of Funding Progress for Other Post-Employment Benefits Plan starting on page 76 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

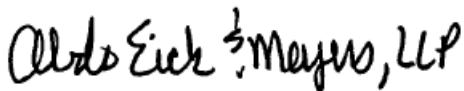
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual fund financial statements and schedules and table are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Also, the accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements.

The combining and individual fund financial statements and schedules and table and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, combining and individual fund financial statements and schedules and table 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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the 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.



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
December 14, 2017

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## Management's Discussion and Analysis

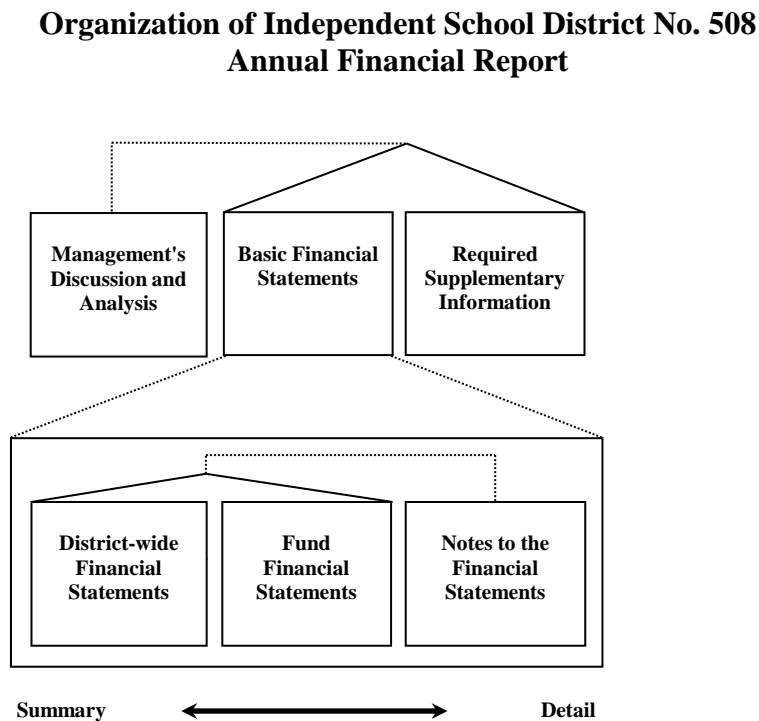
As management of the Independent School District No. 508 (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2017.

### Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$728,213 (*net position*). Of this amount, the deficit of \$13,155,267 (*unrestricted net position*) is due to the recognition of the pension liability resulting from implementing GASB Statement No. 68.
- The District's total net position decreased by \$3,006,056 as compared to an increase of \$764,662 in the prior year. The change in net position is mainly due to the recognition of pension expense in the amount of \$5,986,609.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$22,631,692, a decrease of \$33,165,659 in comparison the prior year had an increase of \$52,921,124. The major reasons causing the decrease is the capital expenditures relating to the construction of the new high school building. The bonding for this project occurred in the prior fiscal year resulting in the increase. Of the total fund balance, \$3,725,420 is *available for spending* at the District's discretion (*unassigned fund balance*). The majority of the remainder of fund balance is restricted for the building project.

## Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) District-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplemental information in addition to the basic financial statements themselves. The following chart shows how the various parts of this annual report are arranged and related to one another:



The following chart summarizes 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. The remainder of this overview section of management’s discussion and analysis highlights the structure and contents of each of the statements:

### Major Features of the District-wide and Fund Financial Statements

	District-wide Statements	Fund Financial Statements	
		Governmental Funds	Fiduciary Funds
Scope	Entire District (except fiduciary funds)	The activities of the District that are not fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
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 balance</li> </ul>	<ul style="list-style-type: none"> <li>Statement of fiduciary net position</li> <li>Statement of changes in fiduciary net position</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial focus	Accrual accounting and economic resources focus
Type of asset/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	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of deferred outflows/inflows of resources information	All deferred outflows/inflows of resources, regardless of when cash is received or paid.	Only deferred outflows of resources expected to be used up and deferred inflows of resources that come due during the year or soon thereafter; no capital assets included	All deferred outflows/inflows of resources, regardless of when cash is received or paid
Type of inflow/outflow information	All revenues and expenses during 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	All additions and deductions during the year, regardless of when cash is received or paid

**District-wide financial statements.** The *District-wide financial statements* are designed to provide readers with a broad overview of the District’s finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District’s assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the District’s overall health, you need to consider additional non-financial indicators such as changes in the District’s property tax base and condition of school buildings and other facilities.

The *statement of activities* presents information showing how the District’s net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

In the district-wide financial statements, the District activities are shown in one category titled “governmental activities”:

- *Governmental activities:* The District’s basic services are reported here, including regular and special education, transportation, administration, food services, and community education. Property taxes and State aids finance most of these activities.

The District-wide financial statements can be found starting on page 28 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the District-wide financial statements. However, unlike the District-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the District-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the District-wide financial statements. By doing so, readers may better understand the long-term impact by the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General fund, Debt Service fund and Capital Projects fund, which are considered to be major funds. Data from the other two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for its General fund. A budgetary comparison statement has been provided for the General fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found starting on page 32 of this report.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of students within the District. Fiduciary funds are *not* reflected in the District-wide financial statements because the resources of those funds are not available to support the District's own programs. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those activities that the assets belong. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found starting on page 37 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the District-wide and fund financial statements. The notes to the financial statements can be found starting on page 39 of this report.

**Required supplementary information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Independent School District No. 508's share of net pension liabilities (assets) for defined benefits plans, schedules of contributions, and progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found starting on page 76 of this report.

**Other information.** Combining and individual fund financial statements and schedules and table can be found starting on page 80 of this report.

## District-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$728,213 at the close of the most recent fiscal year.

The largest portion of the District's net position reflects its investment in capital assets (e.g., land, buildings, machinery and equipment); less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Another portion of the District's net position reflects amounts restricted for food service and educational purposes. These funds are to be used for the District's funded programs and activities.

### Independent School District No. 508's Net Position

	Governmental Activities		Increase (Decrease)	
	2017	(Restated) 2016	Amounts	Percent
Current and other assets	\$ 35,120,397	\$ 66,478,881	\$ (31,358,484)	(47.2) %
Capital assets	58,342,816	22,720,234	35,622,582	156.8
Total assets	93,463,213	89,199,115	4,264,098	4.8
Deferred inflows of resources	29,050,217	2,549,089	26,501,128	1,039.6
Long-term liabilities outstanding	108,086,848	75,264,850	32,821,998	43.6
Other liabilities	7,331,250	5,946,233	1,385,017	23.3
Total liabilities	115,418,098	81,211,083	34,207,015	42.1
Deferred inflows of resources	6,367,119	6,802,852	(435,733)	(6.4)
Net position				
Net investment in capital assets	12,821,911	12,902,476	(80,565)	(0.6)
Restricted	1,061,569	568,679	492,890	86.7
Unrestricted	(13,155,267)	(9,736,886)	(3,418,381)	35.1
Total net position	\$ 728,213	\$ 3,734,269	\$ (3,006,056)	(80.5)

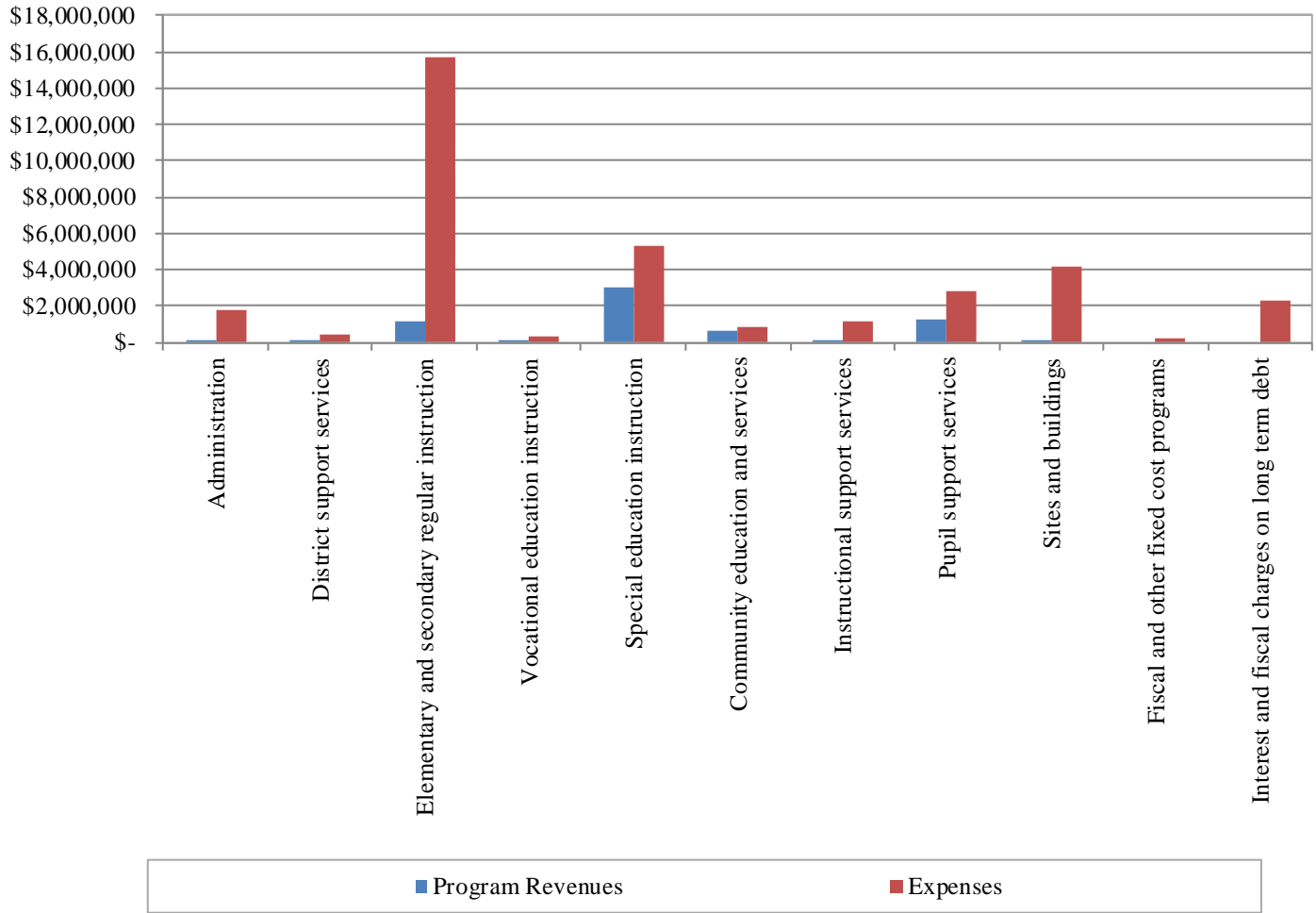
The balance of unrestricted net position is a deficit due to recognition of long-term pension liabilities in accordance with GASB Statement No. 68.

**Governmental activities.** Governmental activities decreased the District's net position by \$3,006,056. Key elements of this decrease are as follows:

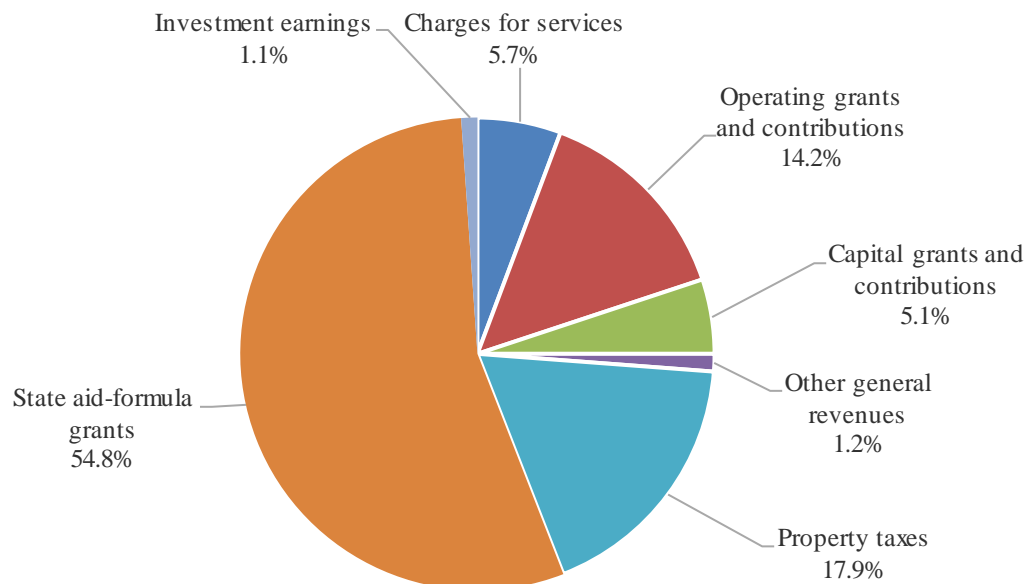
### Independent School District No. 508's Changes in Net Position

	Governmental Activities		Increase (Decrease)	
	2017	(Restated) 2016	Amounts	Percent
Revenues				
Program revenues				
Charges for services	\$ 1,827,436	\$ 1,607,441	\$ 219,995	13.7 %
Operating grants and contributions	4,541,239	3,856,460	684,779	17.8
Capital grants and contributions	1,628,801	986,330	642,471	65.1
General revenues				
Property taxes	5,745,533	3,397,813	2,347,720	69.1
State aid-formula grants	17,589,168	16,678,554	910,614	5.5
Other general revenues	374,645	493,855	(119,210)	(24.1)
Investment earnings	357,101	166,683	190,418	114.2
Total revenues	<u>32,063,923</u>	<u>27,187,136</u>	<u>4,876,787</u>	17.9
Expenses				
Administration	1,753,381	1,304,849	448,532	34.4
District support services	400,711	382,044	18,667	4.9
Elementary and secondary regular instruction	15,728,557	11,286,717	4,441,840	39.4
Vocational education instruction	320,403	130,438	189,965	145.6
Special education instruction	5,310,114	4,176,464	1,133,650	27.1
Community education and services	875,448	644,954	230,494	35.7
Instructional support services	1,116,465	1,115,208	1,257	0.1
Pupil support services	2,785,465	2,501,519	283,946	11.4
Sites and buildings	4,215,701	2,339,503	1,876,198	80.2
Fiscal and other fixed cost programs	213,530	236,337	(22,807)	(9.7)
Interest and fiscal charges on long-term debt	2,350,204	2,304,441	45,763	2.0
Total expenses	<u>35,069,979</u>	<u>26,422,474</u>	<u>8,647,505</u>	32.7
Change in net position	(3,006,056)	764,662	(3,770,718)	(493.1)
Net position, July 1	3,734,269	3,835,912	(101,643)	(2.6)
Prior period adjustment (Note 7)	<u>-</u>	<u>(866,305)</u>	<u>866,305</u>	
Net position, July 1	<u>3,734,269</u>	<u>2,969,607</u>	<u>764,662</u>	25.7
Net position, June 30 as restated	<u>\$ 728,213</u>	<u>\$ 3,734,269</u>	<u>\$ (3,006,056)</u>	(80.5)

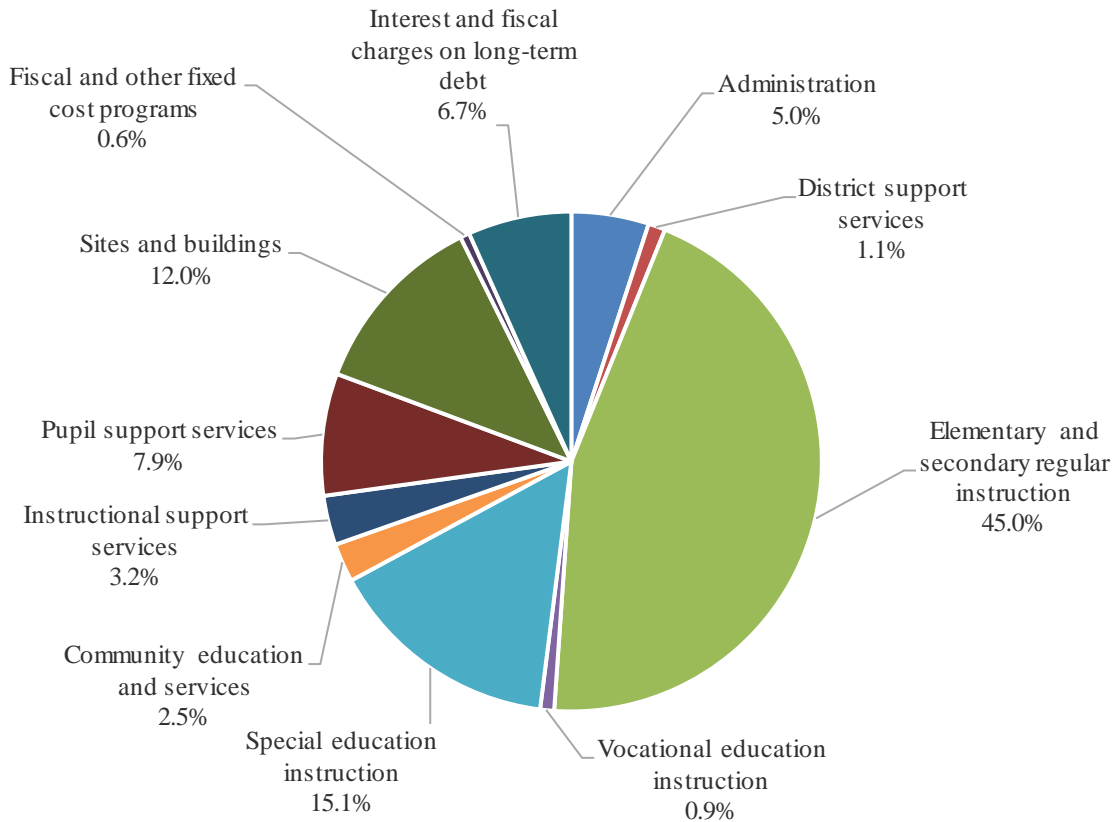
## Expenses and Program Revenues - Governmental Activities



## Revenues by Source - Governmental Activities



## Expenditures by Program - Governmental Activities



### Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$22,631,692, a decrease of \$33,165,659 in comparison with the prior year's increase of \$52,921,124. The General fund had a \$2,102,179 increase in fund balance in addition to an increase of \$131,838 in Community Service, and \$86,992 in Food Service. Additionally, there were decreases in the Capital Projects fund of \$35,392,036 and \$94,632 in Debt Service during the year. The \$86,992 increase in Food Service fund balance was due to an increase in revenue from Federal sources compared to last year. The \$35,392,036 decrease in Capital Projects was due to the District's capital spending for the new high school building. The \$131,838 increase in Community Service was due to an increase in State and other local revenues. The \$94,632 decrease in Debt Service was due to the interest payment exceeding the levy. Of the total fund balance, \$3,725,420 constitutes unassigned fund balance that is available for spending at the District's discretion.

The General fund is the chief operating fund of the District. At the end of the current year, unassigned fund balance of the General fund was \$3,853,125, while total fund balance reached \$7,389,870. As a measure of the General fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 16.8 percent of total General fund expenditures, while total fund balance represents 32.3 percent of that same amount.

The fund balance of the District's General fund increased by \$2,102,179 during the current fiscal year. This increase in the General fund was due to revenues being \$509,740 more than budgeted combining with expenditures coming in \$693,656 under budget. The District had budgeted an increase in fund balance of \$898,783 in comparison to the actual increase of \$2,102,179 resulting in a positive variance of \$1,203,396.

## General Fund Budgetary Highlights

The District adopted the annual revised operating budget in June of 2016. Actual revenue was higher than budgeted and actual expenditures were lower than the budget amount. This resulted in the District's final actual unassigned fund balance being higher than budgeted. The District ending the 2016-2017 school year with an unassigned fund balance of \$3,853,125 compared to \$3,697,504 in the prior year. The majority of the revenue above budget was attributable to special education revenue and some TRA revenue which came from the state which was not budgeted for and was offset by a similar TRA expenditure amount which was not budgeted for. The actual expenditures were below budget due to overall special education expenditures being below budget.

## Capital Asset and Debt Administration

**Capital assets.** The District's investment in capital assets for its governmental activities as of June 30, 2017, amounts to \$58,342,816 (net of accumulated depreciation). This investment in capital assets includes land, construction work in progress, land improvements, buildings and equipment. The total increase in the District's investment in capital assets for the current fiscal year was 156.8 percent. The major additions to capital assets was building cost for the new High School for \$33,009,981, cost for the South Elementary renovation totaled \$1,466,519 and renovation costs for North Elementary totaled \$1,452,681. The total depreciation expense for the year was \$740,656. The following is a schedule of capital assets as of June 30, 2017.

### Independent School District No. 508's Capital Assets (net of depreciation)

	Governmental Activities		
	2017	2016	Increase (Decrease)
Land	\$ 933,564	\$ 933,564	\$ -
Construction work in progress	43,297,484	7,282,200	36,015,284
Land improvements	988,625	1,037,223	(48,598)
Buildings	12,527,809	12,947,030	(419,221)
Equipment	595,334	520,217	75,117
Total	<u>\$ 58,342,816</u>	<u>\$ 22,720,234</u>	<u>\$ 35,622,582</u>

Additional information on the District's capital assets can be found in Note 3C on page 51 of this report.

**Long-term debt.** At the end of the current fiscal year, the District had total general obligation bonds outstanding of \$55,520,000. Most of this amount is to finance capital projects relating to school buildings. The District also had capital lease and energy loans totaling \$1,647,894 reported as long-term debt at year end.

### Independent School District No. 508's Outstanding Debt

	Governmental Activities		
	2017	2016	Increase (Decrease)
General obligation bonds payable	\$ 55,520,000	\$ 55,710,000	\$ (190,000)
Energy loans payable	135,664	221,362	(85,698)
Capital leases payable	1,512,230	1,543,446	(31,216)
Total	<u>\$ 57,167,894</u>	<u>\$ 57,474,808</u>	<u>\$ (306,914)</u>

The District's total long-term debt decreased by \$306,914 or 0.5 percent during the current fiscal year. The district had additional borrowing of \$366,164 and retirement of debt of \$673,078.

Additional information on the District's long-term debt can be found in Note 3E starting on page 52 of this report.

### **Factors Bearing on the District's Future**

At the time these financial statements were prepared and audited, the District was aware of the following circumstance that could significantly affect its financial health in the future.

- The District is experiencing enrollment increased equal to or above the one to two percent range, which was the projection from our latest demographic study which has increased the District's revenue.
- The New High School opened in the fall of 2017. The major remodel at the current middle school and south elementary, are substantially complete with some minor work remaining. The District now has four buildings for K-12.

### **Requests for Information**

This financial report is designed to provide the District's citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be in written form and addressed to the Business Office, Independent School District No. 508, 100 Lincoln Drive, Suite 229, St. Peter, MN 56082.

**DISTRICT-WIDE FINANCIAL STATEMENTS**

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2017

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
STATEMENT OF NET POSITION  
JUNE 30, 2017

	Governmental Activities
<b>ASSETS</b>	
Cash and temporary investments	\$ 26,948,815
Receivables	
Taxes	4,688,262
Accounts	5,993
Due from other school districts	273,010
Intergovernmental	3,174,048
Inventories	8,921
Prepaid items	21,348
Capital assets not being depreciated	44,231,048
Capital assets being depreciated (net of accumulated depreciation)	<u>14,111,768</u>
<b>TOTAL ASSETS</b>	<u>93,463,213</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred pension resources	<u>29,050,217</u>
<b>LIABILITIES</b>	
Salaries and wages payable	1,035,575
Accounts and other payables	4,054,542
Accrued interest payable	986,319
Due to other school districts	113,139
Due to other governments	33,418
Accrued expenses	1,083,525
Unearned revenue	24,732
Noncurrent liabilities	
Due within one year	1,441,720
Due in more than one year	<u>106,645,128</u>
<b>TOTAL LIABILITIES</b>	<u>115,418,098</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property taxes levied for subsequent year	5,858,926
Deferred pension resources	<u>508,193</u>
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>6,367,119</u>
<b>NET POSITION</b>	
Net investment in capital assets	12,821,911
Restricted	
Food service	234,525
Capital projects tax levy	320,760
Educational purposes	506,284
Unrestricted	<u>(13,155,267)</u>
<b>TOTAL NET POSITION</b>	<u><u>\$ 728,213</u></u>

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
		Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Position
					Governmental
					Activities
Governmental activities					
Administration	\$ 1,753,381	\$ -	\$ 103,408	\$ -	\$ (1,649,973)
District support services	400,711	-	782	-	(399,929)
Elementary and secondary regular instruction	15,728,557	431,600	761,015	-	(14,535,942)
Vocational education instruction	320,403	-	14,955	-	(305,448)
Special education instruction	5,310,114	609,293	2,466,262	-	(2,234,559)
Community education and services	875,448	317,333	345,457	-	(212,658)
Instructional support services	1,116,465	-	9,251	-	(1,107,214)
Pupil support services	2,785,465	469,065	747,348	-	(1,569,052)
Sites and buildings	4,215,701	145	92,761	1,628,801	(2,493,994)
Fiscal and other fixed cost programs	213,530	-	-	-	(213,530)
Interest and fiscal charges on long term debt	2,350,204	-	-	-	(2,350,204)
Total governmental activities	<u>\$ 35,069,979</u>	<u>\$ 1,827,436</u>	<u>\$ 4,541,239</u>	<u>\$ 1,628,801</u>	<u>(27,072,503)</u>
General revenues					
Taxes					
Property taxes, levied for general purposes					3,234,649
Property taxes, levied for community service					171,875
Property taxes, levied for debt service					2,339,009
State aid-formula grants					17,589,168
Other general revenues					374,645
Investment earnings					<u>357,101</u>
Total general revenues					<u>24,066,447</u>
Change in net position					(3,006,056)
Net position, July 1 as restated (note 7)					<u>3,734,269</u>
Net position, June 30					<u>\$ 728,213</u>

The notes to the financial statements are an integral part of this statement.

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**FUND FINANCIAL STATEMENTS**

**INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA**

**FOR THE YEAR ENDED  
JUNE 30, 2017**

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2017

	General	Debt Service	Capital Projects	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and temporary investments	\$ 6,582,916	\$ 1,747,203	\$ 18,045,604	\$ 573,092	\$ 26,948,815
Receivables					
Taxes	4,022,089	583,318	-	82,855	4,688,262
Accounts	131	-	-	5,862	5,993
Due from other school districts	264,212	-	-	8,798	273,010
Intergovernmental	2,849,876	10,708	295,701	17,763	3,174,048
Inventories	-	-	-	8,921	8,921
Prepaid items	21,348	-	-	-	21,348
<b>TOTAL ASSETS</b>	<b>\$ 13,740,572</b>	<b>\$ 2,341,229</b>	<b>\$ 18,341,305</b>	<b>\$ 697,291</b>	<b>\$ 35,120,397</b>
<b>LIABILITIES</b>					
Salaries and wages payable	\$ 992,221	\$ -	\$ -	\$ 43,354	\$ 1,035,575
Accounts and other payables	333,672	-	3,700,081	20,789	4,054,542
Due to other school districts	113,139	-	-	-	113,139
Due to other governments	33,393	-	-	25	33,418
Accrued expenses	1,083,525	-	-	-	1,083,525
Unearned revenue	-	-	-	24,732	24,732
<b>TOTAL LIABILITIES</b>	<b>2,555,950</b>	<b>-</b>	<b>3,700,081</b>	<b>88,900</b>	<b>6,344,931</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Property taxes levied for subsequent year	3,539,088	2,159,325	-	160,513	5,858,926
Unavailable revenue - delinquent property taxes	30,664	25,490	-	3,694	59,848
Unavailable revenue - intergovernmental	225,000	-	-	-	225,000
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>3,794,752</b>	<b>2,184,815</b>	<b>-</b>	<b>164,207</b>	<b>6,143,774</b>
<b>FUND BALANCES</b>					
Nonspendable	21,348	-	-	8,921	30,269
Restricted	165,226	156,414	14,641,224	562,968	15,525,832
Assigned	3,350,171	-	-	-	3,350,171
Unassigned	3,853,125	-	-	(127,705)	3,725,420
<b>TOTAL FUND BALANCES</b>	<b>7,389,870</b>	<b>156,414</b>	<b>14,641,224</b>	<b>444,184</b>	<b>22,631,692</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 13,740,572</b>	<b>\$ 2,341,229</b>	<b>\$ 18,341,305</b>	<b>\$ 697,291</b>	<b>\$ 35,120,397</b>

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
GOVERNMENTAL FUNDS  
JUNE 30, 2017

Amounts reported for governmental activities in the statement  
of net position are different because

Total fund balances - governmental funds	\$ 22,631,692
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the funds.	58,342,816
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	
Bonds payable	(55,520,000)
Unamortized premiums	(3,266,955)
Energy loan payable	(135,664)
Capital leases payable	(1,512,230)
Severance benefits payable	(187,386)
Compensated absences payable	(33,050)
Pension liability	(46,780,409)
OPEB liability	(651,154)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are unavailable in the funds.	
Delinquent property taxes	59,848
Long-term assets are not available to pay current-period expenditures and, therefore, are unavailable in the funds.	
Intergovernmental receivable	225,000
Governmental funds do not report long-term amounts related to pensions.	
Deferred outflows of pension resources	29,050,217
Deferred inflows of pension resources	(508,193)
Governmental funds do not report a liability for accrued interest until due and payable.	(986,319)
Total net position - governmental activities	<u><u>\$ 728,213</u></u>

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	General	Debt Service	Capital Projects	Other Governmental Funds	Total
<b>REVENUES</b>					
Local property tax levies	\$ 2,716,157	\$ 2,317,725	\$ 540,045	\$ 171,373	\$ 5,745,300
Other local and county revenue	1,440,261	-	1,632,556	371,686	3,444,503
Interest earned on investments	36,874	1,363	317,196	1,668	357,101
Revenue from State sources	19,960,145	107,070		337,353	20,404,568
Revenue from Federal sources	478,500	-		641,948	1,120,448
Sales and other conversion of assets	(4,668)	-		449,155	444,487
<b>TOTAL REVENUES</b>	<b>24,627,269</b>	<b>2,426,158</b>	<b>2,489,797</b>	<b>1,973,183</b>	<b>31,516,407</b>
<b>EXPENDITURES</b>					
Current					
Administration	1,296,964	-	-	-	1,296,964
District support services	388,441	-	-	-	388,441
Elementary and secondary regular instruction	11,325,994	-	-	-	11,325,994
Vocational education and instruction	290,401	-	-	-	290,401
Special education instruction	4,146,997	-	-	-	4,146,997
Community education and services	-	-	-	689,569	689,569
Instructional support services	688,511	-	-	-	688,511
Pupil support services	1,578,225	-	-	1,060,576	2,638,801
Sites and buildings	1,644,489	-	371	-	1,644,860
Fiscal and other fixed cost programs	205,469	-	-	-	205,469
Capital outlay	812,381	-	37,881,462	3,532	38,697,375
Debt service					
Principal	490,384	190,000	-	551	680,935
Interest and other costs	22,998	2,330,790	-	125	2,353,913
<b>TOTAL EXPENDITURES</b>	<b>22,891,254</b>	<b>2,520,790</b>	<b>37,881,833</b>	<b>1,754,353</b>	<b>65,048,230</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<b>1,736,015</b>	<b>(94,632)</b>	<b>(35,392,036)</b>	<b>218,830</b>	<b>(33,531,823)</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Capital leases issued	366,164	-	-	-	366,164
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,102,179</b>	<b>(94,632)</b>	<b>(35,392,036)</b>	<b>218,830</b>	<b>(33,165,659)</b>
<b>FUND BALANCES, JULY 1</b>	<b>5,287,691</b>	<b>251,046</b>	<b>50,033,260</b>	<b>225,354</b>	<b>55,797,351</b>
<b>FUND BALANCES, JUNE 30</b>	<b>\$ 7,389,870</b>	<b>\$ 156,414</b>	<b>\$ 14,641,224</b>	<b>\$ 444,184</b>	<b>\$ 22,631,692</b>

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
RECONCILIATION OF THE STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
TO STATEMENT OF ACTIVITIES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

Amounts reported for governmental activities in the statement  
of activities are different because

Total net change in fund balances - governmental funds	\$ (33,165,659)
--	-----------------

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	36,363,238
Depreciation expense	(740,656)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Debt issued	(366,164)
Principal repayments	673,078

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental fund because interest is recognized as an expenditure in the funds when it is due, and thus requires the 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.

3,709

Long-term pension activity is not reported in governmental funds.

Pension expense	(6,327,489)
Direct aid contributions	547,283

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

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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	56,573
OPEB costs	(50,202)

Change in net position - governmental activities	<u><u>\$ (3,006,056)</u></u>
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The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES				
Local property tax levies	\$ 2,762,878	\$ 2,578,203	\$ 2,716,157	\$ 137,954
Other local and county revenue	996,448	1,147,278	1,440,261	292,983
Interest earned on investments	3,000	38,500	36,874	(1,626)
Revenue from State sources	18,908,192	19,925,487	19,960,145	34,658
Revenue from Federal sources	423,121	432,264	478,500	46,236
Sales and other conversions of assets	700	6,365	(4,668)	(11,033)
TOTAL REVENUES	23,094,339	24,128,097	24,627,269	499,172
EXPENDITURES				
Current				
Administration	1,366,870	1,311,989	1,296,964	15,025
District support services	403,785	410,929	388,441	22,488
Elementary and secondary regular instruction	11,162,432	11,413,741	11,325,994	87,747
Vocational education and instruction	292,896	270,863	290,401	(19,538)
Special education instruction	4,253,296	4,334,201	4,146,997	187,204
Instructional support services	935,658	678,500	688,511	(10,011)
Pupil support services	1,432,098	1,577,637	1,578,225	(588)
Sites, buildings and equipment	1,634,894	1,898,049	1,644,489	253,560
Fiscal and other fixed cost programs	228,639	206,831	205,469	1,362
Capital outlay				
Administration	19,037	19,037	46,641	(27,604)
District support services	4,000	4,000	646	3,354
Elementary and secondary regular instruction	133,409	124,948	148,266	(23,318)
Special education instruction	4,737	4,737	2,998	1,739
Instructional support services	363,096	393,096	310,806	82,290
Pupil support services	600	600	323	277
Sites, buildings and equipment	1,286,482	405,988	302,701	103,287
Debt service				
Principal	493,667	506,769	490,384	16,385
Interest and other costs	26,605	22,995	22,998	(3)
TOTAL EXPENDITURES	24,042,201	23,584,910	22,891,254	693,656
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(947,862)	543,187	1,736,015	1,192,828
OTHER FINANCING SOURCES (USES)				
Capital leases issued	355,596	355,596	366,164	10,568
NET CHANGE IN FUND BALANCES	(592,266)	898,783	2,102,179	1,203,396
FUND BALANCES, JULY 1	5,287,691	5,287,691	5,287,691	-
FUND BALANCES, JUNE 30	\$ 4,695,425	\$ 6,186,474	\$ 7,389,870	\$ 1,203,396

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2017

	Private Purpose Trust
ASSETS	
Cash and temporary investments	<u>\$     687,135</u>
NET POSITION	
Held in trust for scholarships	<u>\$     687,135</u>

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Private Purpose Trust</u>
REVENUES	
Investment income (loss)	\$ (3,582)
EXPENDITURES	
Other expenditures	<u>20,000</u>
CHANGE IN NET POSITION	(23,582)
NET POSITION, JULY 1	<u>710,717</u>
NET POSITION, JUNE 30	<u><u>\$ 687,135</u></u>

The notes to the financial statements are an integral part of this statement.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting entity**

Independent School District No. 508, (the District) was incorporated under the laws of the State of Minnesota, (the State). The District operates under a School Board form of government for the purpose of providing educational services to individuals within the area. The District is governed by an elected School Board of seven members, who are responsible for legislative and fiscal control of the District. A superintendent is appointed by the School Board and is responsible for administrative control of the District.

The District has considered all potential units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board (GASB) has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the primary government to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the primary government. The District has no component units that meet the GASB criteria.

In accordance with Minnesota statutes, the District's School Board has elected to control or be financially accountable for extracurricular student activities. Accordingly, the account and transactions are included in the financial statements within the General fund.

**B. District-wide and fund financial statements**

The district-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. The effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the district-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. Measurement focus, basis of accounting and basis of presentation**

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

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. State revenue is recognized in the year to which it applies according to Minnesota statutes and accounting principles generally accepted in the United States of America. Minnesota statutes include State aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure was made. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the year in which the resources are measurable and become available.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the year for which the tax is levied. Revenue from grants, entitlements and donations is recognized in the year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are also recorded as unearned revenue.

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Description of funds*

The various District funds have been established by the State of Minnesota Department of Education. Each fund is accounted for as an independent entity. Descriptions of the funds included in this report are as follows:

*Major governmental funds:*

The *General fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the District, as well as capital related activities such as maintenance of facilities, equipment purchases, health and safety projects and disabled accessibility projects.

The *Debt Service fund* accounts for the resources accumulated and payments made for principal, interest and related costs on long-term general obligation debt of governmental funds.

The *Capital Projects fund* accounts for all resources used for the acquisition and/or construction of major capital facilities.

*Non-major governmental funds:*

The *Food Service special revenue fund* is used to account for food service revenue and expenditures.

The *Community Service special revenue fund* accounts for services provided to residents in the areas of recreation, civic activities, non-public pupils, adult or early childhood programs, or other similar services.

*Fiduciary funds:*

The *private-purpose trust fund* is used to account for trust arrangements under which the income benefits individuals. This fund accounts for funds established for various annual scholarships that are awarded to students based on the requirements of the donor. All resources of the fund, including any earnings on invested resources, may be used to support the activities.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

**D. Assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position/fund balance**

***Deposits and investments***

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and all highly liquid investments or equity investments with original maturities of three months or less from the date of acquisition.

Cash balances from all funds are pooled and invested, to the extent available, in certificates of deposit and other authorized investments. Earnings from such investments are allocated on the basis of applicable participation by each of the funds.

The District may invest idle funds as authorized by Minnesota statutes, as follows:

1. Direct obligations or obligations guaranteed by the United States or its agencies.
2. Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.
3. General obligations of a state or local government with taxing powers rated "A" or better; revenue obligations rated "AA" or better.
4. General obligations of the Minnesota Housing Finance Agency rated "A" or better.
5. Obligation of a school district with an original maturity not exceeding 13 months and (i) rated in the highest category by a national bond rating service or (ii) enrolled in the credit enhancement program pursuant to statute section 126C.55.
6. Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
7. Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less.
8. Repurchase or reverse repurchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding \$10,000,000, a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.
9. Guaranteed investment contracts (GIC's) issued or guaranteed by a United States commercial bank, a domestic branch of a foreign bank, a United States insurance company, or its Canadian subsidiary, whose similar debt obligations were rated in one of the top two rating categories by a nationally recognized rating agency.

The Minnesota School District Liquid Asset Fund Investment Pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7 and operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

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. The District's recurring fair value measurements are listed in detail on page 49 and are valued using quoted market prices (Level 1 inputs) and other observable inputs (Level 2 inputs).

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Property taxes***

The School Board annually adopts a tax levy and certifies it to the County in December for collection in the following year. The County is responsible for collecting all property taxes for the District. These taxes attach an enforceable lien on taxable property within the District on January 1 and are payable by the property owners in two installments generally due on May 15 and October 15. The taxes are collected by the County Treasurer and tax settlements are made to the District three or four times throughout the year.

Statutory funding formulas determine the majority of the District revenue in the General and special revenue funds. This revenue is divided between property taxes and State aids by the legislature based on education funding priorities. Changes in this allocation are periodically accompanied by a change in property tax revenue recognition referred to as a "tax shift". The remaining portion of taxes collectible in 2017 is recorded as a deferred inflow of resources (property taxes levied for subsequent year).

Taxes payable on qualifying property, as defined by Minnesota statutes, are partially reduced by a market value credit aid. The credit is paid to the District by the State in lieu of taxes levied against homestead property.

Current property taxes receivable is recorded for taxes levied in 2016 and collectible in 2017. The remaining portion of the current tax levy is reported as a liability, property taxes levied for subsequent year.

Delinquent taxes receivable include the past six years' uncollected taxes. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

***Accounts receivable***

All trade and property tax receivables are shown net of an allowance for uncollectibles. No allowance for uncollectibles have been recorded. The only receivable not expected to be collected within one year are current property taxes receivable.

***Inventories and prepaid items***

Food Service fund inventories include items purchased by the District and commodities donated by the U.S. Department of Agriculture (USDA). Commodities are valued using a standard price list furnished by the USDA and purchased inventory is valued at the lower of cost or market on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both district-wide and fund financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 508  
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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Capital assets***

Capital assets include property, plant and equipment. Capital assets are defined by the District as assets with an initial, individual cost of more than \$2,500 (amount not rounded). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	20 - 50
Land improvements	20 - 50
Equipment, machinery and vehicles	5 - 15

***Deferred outflows of resources***

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, 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 then. The District has only one item that qualifies for reporting in this category. Accordingly, the item, deferred pension resources, is reported only in the statement of net position. This item results from actuarial calculations and current year pension contributions made subsequent to the measurement date.

***Accrued employee benefits***

***Compensated absences payable***

Vacation is earned under the terms of the superintendent, custodial group office support group, and food service employee contracts. Annual vacation pay rates are dependent upon employee group labor contracts. At June 30, certain employee groups may carry forward up to 10 days of unpaid vacation for up to one year. At June 30, 2017, unpaid vacation pay totaling \$33,050 is recorded in the statement of net position.

Substantially all District employees are entitled to sick leave at various rates. For certain eligible employees, unused sick leave is used to calculate severance pay upon termination.

INDEPENDENT SCHOOL DISTRICT NO. 508  
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JUNE 30, 2017

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Severance and health insurance benefits*

Severance and health insurance benefits consist of severance payments and post-employment healthcare benefits. Accounting policies for severance and health benefits are described as follows:

1. Severance Payment - Educational Assistants

A severance payment is available to paraprofessionals who have completed at least 10 consecutive years of service with the District and are at least age 55. An eligible individual will receive an amount equal to \$4,375 per hour of accumulated sick leave up to 1,400 hours, to a maximum of \$6,125.

2. Severance Payment - Custodial Personnel

A severance payment is available to custodial personnel who are at least age 55. An eligible individual will receive an amount equal to \$35 per unused sick leave day to a maximum of 180 days or \$6,300.

3. Severance Payment - Principals

A severance payment is available to principals who have completed at least 10 consecutive years of service with the District and are at least age 55. An eligible individual will receive pay for a maximum of 310 unused sick leave days. The first 75 days are paid at the full daily salary and the additional 235 days are at least an amount equal to \$40 per day.

4. Severance Payment - Food Service Personnel

A severance payment is available to food service personnel who have been employed by the District for 10 consecutive years of full-time employment at the District and are at least age 55. An eligible individual will receive an amount equal to \$25 per unused sick leave day to a maximum of 160 days.

5. Severance Payment - Teachers

A severance payment is available to teachers who have taught a minimum of 10 consecutive years in the District and are at least 55 years of age. An eligible individual will receive an amount equal to \$45 per unused sick leave a day at a maximum of one contract year. An eligible individual with more than 185 unused sick leave days will receive \$100 for each day over 185 to a maximum of ten days. This additional amount will be added to cap of \$52,000 paid by the District for medical insurance after retirement.

6. Severance Payment - Superintendent

A severance payment is available to the superintendent after 10 years of fulltime employment at the District and upon retirement to receive an amount for unused sick leave. The severance amount is equal to 60 days at the daily rate of pay. Sick leave pay is an amount equal to \$45 per day up to a maximum of 235 unused sick leave days. Vacation leave pay is an amount equal to regular pay.

7. Health Insurance Benefits

Under the terms of employee contracts, employees that retire are eligible for health insurance benefits if they are at a minimum 56 years of age and have 10 years of service within the District. Based on this criteria when the superintendent, business manager, principals, buildings and grounds supervisor that retire; the District must provide \$52,000 towards the purchase of any of the District's medical insurance plans. For teachers that retire with the above criteria; the District must provide \$60,000 towards the purchase of any of the District's medical insurance plans. For accountants and the superintendent's assistant that retire with the above criteria; the District must provide \$25,000 towards the purchase of any of the District's medical insurance plans. For office support and the custodial group that retire with the above criteria; the District must provide \$15,000 towards the purchase of any of the District's medical insurance plans. For teacher's assistants that retire with the above criteria; the District must provide \$7,800 towards the purchase of any of the District's medical insurance plans.

During fiscal year 2017, total expenditures for severance and health insurance benefits were \$37,107 and \$441,565, respectively. At June 30, 2017, a liability for severance and for health benefits (OPEB liability) is recorded on the statement of net position. Severance and health benefits payable are being paid by mainly the General and Food Service funds.

INDEPENDENT SCHOOL DISTRICT NO. 508  
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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Long-term obligations***

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bond issuance costs are reported as an expense in the period incurred.

In the fund financial statements, governmental fund types recognized 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 from the actual debt proceeds received, are reported as debt service expenditures.

***Pensions***

**Teachers Retirement Association (TRA)**

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Teachers Retirement Association (TRA) and additions to/deductions from TRA's fiduciary net position have been determined on the same basis as they are reported by TRA.

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. Additional information can be found in Note 4.

**Public Employees Retirement Association (PERA)**

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 additions to/deductions from PERA's fiduciary net position have been determined on the same basis as they are reported by PERA. 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.

***Deferred inflows of resources***

In addition to liabilities, the statement of net position and fund financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of item, which arises only under a modified accrual basis of accounting that qualifies as needing to be reported in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from three sources: delinquent property taxes, property taxes levied for subsequent year and intergovernmental receivables. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Furthermore, the District has an additional item which qualifies for reporting in this category. The item, deferred pension resources, is reported only in the statement of net position and results from actuarial calculations.

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JUNE 30, 2017

**Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Fund balance***

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of resources reported in the governmental funds. These classifications are defined as follows:

*Nonspendable* - Amounts that cannot be spent because they are not in spendable form, such as prepaid items.

*Restricted* - Amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions.

*Committed* - Amounts constrained for specific purposes that are internally imposed by formal action (resolution) of the School Board (the Board), which is the District's highest level of decision-making authority. Committed amounts cannot be used for any other purpose unless the Board modifies or rescinds the commitment by resolution.

*Assigned* - Amounts constrained for specific purposes that are internally imposed. In governmental funds other than the General fund, assigned fund balance represents all remaining amounts that are not classified as nonspendable and are neither restricted nor committed. In the General fund, assigned amounts represent intended uses established by the Board itself or by an official to which the governing body delegates the authority. The Board has adopted a fund balance policy which delegates the authority to assign amounts for specific purposes to the Business Manager.

*Unassigned* - The residual classification for the General fund and also negative residual amounts in other funds.

The District considers restricted amounts to be spent first when both restricted and unrestricted fund balance is available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District has formally set of a goal of a minimum unassigned fund balance in the General fund of \$2,784,566 for the year ended June 30, 2017. The unassigned fund balance for the General fund at year end was \$3,853,125.

***Net position***

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position is displayed in three components:

- a. Net investment in capital assets - Consists of capital assets, net of accumulated depreciation reduced by any outstanding debt attributable to acquire capital assets.
- b. Restricted net position - Consist of net position balances restricted when there are limitations imposed on their use through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- c. Unrestricted net position - All other net position balances that do not meet the definition of "restricted" or "net investment in capital assets".

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 2: STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary information**

Budgets are prepared for District governmental funds on the same basis and using the same accounting practices that are used in accounting and preparing financial statements for the funds.

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

1. Prior to July 1, the budget is prepared by the Superintendent to be adopted by the School Board.
2. Budgets for the General, special revenue, Debt Service and Capital Projects funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).
3. Budgeted amounts are as originally adopted, or as amended.
4. Budget appropriations lapse at year end.
5. The District does not use encumbrance accounting.
6. The legal level of budgetary control is the fund level.

**Note 3: DETAILED NOTES ON ALL FUNDS**

**A. Deposits and investments**

Custodial credit risk for deposits and investments is the risk that in the event of a bank failure, the District's deposits and investments may not be returned or the District will not be able to recover collateral securities in the possession of an outside party. In accordance with Minnesota statutes and as authorized by the School Board, the District maintains deposits at those depository banks which are members of the Federal Reserve System.

Minnesota statutes require that all District deposits be protected by insurance, surety bond or collateral. The market value of collateral pledged must equal 110 percent of the deposits not covered by insurance, bonds, or irrevocable standby letters of credit from Federal Home Loan Banks.

Authorized collateral includes the legal investments described below, as well as certain first mortgage notes, and certain other State or local government obligations. Minnesota statutes require that securities pledged as collateral be held in safekeeping by the District Treasurer or in a financial institution other than that furnishing the collateral.

At year end, the District's carrying amount of deposits was \$2,917,572 and the bank balance was \$3,253,054. Of the bank balance, \$982,276 was covered by federal depository insurance. The remaining balance of \$2,270,778 was covered by collateral held by the pledging financial institution's trust department or agent in the District's name.

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JUNE 30, 2017

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

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

Types of Investments	Credit Quality/ Ratings (1)	Segmented Time Distribution (2)	Balance	Fair Value Measurement Using		
				Level 1	Level 2	Level 3
Pooled investments at amortized costs						
Minnesota School District Liquid Asset Fund (MSDLAF)	AAAm	less than 6 months	\$ 11,080,488			
Broker money funds	N/A	less than 6 months	10,153,824			
Non-pooled investments at fair value						
Taxable Municipal Bond	AA2/AA-	more than 3 years	111,483	\$ 111,483	\$ -	\$ -
Taxable Municipal Bond	AA2	more than 3 years	110,289	110,289	-	-
Taxable Municipal Bond	AA3/AA-	more than 3 years	87,005	87,005	-	-
Taxable Municipal Bond	AA2/AA	more than 3 years	141,514	141,514	-	-
Negotiable certificates of deposits	N/A	less than 6 months	3,033,545	-	3,033,545	-
Total investments			\$ 24,718,148	\$ 450,291	\$ 3,033,545	\$ -

(1) Ratings are provided by various credit rating agencies where applicable to indicate associated credit risk.

N/A indicates not applicable or available.

(2) Interest rate risk is disclosed using the segmented time distribution method.

The Minnesota School District Liquid Asset Fund (MSDLAF) is a trust organized and existing under the laws of the State of Minnesota and the Minnesota Joint Powers Act, as amended. The trust was established for the purpose of allowing Minnesota school districts to pool their investment funds to obtain a competitive investment yield, while maintaining liquidity and preserving capital. The credit rating for the MSDLAF is AAAm. The weighted average days to maturity are less than six months. The District's investment in the MSDLAF is equal to the value of pool shares.

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JUNE 30, 2017

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

A reconciliation of cash and temporary investments as shown on the statement of net position for the District follows:

Petty cash	\$ 230
Deposits	2,917,572
Investments	<u>24,718,148</u>
Total	27,635,950
Less fiduciary fund cash and temporary investments	<u>(687,135)</u>
Total cash and temporary investments	<u><u>\$26,948,815</u></u>

**B. Property taxes receivable**

Current property taxes receivable is recorded for taxes levied in 2016 and payable in 2017. A portion of the current property taxes receivable is recognized as revenue in the fiscal year ended June 30, 2017 in accordance with Minnesota statutes and the remaining balance is recorded as a deferred inflow of resources for subsequent years' operations.

Delinquent property taxes receivable represents uncollected taxes from the previous six years' property tax levies. Delinquent taxes have been offset by a deferred inflow of resources for delinquent taxes not received within 60 days after year end in the fund financial statements.

Taxes receivable by fund type is comprised of the following components:

	<u>General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Current taxes	\$ 3,991,425	\$ 557,828	\$ 79,161	\$ 4,628,414
Delinquent taxes	<u>30,664</u>	<u>25,490</u>	<u>3,694</u>	<u>59,848</u>
Total taxes receivable	<u><u>\$ 4,022,089</u></u>	<u><u>\$ 583,318</u></u>	<u><u>\$ 82,855</u></u>	<u><u>\$ 4,688,262</u></u>
Property taxes levied for subsequent year	<u><u>\$ 3,539,088</u></u>	<u><u>\$ 2,159,325</u></u>	<u><u>\$ 160,513</u></u>	<u><u>\$ 5,858,926</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 508  
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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**C. Capital assets**

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

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 933,564	\$ -	\$ -	\$ 933,564
Construction work in progress	7,282,200	36,015,284	-	43,297,484
Total capital assets not being depreciated	8,215,764	36,015,284	-	44,231,048
Capital assets being depreciated				
Land improvements	1,995,691	15,090	-	2,010,781
Building	27,179,407	180,606	-	27,360,013
Equipment	1,775,349	152,258	-	1,927,607
Total capital assets being depreciated	30,950,447	347,954	-	31,298,401
Less accumulated depreciation				
Land improvements	(958,468)	(63,688)	-	(1,022,156)
Building	(14,232,377)	(599,827)	-	(14,832,204)
Equipment	(1,255,132)	(77,141)	-	(1,332,273)
Total accumulated depreciation	(16,445,977)	(740,656)	-	(17,186,633)
Total capital assets being depreciated, net	14,504,470	(392,702)	-	14,111,768
Governmental activities capital assets, net	<u>\$ 22,720,234</u>	<u>\$ 35,622,582</u>	<u>\$ -</u>	<u>\$ 58,342,816</u>

Depreciation expense was charged to governmental activities as follows:

Administration	\$ 677
Elementary and secondary regular instruction	34,895
Vocational education instruction	186
Special education instruction	6,183
Pupil support services	12,153
Sites and buildings	686,358
Fiscal and other fixed cost programs	204
Total depreciation expense	<u>\$ 740,656</u>

INDEPENDENT SCHOOL DISTRICT NO. 508  
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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**D. Construction commitments**

The District has active construction projects as of June 30, 2017. At year end the District's commitments are as follows:

Project	Spent-to-Date	Remaining Commitment
New high school - professional services	\$ 2,278,771	\$ 70,478
New high school - Construction services	2,810,269	326,996
New high school - Materials and Labor	38,343,014	3,365,824
Middle school - professional services	199,854	10,396
Middle school - construction services	186,768	204,282
Middle school - materials and labor	1,189,868	1,570,516
South elementary school renovations - professional services	266,694	14,606
South elementary school renovations - construction services	129,550	387,500
South elementary school renovations - materials and labor	1,168,053	2,775,402
High school refoof - professional services	22,891	15,809
North elementary school renovations - materials and labor	60,781	38,054
MVED renovations - professional services	13,572	1,508
MVED renovations - materials and labor	16,194	214,212
Total	<u>\$46,686,279</u>	<u>\$ 8,995,583</u>

**E. Long-term debt**

General obligation bonds

The District issues general obligation bonds to provide financing for the acquisition, construction and betterment of major capital school facilities. In addition, general obligation bonds have been issued to refund general obligation bonds. Assets of the Debt Service fund, together with scheduled future ad valorem tax levies are dedicated to retire these bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. General obligation bonds currently outstanding are as follows:

	Original Issue	Interest Rate	Issue Date	Final Maturity	Principal Outstanding	
					Due Within One Year	Total
G.O. Alternative Facilities						
Refunding Bonds of 2012A	\$ 760,000	0.40 - 0.65 %	12/13/12	08/01/17	\$ 195,000	\$ 195,000
G.O. School Building						
Bonds of 2015A	55,325,000	4.00 - 5.00	08/19/15	02/01/41	580,000	55,325,000
Total Bonds					<u>\$ 775,000</u>	<u>\$55,520,000</u>

INDEPENDENT SCHOOL DISTRICT NO. 508  
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NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

The annual requirements to amortize all bonds outstanding at June 30, 2017 are as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total
2018	\$ 775,000	\$ 2,328,734	\$ 3,103,734
2019	580,000	2,299,100	2,879,100
2020	625,000	2,270,100	2,895,100
2021	835,000	2,238,850	3,073,850
2022	1,050,000	2,197,100	3,247,100
2023 - 2027	7,840,000	10,092,750	17,932,750
2028 - 2032	13,510,000	7,724,200	21,234,200
2033 - 2037	16,385,000	4,795,800	21,180,800
2038 - 2041	13,920,000	1,392,000	15,312,000
Total	<u>\$55,520,000</u>	<u>\$ 35,338,634</u>	<u>\$ 90,858,634</u>

Capital leases

The District entered into various capital leases with Nicollet County Bank, First National Bank, Hometown Bank, Wells Fargo and Marco Finance for the purchase of computer and various other equipment. The capital assets are individually less than the District's \$2,500 capitalization threshold and are not recorded as capital assets. The District also entered into a lease purchase agreement with Wells Fargo Bank in the amount of \$1,350,000 to construct the building addition to North Intermediate. The details are as follows:

	Original Issue	Interest Rate	Issue Date	Final Maturity	Principal Outstanding	
					Due Within One Year	Total
Technology lease	\$ 228,234	1.79 %	06/20/13	12/15/17	\$ 46,872	\$ 46,872
Technology lease	420,938	1.91	06/18/14	12/15/18	94,498	143,940
Building addition lease	1,350,000	4.63	03/14/07	03/14/22	101,256	555,976
Computer lease	103,161	1.90	06/19/15	12/15/19	20,427	62,468
Technology lease	174,755	1.75	06/19/15	12/15/18	43,676	88,126
Band uniform lease	27,162	1.90	06/19/15	12/15/19	5,378	16,448
Technology lease	175,470	1.60	06/24/16	12/15/19	43,146	131,547
Technology lease	104,650	1.67	06/24/16	12/15/19	20,397	83,681
Copier lease	3,179	4.50	03/04/16	06/01/21	577	2,472
Copier lease	22,882	4.50	04/06/16	04/01/21	4,383	17,926
Copier lease	23,806	2.11	01/05/17	01/10/22	4,604	21,923
Copier lease	38,864	2.11	03/29/17	04/20/21	9,456	37,357
Technology lease	180,596	2.11	06/20/17	12/16/21	45,194	180,596
Technology lease	122,898	2.11	06/20/17	12/16/21	24,615	122,898
Total capital leases					<u>\$ 464,479</u>	<u>\$ 1,512,230</u>

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**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017 are as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total
2018	\$ 464,479	\$ 39,872	\$ 504,351
2019	378,327	31,438	409,765
2020	292,950	21,192	314,142
2021	226,617	12,373	238,990
2022	149,857	4,794	154,651
Total minimum lease payments	<u>\$ 1,512,230</u>	<u>\$ 109,669</u>	<u>\$ 1,621,899</u>

Assets related to the above outstanding lease obligations are as follows:

Asset	
Buildings	\$ 1,379,254
Less: accumulated depreciation	<u>(275,671)</u>
Total	<u>\$ 1,103,583</u>

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**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

Capital notes payable

The District has a loan agreement with Wells Fargo. The proceeds of the loan were used to finance energy saving improvements at various sites within the District. Assets of the General fund will be dedicated to retire this loans. The details are as follows:

	Original Issue	Interest Rate	Issue Date	Final Maturity	Principal Outstanding	
					Due Within One Year	Total
Wells Fargo Energy Loan	\$ 1,032,166	4.35 %	07/30/03	07/30/18	<u>\$ 89,466</u>	<u>\$ 135,664</u>

The annual requirements to amortize all capital notes payable outstanding at June 30, 2017 are as follows:

Year Ending June 30	Principal Payments	Interest Payments	Total
2018	\$ 89,466	\$ 4,939	\$ 94,405
2019	<u>46,198</u>	<u>1,005</u>	<u>47,203</u>
Total	<u>\$ 135,664</u>	<u>\$ 5,944</u>	<u>\$ 141,608</u>

Long-term liability activity for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Deductions	Ending Balance	Amounts Due Within One Year
Governmental activities					
Bonds payable					
General obligation bonds	\$ 55,710,000	\$ -	\$ (190,000)	\$ 55,520,000	\$ 775,000
Unamortized premium	3,266,955	-	-	3,266,955	-
Energy loans payable	221,362	-	(85,698)	135,664	89,466
Capital leases payable	1,543,446	366,164	(397,380)	1,512,230	464,479
Severance benefits payable	251,220	186,097	(249,931)	187,386	79,725
Compensated absences payable	25,789	44,368	(37,107)	33,050	33,050
Pension liability					
TRA	11,147,152	32,610,592	(704,187)	43,053,557	-
PERA	2,497,974	1,442,762	(213,884)	3,726,852	-
OPEB liability	<u>600,952</u>	<u>491,767</u>	<u>(441,565)</u>	<u>651,154</u>	<u>-</u>
Governmental activities					
Total long-term liabilities	<u>\$ 75,264,850</u>	<u>\$ 35,141,750</u>	<u>\$ (2,319,752)</u>	<u>\$ 108,086,848</u>	<u>\$ 1,441,720</u>

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**Note 3: DETAILED NOTES ON ALL FUNDS - CONTINUED**

**F. Components of fund balance**

At June 30, 2017, portions of the District's fund balance are not available for appropriation due to not being in spendable form (nonspendable), legal restrictions (restricted), District School Board action (committed), policy and/or intent (assigned). The following is a summary of the components of fund balance:

	General	Debt Service	Capital Projects Funds	Other Governmental Funds	Total Governmental Funds	Reconciling Items	UFARS Balance
<b>Nonspendable</b>							
Inventories	\$ -	\$ -	\$ -	\$ 8,921	\$ 8,921	\$ -	\$ 8,921
Prepaid items	21,348	-	-	-	21,348	-	21,348
<b>Total nonspendable</b>	<b>\$ 21,348</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 8,921</b>	<b>\$ 30,269</b>	<b>\$ -</b>	<b>\$ 30,269</b>
<b>Restricted for</b>							
Health and safety	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (255)	\$ (255)
Operating capital	56,515	-	-	-	56,515	-	56,515
Long term							
facility maintenance	108,711	-	-	-	108,711	-	108,711
Food service	-	-	-	225,604	225,604	-	225,604
Community education	-	-	-	288,649	288,649	-	288,649
Early childhood and							
family education	-	-	-	44,632	44,632	-	44,632
School readiness	-	-	-	-	-	(127,705)	(127,705)
Community service	-	-	-	4,083	4,083	-	4,083
Debt service	-	156,414	-	-	156,414	-	156,414
Capital projects	-	-	14,320,464	-	14,320,464	-	14,320,464
Capital project levy	-	-	320,760	-	320,760	-	320,760
<b>Total restricted</b>	<b>\$ 165,226</b>	<b>\$ 156,414</b>	<b>\$14,641,224</b>	<b>\$ 562,968</b>	<b>\$ 15,525,832</b>	<b>\$ (127,960)</b>	<b>\$ 15,397,872</b>
<b>Assigned for</b>							
Severance	\$ 364,171	\$ -	\$ -	\$ -	\$ 364,171	\$ -	\$ 364,171
VEBA trust	216,000	-	-	-	216,000	-	216,000
Capital outlay	1,670,000	-	-	-	1,670,000	-	1,670,000
Infrastructure	300,000	-	-	-	300,000	-	300,000
Health and safety	800,000	-	-	-	800,000	-	800,000
<b>Total assigned</b>	<b>\$ 3,350,171</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,350,171</b>	<b>\$ -</b>	<b>\$ 3,350,171</b>
<b>Unassigned</b>	<b>\$ 3,853,125</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (127,705)</b>	<b>\$ 3,725,420</b>	<b>\$ 127,960</b>	<b>\$ 3,853,380</b>

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Restricted for Health and Safety - This amount represents available resources to be used only to provide for the removal of hazardous substances and other State approved life/health safety projects. Under Minnesota statute, a deficit in this reserve generates specific future levy authority.

Restricted for Operating Capital - This amount represents available resources dedicated for capital expenditure building projects, equipment purchases, vehicles and computer hardware and software. Revenues are derived from tax levies and State aids and expenditures are for repair and restoration of existing facilities and construction of new facilities, purchase of equipment, computers, software, textbooks and library books.

Restricted for Long-Term Facilities Maintenance (LTFM) - This amount represents available resources for larger maintenance projects. Revenues are derived from State aids and expenditures are for maintenance.

Restricted for Food Service - This amount represents available resources available for Food Services. Revenues are derived from State, Federal, local and county sources along with sales and other conversion of assets and expenditures are primarily for salaries, benefits, supplies and materials.

Restricted for Community Education - This amount represents accumulated resources available to provide general community education programming.

Restricted for Early Childhood Family Education (ECFE) - This amount represents accumulated resources available to provide services for early childhood family education programming.

Restricted for School Readiness - This amount represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

Restricted for Community Service - This amount represents available resources available for Community Services. Revenues are derived from tax levies, State, Federal, local and county sources along with sales and other conversion of assets and expenditures are primarily for salaries, benefits, purchased services supplies and materials.

Restricted for Debt Service - This amount represents available resources dedicated exclusively for debt service payments. Revenues are derived from tax levies and expenditures are for principal, interest and paying agent fees.

Restricted for Capital Projects - This amount represents resources available for future capital project expenditures not identified by a specific levy.

Restricted for Capital Project Levy - This amount represents the available resources from the capital projects levy to be used for building construction. Revenues are derived from property taxes while expenditures are primarily for capital outlay.

Unassigned amounts represent resources available to meet current and future years' expenditures.

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**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE**

Substantially all employees of the District are required by state law to belong to pension plans administered by Teachers Retirement Association (TRA) or Public Employees Retirement Association (PERA), all of which are administered on a statewide basis.

Disclosures relating to these plans follow:

**A. Teachers retirement association (TRA)**

**1. 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 member, 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 city of St. Paul, and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

**2. 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 as described:

<b>Tier I:</b>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	1st ten years of service	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1st ten years if service years are prior to July 1, 2006	1.2 percent per year
	1st ten years if service years are July 1, 2006 or after	1.4 percent per year
	All other years of service if service years are prior to July 1, 2006	1.7 percent per year
	All other years of service if service years are July 1, 2006 or after	1.9 percent per year

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**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

With these provisions:

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

**Or**

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

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

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans, which 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 also 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 provisions in effect at the time they last terminated their public service.

**3. Contribution rate**

Per Minnesota statutes, chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

<u>Plan</u>	<u>Employee</u>	<u>Employer</u>
Basic	11.00%	11.50%
Coordinated	7.50%	7.50%

The District's contributions to TRA for the year ending June 30, 2017, 2016 and 2015 were \$737,024, \$697,588 and \$686,071, respectively. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

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**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

The following is a reconciliation of employer contributions in TRA's CAFR "Statement of Changes in Fiduciary Net Position" to the employer contributions used in schedule of employer and non-employer pension allocations.

Employer contributions reported in TRA's CAFR Statement of Changes in Fiduciary Net Position	\$ 354,961,140
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>\$ 390,131,928</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.

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**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

**4. Actuarial assumptions**

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability		
Actuarial information		
Measurement date		June 30, 2016
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 the rates. Generational projection uses the MP-2015 scale.	
Post-disability	RP-2014 disabled retiree mortality table, without adjustment.	

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**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - 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 Allocation	Long-term Expected Real Rate of Return
Domestic stocks	45.00 %	5.50 %
International stocks	15.00	6.00
Bonds	18.00	1.45
Alternative assets	20.00	6.40
Unallocated cash	2.00	0.50
Total	<u>100.00 %</u>	

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6.00 years. The “Difference Between Expected and Actual Experience”, “Changes of Assumptions” and “Changes of Proportions” use the amortization period of 6.00 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 5.00 years as required by GASB 68.

**5. Discount rate**

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

**6. Net pension liability**

At June 30, 2017, the District reported a liability of \$43,053,557 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 0.1805 percent at the end of the measurement period and 0.1802 percent for the beginning of the year.

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**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

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

District's proportionate share of net pension liability	\$ 43,053,557
State's proportionate share of net pension liability associated with the District	4,321,073

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 be 2.0 percent annually. In the previous measurement, the COLA increased to 2.5 percent in 2034.

For the year ended June 30, 2017 the District recognized pension expense of \$5,598,487. It also recognized \$603,367 as an increase to pension expense for the support provided by direct aid.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 435,299	\$ 1,200
Changes in actuarial assumptions	24,537,403	-
Net difference between projected and actual earnings on plan investments	1,862,254	-
Changes in proportion	38,959	14,090
Contributions to TRA subsequent to the measurement date	737,024	-
Total	<u>\$ 27,610,939</u>	<u>\$ 15,290</u>

Deferred outflows of resources totaling \$737,024 related to pensions resulting from the District's contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other deferred outflows of resources and deferred inflows of resources will be recognized in pension expense as follows:

<u>For the Year Ending June 30</u>	<u>Amount</u>
2018	\$ 5,321,790
2019	5,321,790
2020	5,943,189
2021	5,497,315
2022	4,774,541

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**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

**7. Pension liability sensitivity**

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

District proportionate share of NPL		
1 Percent Decrease (3.66%)	Current (4.66%)	1 Percent Increase (5.66%)
\$ 55,463,742	\$ 43,053,557	\$ 32,945,865

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.

**8. Pension plan fiduciary net position**

Detailed information about the plan's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at [www.MinnesotaTRA.org](http://www.MinnesotaTRA.org), 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.

**B. Public Employees Retirement Association (PERA)**

**1. Plan description**

The District participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA). PERA's defined benefit pension plans are established and administered in accordance with Minnesota statutes, chapters 353 and 356. PERA's defined benefit pension plans are tax qualified plans under Section 401(a) of the Internal Revenue Code.

General Employees Retirement Plan (GERF)

All full-time and certain part-time employees of the District, other than teachers, are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**2. 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 percent funded for two consecutive years are given 2.5 percent increases. Members in plans that have not exceeded 90 percent funded, or have fallen below 80 percent, are given 1 percent 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.

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**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2 percent of average salary for each of the first ten years of service and 2.7 percent for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2 percent of average salary for each of the first ten years and 1.7 percent for each remaining year. Under Method 2, the annuity accrual rate is 2.7 percent of average salary for Basic Plan members and 1.7 percent 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. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

**3. Contributions**

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

GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.10 percent and 6.25 percent, respectively, of their annual covered salary in fiscal year 2017. In calendar year 2017, the District was required to contribute the following percentages of annual covered payroll: 11.78 percent for Basic Plan members and 7.50 percent of Coordinated Plan members. The District's contributions to the GERF for the year ending June 30, 2017, 2016 and 2015 were \$207,942, \$210,750 and \$208,972, respectively. The District's contributions were equal to the contractually required contributions for each year as set by Minnesota statute.

**4. Pension costs**

At June 30, 2017, the District reported a liability of \$3,726,852 for its proportionate share of the GERF'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 \$48,675. 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 0.0459 percent which was a decrease of 0.0023 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$338,122 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional \$14,513 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the GERF.

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**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 11,721	\$ 302,751
Changes in actuarial assumptions	801,712	-
Net difference between projected and actual earnings on plan investments	417,903	-
Changes in proportion	-	190,152
Contributions to GERF subsequent to the measurement date.	207,942	-
Total	<u>\$ 1,439,278</u>	<u>\$ 492,903</u>

Deferred outflows of resources totaling \$207,942 related to pensions resulting from the District's contributions to GERF 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 GERF pensions will be recognized in pension expense as follows:

<u>For the Year Ending June 30</u>	<u>Amount</u>
2018	\$ 179,835
2019	90,436
2020	333,543
2021	134,619

**5. Actuarial assumptions**

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

Inflation	2.50% per year
Active Member Payroll Growth	3.25% per year
Investment Rate of Return	7.50%

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

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 GERF was completed in 2015.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

The following changes in actuarial assumptions occurred in 2016:

GERF

- The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years.
- The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.
- 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 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic stocks	45.00 %	5.50 %
International stocks	15.00	6.00
Bonds	18.00	1.45
Alternative assets	20.00	6.40
Cash	<u>2.00</u>	0.50
Total	<u><u>100.00 %</u></u>	

**6. Discount rate**

The discount rate used to measure the total pension liability was 7.50 percent, a reduction from the 7.90 percent used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota statutes. Based on these assumptions, the fiduciary net position of the GERF 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. 508  
ST. PETER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 4: DEFINED BENEFIT PENSION PLANS - STATEWIDE - CONTINUED**

**7. Pension liability sensitivity**

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

	District Proportionate Share of NPL		
	1 Percent Decrease (6.50%)	Current (7.50%)	1 Percent Increase (8.50%)
GERF	\$ 5,293,235	\$ 3,726,852	\$ 2,436,579

**8. Pension plan fiduciary net position**

Detailed information about each pension plan's fiduciary net position is available in a separately-issued PERA financial report that includes financial statements and requires supplementary information. That report may be obtained on the Internet at [www.mnpera.org](http://www.mnpera.org).

**Note 5: OTHER INFORMATION**

**A. Risk management**

The District is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases commercial insurance coverage for such risks. The District acquires Property and Casualty Insurance from Riverport Insurance Company - Minnesota Public School Program.

The District has joined together with other school districts in South-Central Minnesota in the South Central Service Cooperative Gross Self-Insured Health Insurance Plan, a public entity risk pool currently operating as common risk management and insurance health insurance coverage. These premiums are used to purchase reinsurance through commercial companies. The administrators of the plan believe assessment to participating districts for future losses sustained is extremely remote.

There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

**B. Contingent liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

The District has been charged with a claim of discrimination to the Minnesota Department of Human Rights (MDHR). Our attorneys are anticipating the MDHR will issue a no probable cause finding and dismiss the matter based on lack of merit but it is possible the MDHR could decide otherwise.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 5: OTHER INFORMATION - CONTINUED**

**C. Jointly covered organization**

The Minnesota Valley Education District was established for the primary objective of providing specialized services for special education students as defined by state law, and to provide other programs and services as approved by the Joint Powers Governing Board. The Cooperative was established by seven separate member districts, of which Independent School District No. 508 is a member. Each member district shares in the cost of the programming, which is paid to the education district in the form of membership fees, reimbursements and other charges for services. The education district is able to recover the cost of its program through the previously mentioned revenue sources. The joint venture's financial statements are audited and available for inspection.

**D. Subsequent event**

The District entered in to an cooperative construction agreement with the City of St. Peter on September 18, 2017 to construct a roundabout near the new High School campus. The maximum expense allocated to the District is \$485,000. A portion of this amount will be settled by the release of the contract for deed held by the District arising from a previous sale of land to the City of St. Peter.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 6: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS**

**A. Plan description**

The District administers a single-employer defined benefit healthcare plan ("the Retiree Health Plan"). The plan and Medicare provides lifetime healthcare, dental and life insurance for eligible retirees and their spouses through the District's group health insurance plan, which covers both active and retired members. There are 167 active participants and 56 retired participants. Benefit provisions are established through negotiations between the District and the unions representing District employees and are renegotiated each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

**B. Funding policy**

The District has historically funded these liabilities on a pay-as-you-go basis. Contribution requirements are negotiated between the District and union representatives on a per contract basis. The District's employment agreement for certain administrative officials provides for the District to pay the following premium costs for family health, dental and life insurance coverage.

**C. Medical benefits**

Employee Groups	District Contribution to Medical Premium
Education assistants	\$ 7,800
Custodians and support staff	15,000
Administrative assistant, payroll supervisor and payroll specialist	25,000
Business manager, community education, special programs administrator, Dean/athletic director	52,000
Principals	52,000
Teachers	60,000 (1)
Superintendent	52,000

To be eligible for the District paid premium, retirees must be at least 56 years old with at least 10 years of service.

Food service and computer technician can continue coverage on the District's plan but must pay their own premium. Retirees in these groups must be at least 55 years old with 10 years of service to qualify for this benefit.

Certain retirees receive fully paid premiums from the District until age 65.

- 1) Teachers receive an additional \$100 per day of unused sick leave in excess of 185 days up to ten days.

**D. Dental benefits**

Teachers, principals, the superintendent, administrative assistant, payroll supervisor, payroll specialist, accountant, special programs administrator, business manager, business consultant, athletic director, technology director, community education director and buildings and grounds can continue coverage in the District dental plan but must pay their own premium. Retirees in these groups must be at least 56 years old with 10 years of service to qualify for this benefit.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 6: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED**

**E. Life insurance**

Retirees age 56 and with 10 years of service receive District paid life insurance premiums as follows:

Employee Groups	Death Benefit	Coverage Period
Custodians	\$ 50,000	Earlier of 5 years or age 65
Support staff, administrative assistant, and payroll specialist	50,000	Earlier of 7 years or age 65
Teachers and payroll supervisor	50,000	Earlier of 9 years or age 65
Special programs assistant	200,000	Earlier of 9 years or age 65
Principals, business manager, business consultant and Dean/athletic director	200,000	Until age 65
Superintendent	200,000	Until age 65
Community education director	200,000	Earlier of 9 years or age 65

During the year ended June 30, 2017, the District had 50 receiving benefits totaling \$246,720 paid toward retired member premiums.

**F. Annual OPEB cost and net OPEB obligation**

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), 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 to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 502,322
Interest on net OPEB obligation	21,295
Adjustment to annual required contribution	<u>(31,850)</u>
Annual OPEB cost (expense)	<u>491,767</u>
Contributions made	(246,720)
Implicit subsidy	<u>(194,845)</u>
Total contributions	<u>(441,565)</u>
Increase in net OPEB obligation	50,202
Net OPEB obligation - beginning of year	<u>600,952</u>
NET OPEB obligation - end of year	<u><u>\$ 651,154</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 6: POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS - CONTINUED**

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2017 and the preceding two fiscal years follows:

Year Ending	Three Year Trend Information		
	Annual OPEB Cost	Percentage Annual OPEB Contributed	Net OPEB Obligation
06/30/17	\$ 491,767	89.8 %	\$ 651,154
06/30/16	496,161	90.6	600,952
06/30/15	450,724	105.4	554,179

***Funded status and funding progress***

As of July 1, 2015 (the most recent actuarial valuation date), the District's share of the actuarial accrued liability for benefits was \$4,773,490 all of which was unfunded. The District's share of covered payroll (annual payroll of active employees covered by the plan) was \$12,750,000, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 37.4 percent.

The projection of future benefit payments for an ongoing plan involves 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 healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions 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, presented as required supplementary information following the notes to the 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.

***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 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 methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.75 percent investment rate of return, which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments and a 2.75 rate of inflation. The initial healthcare trend rate was 7.20 percent, reduced by decrements to an ultimate rate of 5.0 percent after seven years for medical and an ultimate rate of 5 percent for dental. The unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2017 was 30 years.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2017

**Note 7: CORRECTION OF ERROR**

During fiscal year 2017, the District discovered they had overcapitalized construction in progress due to reimbursement of a portion of the new high school project being owned by the City of St. Peter.

As a result of the restatement of beginning balances, the following schedule reconciles the previously reported June 30, 2016 balances to the June 30, 2017 financial statements:

	June 30, 2017		
	Net Position June 30, 2016 as Previously Reported	Prior Period Restatement (1)	Net Position July 1, 2016 as Restated
<u>Fund</u>			
Government wide Statement of Net Position	<u>\$ 4,600,574</u>	<u>\$ (866,305)</u>	<u>\$ 3,734,269</u>

(1) To adjust beginning balance of construction in progress.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2017

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2017

**Schedule of employer's share of TRA net pension liability**

Required Supplementary Information							
Fiscal Year Ending	District's Proportion of the Net Pension Liability	District's Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability with the District (b)	Total (a+b)	District's Covered-Employee Payroll (c)	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/16	0.1805 %	\$ 43,053,557	\$ 4,321,073	\$ 47,374,630	\$ 9,301,173	462.9 %	44.9 %
06/30/15	0.1802	11,147,152	1,367,283	12,514,435	9,147,613	121.9	76.8
06/30/14	0.1861	8,575,354	603,289	9,178,643	8,494,615	101.0	81.1

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of employer's TRA contributions**

Required Supplementary Information						
Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	District's Covered-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)	
06/30/17	\$ 737,024	\$ 737,024	\$ -	\$ 9,826,987	7.5 %	
06/30/16	697,588	697,588	-	9,301,173	7.5	
06/30/15	686,071	686,071	-	9,147,613	7.5	

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Notes to the Required Supplementary Information - TRA**

Changes in actuarial assumptions

2016 - The assumed investment return was changed from 8.0 percent to 4.66 percent using the Single Equivalent Interest Rate calculation. The single discount rate was changed from 8.0 percent to 4.66 percent. The assumed future salary increases, payroll growth and inflation were changed by a 0.25 percent decrease for price inflation, a 0.50 percent increase for wage inflation and a 2.50 percent decrease in maximum salary increases based on years of service. Mortality assumptions were updated using the RP-2014 tables.

2015 - The assumed post-retirement benefit increase rate was changed from 2.0 percent per year through 2034 and 2.5 percent per year thereafter to 2.0 percent per year for all future years. The assumed investment return was changed from 8.25 percent to 8.0 percent. The single discount rate was changed from 8.25 percent to 8.0 percent.

Changes in plan provisions

2015 - On June 30, 2015, the Duluth Teachers Retirement Fund Association was merged into TRA.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2017

**Schedule of employer's share of PERA net pension liability**

Required Supplementary Information							
Fiscal Year Ending	District's Proportion of the Net Pension Liability	District's Proportionate Share of the Net Pension Liability (a)	State's Proportionate Share of the Net Pension Liability Associated with the District (b)	Total (a+b)	District's Covered-Employee Payroll (c)	District's Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll (a/c)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
06/30/16	0.0459 %	\$ 3,726,852	\$ 48,675	\$ 3,775,527	\$ 2,810,000	132.6 %	68.9 %
06/30/15	0.0482	2,497,974	-	2,497,974	2,882,372	86.7	78.2
06/30/14	0.0517	2,428,607	-	2,428,607	2,712,441	89.5	78.7

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Schedule of employer's PERA contributions**

Required Supplementary Information						
Fiscal Year Ending	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	District's Covered-Employee Payroll (c)	Contributions as a Percentage of Covered-Employee Payroll (b/c)	
06/30/17	\$ 207,942	\$ 207,942	\$ -	\$ 2,772,560	7.5 %	
06/30/16	210,750	210,750	-	2,810,000	7.5	
06/30/15	208,972	208,972	-	2,882,372	7.3	

*Note: Schedule is intended to show 10-year trend. Additional years will be reported as they become available.*

**Notes to the Required Supplementary Information - PERA**

Changes in actuarial assumptions

2016 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2035 and 2.5 percent per year thereafter to 1.0 percent per year for all future years. The assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent. 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 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

2015 - The assumed post-retirement benefit increase rate was changed from 1.0 percent per year through 2030 and 2.5 percent per year thereafter to 1.0 percent per year through 2035 and 2.5 percent per year thereafter.

Changes in plan provisions

2015 - 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.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2017

**Schedule of funding progress for other post-employment benefit plan**

Actuarial Valuation Date	Required Supplementary Information						UAAL as a Percentage of Covered Payroll ((b-a)/c)
	Actuarial Value of Assets (a)	Actuarial Accrued Liability - Simplified Entry Age (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)		
07/01/15	\$ -	\$ 4,773,490	\$ 4,773,490	- %	\$ 12,750,000		37.4 %
07/01/12	-	4,676,410	4,676,410	-	8,010,365		58.4
07/01/10	-	5,325,277	5,325,277	-	10,183,692		64.3

**COMBINING AND INDIVIDUAL FUND FINANCIAL  
STATEMENTS AND SCHEDULES AND TABLE**

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2017

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2017  
(With Comparative Totals for June 30, 2016)

	Special Revenue		Totals	
	Food Service	Community Service	2017	2016
<b>ASSETS</b>				
Cash and temporary investments	\$ 302,407	\$ 270,685	\$ 573,092	\$ 343,277
Receivables				
Taxes	-	82,855	82,855	89,414
Accounts	5,862	-	5,862	7,438
Due from other school districts	-	8,798	8,798	15,438
Intergovernmental	-	17,763	17,763	18,613
Inventories	8,921	-	8,921	11,300
<b>TOTAL ASSETS</b>	<u>\$ 317,190</u>	<u>\$ 380,101</u>	<u>\$ 697,291</u>	<u>\$ 485,480</u>
<b>LIABILITIES</b>				
Salaries and wages payable	\$ 43,354	\$ -	\$ 43,354	\$ 42,681
Accounts and other payables	14,579	6,210	20,789	11,759
Due to other school districts	-	-	-	2,600
Due to other governments	-	25	25	26,653
Unearned revenue	24,732	-	24,732	-
<b>TOTAL LIABILITIES</b>	<u>82,665</u>	<u>6,235</u>	<u>88,900</u>	<u>83,693</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property taxes levied for subsequent year	-	160,513	160,513	173,241
Unavailable revenue - delinquent property taxes	-	3,694	3,694	3,192
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>-</u>	<u>164,207</u>	<u>164,207</u>	<u>176,433</u>
<b>FUND BALANCES</b>				
Nonspendable	8,921	-	8,921	11,300
Restricted				
Food service	225,604	-	225,604	136,233
Community education	-	288,649	288,649	215,550
Early childhood family education	-	44,632	44,632	29,245
Community service	-	4,083	4,083	5,171
Unassigned	-	(127,705)	(127,705)	(172,145)
<b>TOTAL FUND BALANCES</b>	<u>234,525</u>	<u>209,659</u>	<u>444,184</u>	<u>225,354</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 317,190</u>	<u>\$ 380,101</u>	<u>\$ 697,291</u>	<u>\$ 485,480</u>

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
NONMAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2017  
(With Comparative Totals for the Year Ended June 30, 2016)

	Special Revenue		Totals	
	Food Service	Community Service	2017	2016
REVENUES				
Local property tax levies	\$ -	\$ 171,373	\$ 171,373	\$ 158,193
Other local and county revenue	-	371,686	371,686	291,824
Interest earned on investments	1,010	658	1,668	-
Revenue from State sources	58,282	279,071	337,353	296,799
Revenue from Federal sources	641,948	-	641,948	608,803
Sales and other conversion of assets	449,155	-	449,155	392,610
TOTAL REVENUES	1,150,395	822,788	1,973,183	1,748,229
EXPENDITURES				
Current				
Community education and services	-	689,569	689,569	645,768
Pupil support services	1,060,576	-	1,060,576	991,527
Capital outlay				
Community education and services	-	705	705	3,668
Pupil support services	2,827	-	2,827	32,555
Debt service				
Principal	-	551	551	146
Interest and other costs	-	125	125	98
TOTAL EXPENDITURES	1,063,403	690,950	1,754,353	1,673,762
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	86,992	131,838	218,830	74,467
OTHER FINANCING SOURCES				
Capital leases issued	-	-	-	3,170
NET CHANGE IN FUND BALANCES	86,992	131,838	218,830	77,637
FUND BALANCES, JULY 1	147,533	77,821	225,354	147,717
FUND BALANCES, JUNE 30	\$ 234,525	\$ 209,659	\$ 444,184	\$ 225,354

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INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
GENERAL FUND  
BALANCE SHEETS  
JUNE 30, 2017 AND 2016

	2017	2016
<b>ASSETS</b>		
Cash and temporary investments	\$ 6,582,916	\$ 6,604,518
Receivables		
Taxes	4,022,089	2,105,489
Accounts	131	907
Due from other school districts	264,212	337,134
Intergovernmental	2,849,876	2,183,452
Prepaid items	21,348	-
<b>TOTAL ASSETS</b>	<u><u>\$ 13,740,572</u></u>	<u><u>\$ 11,231,500</u></u>
<b>LIABILITIES</b>		
Salaries and wages payable	\$ 992,221	\$ 962,589
Accounts and other payables	333,672	508,335
Due to other school districts	113,139	144,496
Due to other governments	33,393	35,672
Accrued expenses	1,083,525	1,099,938
<b>TOTAL LIABILITIES</b>	<u>2,555,950</u>	<u>2,751,030</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property taxes levied for subsequent year	3,539,088	2,915,562
Unavailable revenue - delinquent property taxes	30,664	52,217
Unavailable revenue - intergovernmental	225,000	225,000
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>3,794,752</u>	<u>3,192,779</u>
<b>FUND BALANCES</b>		
Nonspendable	21,348	-
Restricted		
Health and safety	-	5,071
Operating capital	56,515	163,945
Long term facility maintenance	108,711	-
Assigned		
Severance	364,171	364,171
VEBA trust	216,000	162,000
Capital outlay	1,670,000	895,000
Infrastructure	300,000	-
Health and safety	800,000	-
Unassigned	3,853,125	3,697,504
<b>TOTAL FUND BALANCES</b>	<u>7,389,870</u>	<u>5,287,691</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u><u>\$ 13,740,572</u></u>	<u><u>\$ 11,231,500</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED ON THE FOLLOWING PAGES  
FOR THE YEAR ENDED JUNE 30, 2017  
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017			2016	
	Budgeted Amounts		Variance With Final Budget	Actual	
	Original	Final		Actual	
REVENUES					
Local property tax levies	\$ 2,762,878	\$ 2,578,203	\$ 2,716,157	\$ 137,954	\$ 2,591,751
Interest earned on investments	3,000	38,500	36,874	(1,626)	8,899
Other local and county revenue	996,448	1,147,278	1,440,261	292,983	1,466,862
Revenue from State sources	18,908,192	19,925,487	19,960,145	34,658	19,130,464
Revenue from Federal sources	423,121	432,264	478,500	46,236	446,083
Sales and other conversion of assets	700	6,365	(4,668)	(11,033)	514
TOTAL REVENUES	23,094,339	24,128,097	24,627,269	499,172	23,644,573
EXPENDITURES					
Current					
Administration					
Salaries	976,290	898,484	903,848	(5,364)	880,547
Employee benefits	299,721	310,644	301,358	9,286	303,279
Purchased services	31,600	37,200	34,987	2,213	42,762
Supplies and materials	21,556	21,556	13,074	8,482	13,715
Other expenditures	37,703	44,105	43,697	408	34,930
Total administration	1,366,870	1,311,989	1,296,964	15,025	1,275,233
District support services					
Salaries	192,991	188,517	177,746	10,771	173,363
Employee benefits	82,405	81,958	78,238	3,720	75,473
Purchased services	85,597	92,800	87,471	5,329	84,194
Supplies and materials	13,575	16,404	13,424	2,980	12,304
Other expenditures	29,217	31,250	31,562	(312)	29,571
Total district support services	403,785	410,929	388,441	22,488	374,905
Elementary and secondary regular instruction					
Salaries	7,160,254	7,352,362	7,240,366	111,996	6,946,939
Employee benefits	2,731,080	2,687,817	2,659,358	28,459	2,758,971
Purchased services	753,463	766,133	718,199	47,934	725,151
Supplies and materials	435,421	434,700	472,483	(37,783)	457,991
Other expenditures	82,214	172,729	235,588	(62,859)	185,771
Total elementary and secondary regular instruction	11,162,432	11,413,741	11,325,994	87,747	11,074,823

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2017  
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017			2016	
	Budgeted Amounts		Actual	Variance With Final Budget	Actual
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Vocational education instruction					
Salaries	\$ 184,679	\$ 174,429	\$ 217,012	\$ (42,583)	\$ 89,062
Employee benefits	65,027	63,934	54,676	9,258	24,434
Purchased services	10,000	10,000	-	10,000	2,625
Supplies and materials	33,190	22,500	18,383	4,117	12,732
Other expenditures	-	-	330	(330)	-
Total vocation education instruction	292,896	270,863	290,401	(19,538)	128,853
Special education instruction					
Salaries	2,576,581	2,692,269	2,625,199	67,070	2,518,635
Employee benefits	837,423	796,780	785,074	11,706	781,838
Purchased services	804,417	815,177	684,125	131,052	812,555
Supplies and materials	34,875	29,975	37,835	(7,860)	26,104
Other expenditures	-	-	14,764	(14,764)	-
Total special education instruction	4,253,296	4,334,201	4,146,997	187,204	4,139,132
Instructional support services					
Salaries	479,039	352,393	356,443	(4,050)	453,732
Employee benefits	165,210	96,224	101,395	(5,171)	141,137
Purchased services	74,223	79,223	98,929	(19,706)	75,604
Supplies and materials	215,086	148,560	128,387	20,173	123,142
Other expenditures	2,100	2,100	3,357	(1,257)	1,654
Total instructional support services	935,658	678,500	688,511	(10,011)	795,269
Pupil support services					
Salaries	348,096	390,312	372,042	18,270	351,202
Employee benefits	106,262	105,588	107,970	(2,382)	108,739
Purchased services	944,924	1,045,137	1,042,739	2,398	974,962
Supplies and materials	32,816	36,600	53,909	(17,309)	29,076
Other expenditures	-	-	1,565	(1,565)	-
Total pupil support services	1,432,098	1,577,637	1,578,225	(588)	1,463,979

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2017  
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017			2016	
	Budgeted Amounts		Actual	Variance With Final Budget	Actual
	Original	Final			
EXPENDITURES - CONTINUED					
Current - continued					
Sites and buildings					
Salaries	\$ 479,730	\$ 605,931	\$ 535,158	\$ 70,773	\$ 534,171
Employee benefits	202,260	224,674	206,306	18,368	198,067
Purchased services	704,604	822,644	712,547	110,097	599,854
Supplies and materials	242,300	238,300	184,662	53,638	176,506
Other expenditures	6,000	6,500	5,816	684	6,046
Total sites and buildings	1,634,894	1,898,049	1,644,489	253,560	1,514,644
Fiscal and other fixed cost programs					
Employee benefits	113,407	88,831	87,439	1,392	105,201
Purchased services	115,232	118,000	118,030	(30)	115,232
Total fiscal and other fixed cost programs	228,639	206,831	205,469	1,362	220,433
Total current	21,710,568	22,102,740	21,565,491	537,249	20,987,271
Capital outlay					
Administration	19,037	19,037	46,641	(27,604)	18,120
District support services	4,000	4,000	646	3,354	-
Elementary and secondary regular instruction	133,409	124,948	148,266	(23,318)	135,405
Special education instruction	4,737	4,737	2,998	1,739	5,179
Instructional support services	363,096	393,096	310,806	82,290	311,275
Pupil support services	600	600	323	277	-
Sites and buildings	1,286,482	405,988	302,701	103,287	194,540
Total capital outlay	1,811,361	952,406	812,381	140,025	664,519
Debt service					
Principal	493,667	506,769	490,384	16,385	437,750
Interest and other costs	26,605	22,995	22,998	(3)	25,764
Total debt service	520,272	529,764	513,382	16,382	463,514
TOTAL EXPENDITURES	24,042,201	23,584,910	22,891,254	693,656	22,115,304
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(947,862)	543,187	1,736,015	1,192,828	1,529,269
OTHER FINANCING SOURCES					
Capital leases issued	355,596	355,596	366,164	10,568	303,004
Sale of assets	-	-	-	-	225,000
TOTAL OTHER FINANCING SOURCES	355,596	355,596	366,164	10,568	528,004
NET CHANGE IN FUND BALANCES	(592,266)	898,783	2,102,179	1,203,396	2,057,273
FUND BALANCES, JULY 1	5,287,691	5,287,691	5,287,691	-	3,230,418
FUND BALANCES, JUNE 30	\$ 4,695,425	\$ 6,186,474	\$ 7,389,870	\$ 1,203,396	\$ 5,287,691

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
FOOD SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017  
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017			2016
	Budgeted Amounts		Variance With	
	Original	Final	Final Budget	Actual
REVENUES				
Interest earned on investments	\$ -	\$ -	\$ 1,010	\$ -
Revenue from State sources	52,196	54,600	3,682	54,920
Revenue from Federal sources	561,667	596,600	45,348	608,803
Sales and other conversion of assets	405,550	447,375	1,780	392,610
TOTAL REVENUES	1,019,413	1,098,575	51,820	1,056,333
EXPENDITURES				
Current				
Pupil support services				
Salaries	309,379	302,733	(38,388)	295,677
Employee benefits	82,377	83,469	4,059	81,198
Purchased services	14,225	36,525	(2,632)	33,329
Supplies and materials	586,878	618,631	28,251	572,564
Other expenditures	9,500	11,500	992	8,759
Total current expenditures	1,002,359	1,052,858	(7,718)	991,527
Capital outlay				
Pupil support services	12,147	32,147	29,320	32,555
TOTAL EXPENDITURES	1,014,506	1,085,005	21,602	1,024,082
NET CHANGE IN FUND BALANCES	4,907	13,570	73,422	32,251
FUND BALANCES, JULY 1	147,533	147,533	-	115,282
FUND BALANCES, JUNE 30	\$ 152,440	\$ 161,103	\$ 73,422	\$ 147,533

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
COMMUNITY SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017  
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017				2016
	Budgeted Amounts		Actual	Variance With Final Budget	Actual
	Original	Final			
REVENUES					
Local property tax levies	\$ 165,485	\$ 171,302	\$ 171,373	\$ 71	\$ 158,193
Other local and county revenue	258,212	301,443	371,686	70,243	291,824
Interest earned on investments	-	5	658	653	-
Revenue from State sources	239,847	287,175	279,071	(8,104)	241,879
TOTAL REVENUES	663,544	759,925	822,788	62,863	691,896
EXPENDITURES					
Current					
Community education and services					
Salaries	410,854	451,162	445,084	6,078	418,366
Employee benefits	80,716	82,946	84,490	(1,544)	86,420
Purchased services	118,869	122,569	114,677	7,892	96,557
Supplies and materials	48,688	52,988	41,959	11,029	42,239
Other expenditures	2,425	2,710	3,359	(649)	2,186
Total current expenditures	661,552	712,375	689,569	22,806	645,768
Capital outlay					
Community education and services	1,729	2,129	705	1,424	3,668
Debt service					
Principal	-	850	551	299	146
Interest and other costs	-	-	125	(125)	98
Total debt service	-	850	676	174	244
TOTAL EXPENDITURES	663,281	715,354	690,950	24,404	649,680
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	263	44,571	131,838	87,267	42,216
OTHER FINANCING SOURCES					
Capital leases issued	-	-	-	-	3,170
NET CHANGE IN FUND BALANCES	263	44,571	131,838	87,267	45,386
FUND BALANCES, JULY 1	77,821	77,821	77,821	-	32,435
FUND BALANCES, JUNE 30	\$ 78,084	\$ 122,392	\$ 209,659	\$ 87,267	\$ 77,821

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
DEBT SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017  
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017			2016
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final		
REVENUES				
Local property tax levies	\$ 2,436,066	\$ 2,326,483	\$ 2,317,725	\$ 192,268
Interest earned on investments	-	-	1,363	-
Revenue from State sources	-	109,584	107,070	2,351
TOTAL REVENUES	2,436,066	2,436,067	2,426,158	194,619
EXPENDITURES				
Debt service				
Principal	190,000	190,000	190,000	190,000
Interest and other costs	2,330,365	2,330,790	2,330,790	1,050,836
TOTAL EXPENDITURES	2,520,365	2,520,790	2,520,790	1,240,836
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(84,299)	(84,723)	(94,632)	(1,046,217)
OTHER FINANCING SOURCES (USES)				
Transfers in	-	-	-	1,247,645
NET CHANGE IN FUND BALANCES	(84,299)	(84,723)	(94,632)	201,428
FUND BALANCES, JULY 1	251,046	251,046	251,046	49,618
FUND BALANCES, JUNE 30	\$ 166,747	\$ 166,323	\$ 156,414	\$ 251,046

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
CAPITAL PROJECTS GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2017  
(With Comparative Totals for June 30, 2016)

	Capital Projects	High School Construction	Middle School Remodel	South Elementary Remodel	Totals	
					2017	2016
ASSETS						
Cash and temporary investments	\$ 57,779,355	\$ (37,954,395)	\$ (1,172,929)	\$ (606,427)	\$ 18,045,604	\$ 52,154,742
Receivables						
Intergovernmental	-	295,701	-	-	295,701	-
TOTAL ASSETS	<u>\$ 57,779,355</u>	<u>\$ (37,658,694)</u>	<u>\$ (1,172,929)</u>	<u>\$ (606,427)</u>	<u>\$ 18,341,305</u>	<u>\$ 52,154,742</u>
LIABILITIES						
Accounts and other payables	\$ 64,311	\$ 2,167,418	\$ 423,025	\$ 1,045,327	\$ 3,700,081	\$ 2,121,482
FUND BALANCES						
Capital projects	57,394,284	(39,826,112)	(1,595,954)	(1,651,754)	14,320,464	50,033,260
Capital project levy	320,760	-	-	-	320,760	-
TOTAL FUND BALANCES	<u>57,715,044</u>	<u>(39,826,112)</u>	<u>(1,595,954)</u>	<u>(1,651,754)</u>	<u>14,641,224</u>	<u>50,033,260</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 57,779,355</u>	<u>\$ (37,658,694)</u>	<u>\$ (1,172,929)</u>	<u>\$ (606,427)</u>	<u>\$ 18,341,305</u>	<u>\$ 52,154,742</u>

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
CAPITAL PROJECTS GOVERNMENTAL FUNDS  
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
FOR THE YEAR ENDED JUNE 30, 2017  
(With Comparative Totals for the Year Ended June 30, 2016)

	Capital Projects	High School Construction	Middle School Remodel	South Elementary Remodel	Totals	
					2017	2016
REVENUES						
Local property tax levies	\$ 540,045	\$ -	\$ -	\$ -	\$ 540,045	\$ 460,950
Interest earned on investments	317,196	-	-	-	317,196	157,784
Other local and county revenue	14,355	1,618,201	-	-	1,632,556	986,330
TOTAL REVENUES	871,596	1,618,201	-	-	2,489,797	1,605,064
EXPENDITURES						
Current						
Sites and buildings	371	-	-	-	371	-
Capital outlay						
Sites and buildings	267,165	34,695,097	1,466,519	1,452,681	37,881,462	8,103,955
Debt service						
Interest and other costs	-	-	-	-	-	260,633
TOTAL EXPENDITURES	267,536	34,695,097	1,466,519	1,452,681	37,881,833	8,364,588
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	604,060	(33,076,896)	(1,466,519)	(1,452,681)	(35,392,036)	(6,759,524)
OTHER FINANCING SOURCES (USES)						
Debt issued	-	-	-	-	-	55,325,000
Premium on debt issued	-	-	-	-	-	3,266,955
Transfers out	-	-	-	-	-	(1,247,645)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	-	-	57,344,310
NET CHANGE IN FUND BALANCES	604,060	(33,076,896)	(1,466,519)	(1,452,681)	(35,392,036)	50,584,786
FUND BALANCES, JULY 1	57,110,984	(6,749,216)	(129,435)	(199,073)	50,033,260	(551,526)
FUND BALANCES, JUNE 30	<u>\$ 57,715,044</u>	<u>\$ (39,826,112)</u>	<u>\$ (1,595,954)</u>	<u>\$ (1,651,754)</u>	<u>\$ 14,641,224</u>	<u>\$ 50,033,260</u>

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INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
CAPITAL PROJECTS FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017  
(With Comparative Actual Amounts for the Year Ended June 30, 2016)

	2017			2016
	Budgeted Amounts		Variance With	
	Original	Final	Final Budget	Actual
REVENUES				
Local property tax levies	\$ 540,045	\$ 540,045	\$ -	\$ 460,950
Interest earned on investments	-	315,000	2,196	157,784
Other local and county revenue	-	4,355	1,628,201	986,330
TOTAL REVENUES	540,045	859,400	1,630,397	1,605,064
EXPENDITURES				
Current				
Sites and buildings				
Salaries	46,758	-	(400)	-
Employee benefits	16,862	-	29	-
Purchased services	200	-	-	-
Capital outlay				
Sites and buildings	32,854,442	43,731,327	5,849,865	8,103,955
Debt service				
Interest and other costs	160,633	-	-	260,633
TOTAL EXPENDITURES	33,078,895	43,731,327	5,849,494	8,364,588
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(32,538,850)	(42,871,927)	7,479,891	(6,759,524)
OTHER FINANCING SOURCES (USES)				
Debt issued	-	-	-	55,325,000
Premium on debt issued	-	-	-	3,266,955
Transfers out	-	-	-	(1,247,645)
TOTAL OTHER FINANCING SOURCES (USES)	-	-	-	57,344,310
NET CHANGE IN FUND BALANCES	(32,538,850)	(42,871,927)	7,479,891	50,584,786
FUND BALANCES, JULY 1	50,033,260	50,033,260	-	(551,526)
FUND BALANCES, JUNE 30	\$ 17,494,410	\$ 7,161,333	\$ 7,479,891	\$ 50,033,260

## Fiscal Compliance Report - 6/30/2017

### District: ST. PETER (508-1)

	Audit	UFARS	Audit - UFARS		Audit	UFARS	Audit - UFARS
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	\$24,627,269	<u>\$24,627,264</u>	<u>\$5</u>	Total Revenue	\$2,489,797	<u>\$2,489,797</u>	<u>\$0</u>
Total Expenditures	\$22,891,254	<u>\$22,891,251</u>	<u>\$3</u>	Total Expenditures	\$37,881,833	<u>\$37,881,833</u>	<u>\$0</u>
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$21,348	<u>\$21,348</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>				<i>Restricted / Reserved:</i>			
4.03 Staff Development	\$0	<u>\$0</u>	<u>\$0</u>	4.07 Capital Projects Levy	\$320,760	<u>\$320,759</u>	<u>\$1</u>
4.06 Health and Safety	(\$253)	<u>(\$254)</u>	<u>\$1</u>	4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>
4.07 Capital Projects Levy	\$0	<u>\$0</u>	<u>\$0</u>	4.67 LTFM	\$0	<u>\$0</u>	<u>\$0</u>
4.08 Cooperative Revenue	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted:</i>			
4.13 Project Funded by COP	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$14,320,464	<u>\$14,320,466</u>	<u>(\$2)</u>
4.14 Operating Debt	\$0	<u>\$0</u>	<u>\$0</u>	<i>Unassigned:</i>			
4.16 Levy Reduction	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.17 Taconite Building Maint	\$0	<u>\$0</u>	<u>\$0</u>				
4.24 Operating Capital	\$56,515	<u>\$56,516</u>	<u>(\$1)</u>	<b>07 DEBT SERVICE</b>			
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$2,426,158	<u>\$2,426,157</u>	<u>\$1</u>
4.27 Disabled Accessibility	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$2,520,790	<u>\$2,520,790</u>	<u>\$0</u>
4.28 Learning & Development	\$0	<u>\$0</u>	<u>\$0</u>	<i>Non Spendable:</i>			
4.34 Area Learning Center	\$0	<u>\$0</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.35 Contracted Alt. Programs	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted / Reserved:</i>			
4.36 State Approved Alt. Program	\$0	<u>\$0</u>	<u>\$0</u>	4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.38 Gifted & Talented	\$0	<u>\$0</u>	<u>\$0</u>	4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>
4.40 Teacher Development and	\$0	<u>\$0</u>	<u>\$0</u>	<i>Restricted:</i>			
Evaluation	\$0	<u>\$0</u>	<u>\$0</u>	4.64 Restricted Fund Balance	\$156,414	<u>\$156,414</u>	<u>\$0</u>
4.41 Basic Skills Programs	\$0	<u>\$1</u>	<u>(\$1)</u>	<i>Unassigned:</i>			
4.45 Career Tech Programs	\$0	<u>\$0</u>	<u>\$0</u>	4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
4.48 Achievement and Integration	\$0	<u>\$0</u>	<u>\$0</u>				
4.49 Safe School Crime - Crime Levy	\$0	<u>\$0</u>	<u>\$0</u>	<b>08 TRUST</b>			
4.50 Pre-Kindergarten	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	(\$3,582)	<u>(\$3,582)</u>	<u>\$0</u>
4.51 QZAB Payments	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$20,000	<u>\$20,000</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net	\$687,135	<u>\$687,135</u>	<u>\$0</u>
4.53 Unfunded Sev & Retirement Levy	\$0	<u>\$0</u>	<u>\$0</u>	Assets)			
4.67 LTFM	\$108,711	<u>\$108,712</u>	<u>(\$1)</u>	<b>20 INTERNAL SERVICE</b>			
4.72 Medical Assistance	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>				Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net	\$0	<u>\$0</u>	<u>\$0</u>
<i>Committed:</i>				Assets)			
4.18 Committed for Separation	\$0	<u>\$0</u>	<u>\$0</u>	<b>25 OPEB REVOCABLE TRUST</b>			
4.61 Committed Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>	Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
<i>Assigned:</i>				Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
4.62 Assigned Fund Balance	\$3,350,171	<u>\$3,350,171</u>	<u>\$0</u>	4.22 Unassigned Fund Balance (Net	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>				Assets)			
4.22 Unassigned Fund Balance	\$3,853,380	<u>\$3,853,373</u>	<u>\$7</u>	<b>45 OPEB IRREVOCABLE TRUST</b>			
<b>02 FOOD SERVICES</b>				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
Total Revenue	\$1,150,395	<u>\$1,150,390</u>	<u>\$5</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
Total Expenditures	\$1,063,403	<u>\$1,063,398</u>	<u>\$5</u>	4.22 Unassigned Fund Balance (Net	\$0	<u>\$0</u>	<u>\$0</u>
<i>Non Spendable:</i>				Assets)			
4.60 Non Spendable Fund Balance	\$8,921	<u>\$8,922</u>	<u>(\$1)</u>	<b>47 OPEB DEBT SERVICE</b>			
<i>Restricted / Reserved:</i>				Total Revenue	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>	Total Expenditures	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>				<i>Non Spendable:</i>			
4.64 Restricted Fund Balance	\$225,604	<u>\$225,604</u>	<u>\$0</u>	4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>				<i>Restricted:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>				

## 04 COMMUNITY SERVICE

Total Revenue	\$822,788	<u>\$822,786</u>	<u>\$2</u>
Total Expenditures	\$690,950	<u>\$690,951</u>	<u>(\$1)</u>
<i>Non Spendable:</i>			
4.60 Non Spendable Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted / Reserved:</i>			
4.26 \$25 Taconite	\$0	<u>\$0</u>	<u>\$0</u>
4.31 Community Education	\$288,649	<u>\$288,648</u>	<u>\$1</u>
4.32 E.C.F.E	\$44,632	<u>\$44,631</u>	<u>\$1</u>
4.40 Teacher Development and Evaluation	\$0	<u>\$0</u>	<u>\$0</u>
4.44 School Readiness	(\$127,705)	<u>(\$127,705)</u>	<u>\$0</u>
4.47 Adult Basic Education	\$0	<u>\$0</u>	<u>\$0</u>
4.52 OPEB Liab Not In Trust	\$0	<u>\$0</u>	<u>\$0</u>
<i>Restricted:</i>			
4.64 Restricted Fund Balance	\$4,083	<u>\$4,083</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

4.25 Bond Refundings	\$0	<u>\$0</u>	<u>\$0</u>
4.64 Restricted Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>
<i>Unassigned:</i>			
4.63 Unassigned Fund Balance	\$0	<u>\$0</u>	<u>\$0</u>

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**OTHER REPORTS**

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2017

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INDEPENDENT AUDITOR'S REPORT ON  
MINNESOTA LEGAL COMPLIANCE

Members of the School Board  
Independent School District No. 508  
St. Peter, 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 governmental activities, each major fund and the aggregate remaining fund information of the Independent School District No. 508 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, and have issued our report thereon dated December 14, 2017.

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

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

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

ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
December 14, 2017

INDEPENDENT AUDITOR'S 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*

Members of the School Board  
Independent School District No. 508  
St. Peter, 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 the Independent School District No. 508, Minnesota (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 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.

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. However, as described in the accompanying Schedule of Findings, Responses and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings, Responses and Questioned Costs as item 2017-003 to be a material weakness.

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. We consider the deficiencies described in the accompanying Schedule of Findings, Responses and Questioned Costs as items 2017-001 and 2017-002 to be significant deficiencies.

## Compliance and Other Matters

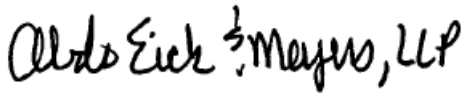
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

## The District's Responses to Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Responses and Questioned Costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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.



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
December 14, 2017

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**FEDERAL AWARD PROGRAMS**

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA

FOR THE YEAR ENDED  
JUNE 30, 2017

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

Members of the School Board  
Independent School District No. 508  
St. Peter, Minnesota

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

We have audited the Independent School District No. 508's, St. Peter, Minnesota (the District) compliance with the types of compliance requirements described in the OMB Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses and Questioned Costs.

***Management's Responsibility***

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

***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 for Federal Awards (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

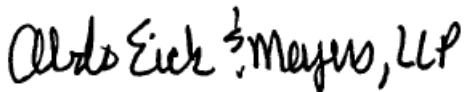
## Report on Internal Control Over Compliance

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

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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.



ABDO, EICK & MEYERS, LLP  
Mankato, Minnesota  
December 14, 2017

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017

Federal Funding Source	Administering Department	Program Name	Federal Domestic Assistance Number	Pass-Through Entity Identifying Number	Federal Program Clusters	Total Federal Expenditures
U.S. Department of Agriculture	Minnesota Department of Education	School Breakfast Program	10.553	1000003951	\$ 104,172	
U.S. Department of Agriculture	Minnesota Department of Education	National School Lunch Program	10.555	1000003951	426,126	
U.S. Department of Agriculture	Minnesota Department of Education	Special Milk Program for Children	10.556	1000003951	1,633	
U.S. Department of Agriculture	Minnesota Department of Education	Summer Food Service Program for Children	10.559	1000003951	<u>34,772</u>	
Total Child Nutrition Cluster						\$ 566,703
U.S. Department of Agriculture	Minnesota Department of Education	Commodity Supplemental Food Program	10.565	N/A		<u>75,245</u>
Total U.S. Department of Agriculture						<u>641,948</u>
U.S. Department of Education	Minnesota Department of Education	Title I Grants to Local Educational	84.010	S010A150023A		267,324
U.S. Department of Education	Minnesota Department of Education	Title I State Agency Program for Neglected and Delinquent Children	84.013	S010A150023A		39,243
U.S. Department of Education	Minnesota Department of Education	English Language Acquisition Grants	84.365	S365A150023A		12,799
U.S. Department of Education	Minnesota Department of Education	Improving Teacher Quality State Grants	84.367	S367A150022		79,063
U.S. Department of Education	Minnesota Department of Education	Career and Technical Educati Basic Grants to States	84.048	unknown		<u>7,439</u>
Total U.S. Department of Education						<u>405,868</u>
Total Expended						<u><u>\$ 1,047,816</u></u>

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017

**Note 1: Basis of presentation**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all Federal awards programs of the Independent School District No. 508, St. Peter, Minnesota (the District). The District's reporting entity is defined in Note 1A to the District's financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). All federal awards received directly from Federal agencies as well as Federal awards passed through other government agencies are included on the schedule.

**Note 2: Summary of significant accounting policies for expenditures**

Expenditures reported on this schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, Cost Principles for Non-Profit-Organizations, or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note 3: Pass-through entity identifying numbers**

Pass-through entity identifying numbers, if any, are presented where available.

**Note 4: Subrecipients**

No federal expenditures presented in this schedule were provided to subrecipients.

**Note 5: Indirect cost rate**

During the year ended June 30, 2017, the District did not elect to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
SCHEDULE OF FINDINGS, RESPONSES AND  
QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017

**Section I - Summary of Auditor's Results**

***Financial Statements***

Type of auditor's report issued	Unmodified
Internal control over financial reporting	
Material weaknesses identified?	Yes
Significant deficiencies identified not considered to be material weaknesses?	Yes
Noncompliance material to financial statements noted?	No

***Federal Awards***

Internal control over major programs	
Material weaknesses identified?	No
Significant deficiencies identified not considered to be material weaknesses?	None reported
Type of auditor's report issued on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance?	No

***Identification of Major Programs/Projects***

	<u><b>CFDA No.</b></u>
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Milk Program for Children	10.556
Summer Food Service Program for Children	10.559
Dollar threshold used to distinguish between Type A and Type B Programs	\$ 750,000
Auditee qualified as low-risk auditee?	No

**Section II - Financial Statement Findings**

A material weakness and two significant deficiencies relating to the audit of the financial statements are reported in the Independent Auditor's 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*. Finding 2017-003 is reported as a material weakness.

**Section III - Major Federal Award Findings and Questioned Costs**

There are no significant deficiencies, material weaknesses, or instances of noncompliance including questioned costs that are required to be reported in accordance with the Uniform Guidance.

**Section IV - Schedule of Prior Year Audit Findings**

There were prior year audit findings that are attached.

**Other Issues**

A Corrective Action Plan is not required because there were no findings required to be reported under the Federal Single Audit Act.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
SCHEDULE OF FINDINGS, RESPONSES AND  
QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2017

**2017-001 Annual financial report preparation**

- Condition:* As in prior years, the auditor was requested to draft the audited financial statements and related footnote disclosures as part of their regular audit services. Auditing standards require auditors to communicate this situation to the Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. However, based on auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process. The District has adopted an internal control to review the financial statements prepared by the auditors. This control includes review of a draft copy of the financial statements by the business manager and superintendent, along with comparing UFARS guidelines and additional financial reports to the draft prepared by auditors. However, the District has not adopted a control over disclosures included in the annual financial report therefore, the potential exists that a material misstatement related to the disclosures in the annual financial statements could occur and not be prevented or detected by the District's internal controls.
- Criteria:* The District should have controls in place to provide reasonable assurance over financial reporting and be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.
- Questioned costs:* None.
- Cause:* From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size. The District has not adopted an internal control policy over the annual financial reporting; however, they have reviewed and approved the annual financial statement drafts as prepared by the audit firm.
- Effect:* The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting, including footnote disclosures.
- Recommendation:* It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, the audit firm has instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the District is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the District should agree its financial software to the numbers reported in the financial statements.

*Management response:*

Management is aware of the control deficiency. The Business Manager is attending a training program dealing with UFARS financial/accounting practices. The District does not have an internal control policy in place over annual financial reporting under GAAP and that they do not have the necessary staff and expertise to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
SCHEDULE OF FINDINGS, RESPONSES AND  
QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2017

**2017-002 Limited segregation of duties within food service**

*Condition:* One employee has the primary responsibility of entering deposits into student accounts and collecting and counting the money. As a result, certain aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing.

*Criteria:* There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities. The District should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner.

*Questioned costs:* None.

*Effect:* The existence of this limited segregation of duties increases the risk of fraud.

*Cause:* As a result of the small staff, the District has not established controls for adequate segregation of duties within food service to ensure that all accounts are adjusted to their appropriate monthly and year end balances in accordance with GAAP.

*Recommendation:* We recommend the District continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP. Specific controls might include separation of the handling of cash from the entering of data into the Infinite Campus system, reconciling the Infinite Campus system to the general ledger monthly, and reviewing adjustments to student accounts for propriety.

*Management response:*

The District will separate the food service financial duties between two or more personnel. Management will also reconcile the student account balances and meals served to the general ledger monthly and review adjustments to student accounts.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
SCHEDULE OF FINDINGS, RESPONSES AND  
QUESTIONED COSTS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2017

**2017-003 Year-end audit/accounting adjustments**

*Condition:* During our audit, adjustments were needed to record several accounting and audit adjustments, including some material.

*Criteria:* The financial statements are the responsibility of the District's management.

*Questioned costs:* None.

*Cause:* District staff has not prepared a year-end trial balance reflecting all necessary accruals and year-end adjustments without auditor assistance.

*Effect:* It is likely that if a misstatement were to occur, it would not be detected by the District's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.

*Recommendation:* We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

*Management response:*

The business office has changed a number of personnel over the past three years and is beginning to work on the office organization. This will allow the shifting of projects from the Business Manager to other staff which will then give the Business Manager the time needed to have a firm understanding of the proper year-end adjustments.



**2017-001      Annual financial report preparation**

**CORRECTIVE ACTION PLAN (CAP):**

1.    Actions Planned in Response to Finding:

The Business Manager will attend financial statement training offered by MASBO or other sources, as they become available.

2.    Official Responsible for Ensuring CAP:

Tim Regner, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

3.    Planned Completion Date for CAP:

The planned completion date is June 30, 2018.

4.    Plan to Monitor Completion of CAP:

The School Board of ISD No. 508 will be monitoring this corrective action plan.

Sincerely,



Paul Peterson  
Superintendent



**2017-002      Limited segregation of duties within food service**

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding:

The District will separate the food service financial duties between two or more personnel. Management will reconcile the student account balance and meals served to the general ledger monthly and review adjustments to student accounts.

3. Official Responsible for Ensuring CAP:

Tim Regner, Business Manager, is the official responsible for ensuring corrective action of the deficiency.

4. Planned Completion Date for CAP:

The planned completion date is June 30, 2018.

5. Plan to Monitor Completion of CAP:

The School Board of ISD No. 508 will be monitoring this corrective action plan.

Sincerely,

Paul Peterson  
Superintendent



**2017-003      Year-end audit/accounting adjustments**

**CORRECTIVE ACTION PLAN (CAP):**

1. Explanation of Disagreement with Audit Findings:

There is no disagreement with the audit finding.

2. Actions Planned in Response to Finding:

The District will review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

3. Official Responsible for Ensuring CAP:

Tim Regner, Business Manager, is the official responsible for ensuring corrective action of the material weakness.

4. Planned Completion Date for CAP:

The planned completion date is June 30, 2018.

5. Plan to Monitor Completion of CAP:

The School Board of ISD No. 508 will be monitoring this corrective action plan through the District Finance Committee on a twice a year basis.

Sincerely,

Paul Peterson  
Superintendent

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2017

**2016-001    Annual financial report preparation**

*Condition:* As in prior years, the auditor was requested to draft the audited financial statements and related footnote disclosures as part of their regular audit services. Auditing standards require auditors to communicate this situation to the Board as an internal control deficiency. Ultimately, it is management's responsibility to provide for the preparation of your statements and footnotes, and the responsibility of the auditor to determine the fairness of presentation of those statements. However, based on auditing standards, it is our responsibility to inform you that this deficiency could result in a material misstatement to the financial statements that could have been prevented or detected by your management. Essentially, the auditors cannot be part of your internal control process. The District has adopted an internal control to review the financial statements prepared by the auditors. This control includes review of a draft copy of the financial statements by the business manager and superintendent, along with comparing UFARS guidelines and additional financial reports to the draft prepared by auditors. However, the District has not adopted a control over disclosures included in the annual financial report therefore, the potential exists that a material misstatement related to the disclosures in the annual financial statements could occur and not be prevented or detected by the District's internal controls.

*Criteria:* The District should have controls in place to provide reasonable assurance over financial reporting and be able to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

*Questioned costs:* None.

*Cause:* From a practical standpoint we do both for you at the same time in connection with our audit. This is not unusual for us to do with organization of your size. The District has not adopted an internal control policy over the annual financial reporting; however, they have reviewed and approved the annual financial statement drafts as prepared by the audit firm.

*Effect:* The effectiveness of the internal control system relies on enforcement by management. The effect of deficiencies in internal controls can result in undetected errors in financial reporting, including footnote disclosures.

*Recommendation:* It is your responsibility to make the ultimate decision to accept this degree of risk associated with this condition because of cost or other considerations. As in prior years, the audit firm has instructed management to review a draft of the auditor prepared financials in detail for their accuracy; we have answered any questions they might have, and have encouraged research of any accounting guidance in connection with the adequacy and appropriateness of classification of disclosure in your statements. We are satisfied that the appropriate steps have been taken to provide you with the completed financial statements. While the District is reviewing the financial statements we recommend a disclosure checklist is utilized to ensure all required disclosures are presented and the District should agree its financial software to the numbers reported in the financial statements.

*Management response:*

Management is aware of the control deficiency. The Business Manager is attending a training program dealing with UFARS financial/accounting practices. The District does not have an internal control policy in place over annual financial reporting under GAAP and that they do not have the necessary staff and expertise to prevent or detect a material misstatement in the annual financial statements including footnote disclosures.

*Updated progress since prior year:*

No changes have been made in addressing this finding in the current year.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2017

**2016-002    Limited segregation of duties within food service**

*Condition:* One or two employees have the primary responsibility of entering deposits into student accounts, collecting and counting the money, and taking the deposit to the bank. As a result, certain aspects of internal accounting control which rely upon an adequate segregation of duties are, for all practical purposes, missing.

*Criteria:* There are four general categories of duties: authorization, custody, record keeping and reconciliation. In an ideal system, different employees perform each of these four major functions. In other words, no one person has control of two or more of these responsibilities. The District should have controls in place to prevent and detect a material misstatement in the financial statements in a timely manner.

*Questioned costs:* None.

*Effect:* The existence of this limited segregation of duties increases the risk of fraud.

*Cause:* As a result of the small staff, the District has not established controls for adequate segregation of duties within food service to ensure that all accounts are adjusted to their appropriate monthly and year end balances in accordance with GAAP.

*Recommendation:* We recommend the District continue to evaluate its internal control processes to determine if additional internal control procedures should be implemented to ensure that accounts are adjusted to their appropriate year end balances in accordance with GAAP. Specific controls might include separation of the handling of cash from the entering of data into the PCS system, reconciling the PCS system to the general ledger monthly, and reviewing adjustments to student accounts for propriety.

*Management response:*

The District will separate the food service financial duties between two or more personnel. Management will also reconcile the student account balances and meals served to the general ledger monthly and review adjustments to student accounts.

*Updated progress since prior year:*

No changes have been made in addressing this finding in the current year.

INDEPENDENT SCHOOL DISTRICT NO. 508  
ST. PETER, MINNESOTA  
SCHEDULE OF PRIOR YEAR FINDINGS - CONTINUED  
FOR THE YEAR ENDED JUNE 30, 2017

**2016-003    Year-end audit/accounting adjustments**

*Condition:*            During our audit, adjustments were needed to record several accounting and audit adjustments.

*Criteria:*             The financial statements are the responsibility of the District's management.

*Questioned costs:*   None.

*Cause:*                District staff has not prepared a year-end trial balance reflecting all necessary accruals and year-end adjustments without auditor assistance.

*Effect:*                It is likely that if a misstatement were to occur, it would not be detected by the District's system of internal control. The audit firm cannot serve as a compensating control over this deficiency.

*Recommendation:*   We recommend that management review each journal entry, obtain an understanding of why the entry was necessary and modify current procedures to ensure that future corrections are not needed.

*Management response:*

The Business Office is currently one and a half years into a reorganization plan and has hired office staff with a strong accounting background. This person will be expected to take a number of projects from the Business Manager, which will give the Business Manager the time needed to have a firm understanding of the proper year-end adjustments.

*Updated progress since prior year:*

No changes have been made in addressing this finding in the current year.