

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA**

*AUDITED FINANCIAL STATEMENTS*

FOR THE YEAR ENDED JUNE 30, 2017

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 PERHAM, MINNESOTA  
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PERHAM, MINNESOTA  
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**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
ROSTER OF SCHOOL OFFICIALS  
June 30, 2017**

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Sue VonRuden	Chairperson
Cyndy Huber	Vice Chairperson
Arnie Thompson	Clerk
Sue Huebsch	Treasurer
Aaron Kalina	Director
Christi Stoll	Director
Nathan Rooney	Director
Mitch Anderson	Superintendent
Kristi Werner	Director of Business Services



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education  
Independent School District No. 549  
Perham, Minnesota

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 549, 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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 Independent School District No. 549, as of June 30, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 2 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. As discussed in Note 2 to the financial statements, the District has retroactively restated the previously reported Net Position in accordance with these statements.

Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in the District's net other postemployment benefits liability and related ratios, schedule of District contributions, schedule of District share of net pension liability, and notes to required supplementary information as required supplementary information 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 combining statements, schedule of changes in fund balances, and compliance table as listed in the table of contents as supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining statements, schedule of changes in fund balances, compliance table, and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such

information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, schedule of changes in fund balances, compliance table, and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 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 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.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

December 4, 2017

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**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2017**

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This section of Independent School District No. 549's annual financial report presents its discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2017.

### **Financial Highlights**

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

- Overall fund revenues were \$21,096,717 and overall fund expenditures were \$32,838,724.
- Building construction expenditures were \$12,383,615.

### **Overview of the Financial Statements**

This annual report consists of four parts: management's discussion and analysis (this section), the basic financial statements, required supplementary information, and supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's general fund budget for the year, and supplementary information that is presented for additional analysis.

### District-wide Statements

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

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

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2017**

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- Over time, increases or decreases in the District's net position are indicators of whether its financial position is improving or deteriorating, respectively.
- To assess the District's overall health, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

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

- *Governmental activities*: All of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District's funds. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues.

The District has two kinds of funds:

- **Governmental funds**: The District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, reconciliations have been provided following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances to help explain the relationship (or differences) between the governmental funds and governmental activities.

The District maintains seven 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, building construction fund, debt service fund, and OPEB debt service fund, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated presentation. Individual fund data is provided in the form of combining statements elsewhere in this report.

- **Fiduciary fund**: The District is the fiduciary for assets that belong to others. The District is responsible for ensuring that the assets reported in this fund are used only for their intended purposes and by those to whom the assets belong. The District's fiduciary activity, consisting of an OPEB Trust Fund, is reported in a separate Statement of Fiduciary Net Position. The District excludes the activities from the district-wide financial statements because it cannot use the assets to finance its operations.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
 PERHAM, MINNESOTA  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 For the Year Ended June 30, 2017**

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**Financial Analysis of the District as a Whole**

Net Position

The District's combined net position was \$1,229,322 on June 30, 2017 (see details in Table A-1). This was a decrease of 73.1 percent from the prior year.

**Table A-1  
 Statement of Net Position**

	<u>2017</u>	<u>2016</u>	<u>Total Percentage Change</u>
Current and Other Assets	\$ 45,125,409	\$ 56,356,221	(19.9) %
Capital Assets	<u>24,864,711</u>	<u>12,704,298</u>	95.7
Total Assets	<u>69,990,120</u>	<u>69,060,519</u>	1.3
Deferred Outflows of Resources	<u>19,760,143</u>	<u>1,686,370</u>	1,071.8
Long-Term Liabilities	76,773,638	54,774,354	40.2
Other Liabilities	<u>5,637,472</u>	<u>4,679,441</u>	20.5
	<u>82,411,110</u>	<u>59,453,795</u>	38.6
Deferred Inflows of Resources	<u>6,109,831</u>	<u>6,720,893</u>	(9.1)
Net Position			
Net Investment in Capital Assets	10,267,966	8,972,345	14.4
Restricted	3,619,885	2,756,203	31.3
Unrestricted	<u>(12,658,529)</u>	<u>(7,156,347)</u>	(76.9)
Total Net Position	<u>\$ 1,229,322</u>	<u>\$ 4,572,201</u>	(73.1) %

**INDEPENDENT SCHOOL DISTRICT NO. 549  
 PERHAM, MINNESOTA  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 For the Year Ended June 30, 2017**

Change in Net Position

Table A-2 presents the change in net position of the District.

**Table A-2  
 Change in Net Position**

	<u>2017</u>	<u>2016</u>	<u>Total Percentage Change</u>
Revenues			
Program Revenues			
Charges for Services	\$ 849,170	\$ 783,020	8.4 %
Operating Grants and Contributions	4,681,543	4,161,466	12.5
Capital Grants and Contributions	80,669	86,706	(7.0)
General Revenues			
Property Taxes	5,968,300	4,084,467	46.1
Unrestricted State Aid	9,554,843	9,280,430	3.0
Other Sources	298,061	213,755	39.4
Total Revenues	<u>21,432,586</u>	<u>18,609,844</u>	15.2
Expenses			
Administration	801,123	792,396	1.1
District Support Services	411,273	446,226	(7.8)
Elementary & Secondary Regular Instruction	10,750,593	6,398,625	68.0
Vocational Education Instruction	407,372	370,547	9.9
Special Education Instruction	2,698,877	2,579,299	4.6
Community Education and Services	430,505	401,583	7.2
Instructional Support Services	853,432	1,030,077	(17.1)
Pupil Support Services	2,706,923	2,513,053	7.7
Sites and Buildings	1,634,192	1,810,183	(9.7)
Fixed Costs	144,844	157,760	(8.2)
Interest Expense	1,243,464	439,733	182.8
Depreciation - Unallocated	487,310	410,515	18.7
Total Expenses	<u>22,569,908</u>	<u>17,349,997</u>	30.1
Change in Net Position	(1,137,322)	1,259,847	(190.3)
Net Position - Beginning	4,572,201	3,312,354	38.0
GASB 75 Adjustment - See Note 2	(2,205,557)		(100.0)
Net Position - Beginning, Restated	<u>2,366,644</u>	<u>3,312,354</u>	(28.6)
Net Position - Ending	<u>\$ 1,229,322</u>	<u>\$ 4,572,201</u>	(73.1) %

**INDEPENDENT SCHOOL DISTRICT NO. 549  
 PERHAM, MINNESOTA  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 For the Year Ended June 30, 2017**

The District's total revenues were \$21,432,586 for the year ended June 30, 2017. Property taxes and state aid payments accounted for 88 percent of total revenue for the year.

The total cost of all programs and services was \$22,569,908. The District's expenses are predominantly related to educating and caring for students.

Total expenses surpassed revenues, decreasing net position by \$1,137,322 over last year. Of the decrease, approximately \$3,900,000 is due to accounting for the District's proportionate share of TRA and PERA pension liabilities.

The net cost of governmental activities is their total costs less program revenues applicable to each category.

Table A-3 presents these net costs.

**Table A-3  
 Net Cost of Governmental Activities**

	Total Cost of Services		Total	Net Cost of Services		Total
	2017	2016	Percentage Change	2017	2016	Percentage Change
Expenses						
Administration	\$ 801,123	\$ 792,396	1.1 %	\$ 801,123	\$ 792,396	1.1 %
District Support Services	411,273	446,226	(7.8)	411,273	446,226	(7.8)
Elementary & Secondary						
Regular Instruction	10,750,593	6,398,625	68.0	8,976,658	4,906,788	82.9
Vocational Education Instruction	407,372	370,547	9.9	407,372	370,547	9.9
Special Education Instruction	2,698,877	2,579,299	4.6	1,067,421	1,055,069	1.2
Community Education and Services	430,505	401,583	7.2	148,708	140,271	6.0
Instructional Support Services	853,432	1,030,077	(17.1)	636,884	821,501	(22.5)
Pupil Support Services	2,706,923	2,513,053	7.7	1,261,786	1,082,112	16.6
Sites and Buildings	1,634,192	1,810,183	(9.7)	1,371,683	1,695,887	(19.1)
Fixed Costs	144,844	157,760	(8.2)	144,844	157,760	(8.2)
Interest Expense	1,243,464	439,733	182.8	1,243,464	439,733	182.8
Depreciation - Unallocated	487,310	410,515	18.7	487,310	410,515	18.7
	<u>\$ 22,569,908</u>	<u>\$ 17,349,997</u>	30.1 %	<u>\$ 16,958,526</u>	<u>\$ 12,318,805</u>	37.7 %

**INDEPENDENT SCHOOL DISTRICT NO. 549  
 PERHAM, MINNESOTA  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 For the Year Ended June 30, 2017**

**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.

**Table A-4  
 Major Funds**

	Fund Balance		Increase (Decrease)	Percentage Increase (Decrease)
	2017	2016		
Governmental Funds				
General	\$ 3,921,894	\$ 2,981,395	\$ 940,499	31.5 %
Building Construction Fund	31,747,517	43,879,843	(12,132,326)	(27.6)
Debt Service Fund	118,692	658,478	(539,786)	(82.0)
OPEB Debt Service		115,237	(115,237)	(100.0)

General Fund

The general fund includes the primary operations of the District in providing educational services to students from kindergarten through grade 12, including pupil transportation activities and capital outlay projects.

Table A-5 presents a summary of general fund revenue.

**Table A-5  
 General Fund Revenue**

	2017	2016	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property Taxes	\$ 2,765,150	\$ 2,600,879	\$ 164,271	6.3 %
Interest Earnings	30,824	8,092	22,732	280.9
Other	493,382	462,701	30,681	6.6
State Sources	12,725,399	12,314,552	410,847	3.3
Federal Sources	323,581	286,361	37,220	13.0
Other	5,226	2,043	3,183	155.8
Total General Fund Revenue	<u>\$ 16,343,562</u>	<u>\$ 15,674,628</u>	<u>\$ 668,934</u>	4.3 %

Total general fund revenue increased by \$668,934 or 4.3 percent from the previous year. Basic general education revenue is determined by a state per student funding formula. Other state-authorized revenue, including excess levy referendum and the property tax shift, involve an equalized mix of property tax and state aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change on revenue.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
 PERHAM, MINNESOTA  
 MANAGEMENT'S DISCUSSION AND ANALYSIS  
 For the Year Ended June 30, 2017**

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Table A-6 presents a summary of general fund expenditures.

**Table A-6  
 General Fund Expenditures**

	<u>2017</u>	<u>2016</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
Salaries	\$ 8,632,007	\$ 8,309,709	\$ 322,298	3.9 %
Employee Benefits	2,111,818	1,949,665	162,153	8.3
Purchased Services	2,988,008	2,993,469	(5,461)	(0.2)
Supplies and Materials	828,725	710,838	117,887	16.6
Capital Expenditures	682,071	1,142,281	(460,210)	(40.3)
Debt Service	151,266	151,592	(326)	(0.2)
Other Expenditures	156,853	101,296	55,557	54.8
Total General Fund Expenditures	<u>\$ 15,550,748</u>	<u>\$ 15,358,850</u>	<u>\$ 191,898</u>	1.2 %

Total general fund expenditures increased \$191,898 or 1.2 percent from the previous year.

General Fund Budgetary Highlights

The District's final budget for the general fund anticipated that revenues and other financing sources would exceed expenditures by \$287,443. The actual results for the year show a \$940,499 surplus.

**Capital Assets and Debt Administration**

Capital Assets

Note 4 to the financial statements presents an analysis of capital assets transactions occurring during the year ended June 30, 2017. Additions totaling \$12,798,539 included an addition to the elementary school, the start of construction on the high school, a storage shed, and computer hardware.

Long-Term Debt

At year-end, the District had \$44,680,876 of long-term liabilities. This consisted of bonded indebtedness of \$43,270,000, unamortized premium of \$1,199,364, and special assessment debt of \$211,512. Note 7 to the financial statements present details and payment provisions of these items.

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

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

- The political environment at the state level will have a significant effect on future finances. The state legislature sets the amount of revenue from aids and levies that Minnesota school districts will receive.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2017**

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- Changes in enrollment have an important effect on the District's revenue, as state funding is based on a per pupil formula.

**Contacting the District's Financial Management**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Kristi Werner, Business Affairs Officer, at District offices located in the high school building, 200 5<sup>th</sup> Street SE, Room D, Perham, Minnesota 56573.

**INDEPENDENT SCHOOL DISTRICT NO. 549**  
**PERHAM, MINNESOTA**  
**STATEMENT OF NET POSITION**  
**June 30, 2017**

<b>GOVERNMENTAL ACTIVITIES</b>	
<b>ASSETS</b>	
Cash and Investments	\$ 40,283,059
Property Taxes Receivable, Net of Allowance	2,897,736
Accounts Receivable	66,406
Due From Department of Education	1,374,368
Due From Federal Govt. - DOE	144,079
Due From Other MN Districts	167,001
Due From OPEB Trust	166,496
Inventory	26,264
Capital Assets	
Land, Construction in Process	7,139,369
Other Capital Assets, Net of Depreciation	17,725,342
<b>TOTAL ASSETS</b>	<u>69,990,120</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Cost Sharing Defined Benefit Pension Plan	19,734,604
Other Postemployment Benefit Plan	25,539
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>19,760,143</u>
<b>LIABILITIES</b>	
Accounts Payable	1,910,705
Salaries Payable	617,756
Payroll Deductions	617,587
Due To Other MN Districts	31,038
Vacation Payable	91,000
Interest Payable	514,625
Long-Term Liabilities Due Within One Year	1,854,761
Long-Term Liabilities	
Bonds, Net Unamortized Premiums and Discounts	44,469,364
Special Assessment Debt	211,512
Severance Payable	1,203,652
Net Pension Liability	31,501,744
Net Other Postemployment Benefit Liability	1,242,127
Less Amounts Due Within One Year	(1,854,761)
Total Long-Term Liabilities	<u>76,773,638</u>
<b>TOTAL LIABILITIES</b>	<u>82,411,110</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Property Taxes Levied - Subs. Years	5,759,259
Cost Sharing Defined Benefit Pension Plan	350,572
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>6,109,831</u>
<b>NET POSITION</b>	
Net Investment in Capital Assets	10,267,966
Restricted	
Health and Safety	30,624
Capital Projects	129,207
Levy Reduction	164,027
Operating Capital	98,650
Safe Schools	106,459
LTFM	537,286
Area Learning Center	506,771
Food Service	273,498
Community Service	28,743
Community Education	7,321
ECFE	72,281
School Readiness	357
Building Construction	1,663,387
Scholarship	1,274
Unrestricted	(12,658,529)
<b>TOTAL NET POSITION</b>	<u>\$ 1,229,322</u>

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

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**INDEPENDENT SCHOOL DISTRICT NO. 549**  
**PERHAM, MINNESOTA**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>GOVERNMENTAL ACTIVITIES</b>					
Administration	\$ 801,123	\$	\$	\$	(801,123)
District Support Services	411,273				(411,273)
Elementary & Secondary					
Regular Instruction	10,750,593	127,500	1,637,291	9,144	(8,976,658)
Vocational Education Instruction	407,372				(407,372)
Special Education Instruction	2,698,877	159,586	1,471,870		(1,067,421)
Community Education and Services	430,505	219,081	62,716		(148,708)
Instructional Support Services	853,432		190,695	25,853	(636,884)
Pupil Support Services	2,706,923	330,946	1,114,191		(1,261,786)
Sites and Buildings	1,634,192	12,057	204,780	45,672	(1,371,683)
Fixed Costs	144,844				(144,844)
Interest Expense	1,243,464				(1,243,464)
Depreciation - Unallocated	487,310				(487,310)
<b>TOTAL GOVERNMENTAL ACTIVITIES</b>	<b>\$ 22,569,908</b>	<b>\$ 849,170</b>	<b>\$ 4,681,543</b>	<b>\$ 80,669</b>	<b>(16,958,526)</b>
<b>GENERAL REVENUES</b>					
Taxes					
Property Taxes, Levied for General Purposes					2,737,670
Property Taxes, Levied for Community Education and Services					144,359
Property Taxes, Levied for Debt Services					2,576,362
Property Taxes, Levied for OPEB Debt Services					509,909
Unrestricted State Aid					9,554,843
Unrestricted Investment Earnings					30,832
Other General Revenue					267,229
<b>TOTAL GENERAL REVENUES</b>					<b>15,821,204</b>
Change in Net Position					(1,137,322)
Net Position - Beginning					4,572,201
GASB 75 Adjustment - See Note 2					(2,205,557)
Net Position - Beginning, Restated					2,366,644
Net Position - Ending					<b>\$ 1,229,322</b>

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

**INDEPENDENT SCHOOL DISTRICT NO. 549**  
**PERHAM, MINNESOTA**  
**BALANCE SHEET - GOVERNMENTAL FUNDS**  
**June 30, 2017**

	General Fund	Building Construction Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and Investments	\$ 4,605,226	\$ 33,537,836	\$ 1,731,067	\$ 408,930	\$ 40,283,059
Current Property Taxes Receivable	1,347,749		1,503,167	67,125	2,918,041
Delinquent Property Taxes Receivable	24,429			266	24,695
Accounts Receivable	63,979			2,427	66,406
Due From Department of Education	1,361,474		3,144	9,750	1,374,368
Due From Federal Govt. - DOE	128,411			15,668	144,079
Due From Other MN Districts	167,001				167,001
Due From OPEB Trust	166,496				166,496
Inventory				26,264	26,264
<b>TOTAL ASSETS</b>	<b>\$ 7,864,765</b>	<b>\$ 33,537,836</b>	<b>\$ 3,237,378</b>	<b>\$ 530,430</b>	<b>\$ 45,170,409</b>
<b>LIABILITIES</b>					
Accounts Payable	\$ 112,961	\$ 1,790,319		\$ 7,425	\$ 1,910,705
Salaries Payable	617,756				617,756
Severance Payable	37,792				37,792
Due To Other MN Districts	31,038				31,038
Payroll Deductions	617,587				617,587
<b>TOTAL LIABILITIES</b>	<b>1,417,134</b>	<b>1,790,319</b>		<b>7,425</b>	<b>3,214,878</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable Revenue - Delinquent Taxes	24,429			266	24,695
Property Taxes Levied - Subs. Years	2,501,308		3,118,686	139,265	5,759,259
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>2,525,737</b>		<b>3,118,686</b>	<b>139,531</b>	<b>5,783,954</b>
<b>FUND BALANCES</b>					
Nonspendable: Inventory				26,264	26,264
Restricted for Health and Safety	30,624				30,624
Restricted for Capital Projects	129,207				129,207
Restricted for Levy Reduction	164,027				164,027
Restricted for Operating Capital	98,650				98,650
Restricted for Safe Schools	106,459				106,459
Restricted for LTFM	537,286				537,286
Restricted for Area Learning Center	506,771				506,771
Restricted for Food Service				247,234	247,234
Restricted for Community Service				28,743	28,743
Restricted for Community Education				7,321	7,321
Restricted for ECFE				72,281	72,281
Restricted for School Readiness				357	357
Restricted for Building Construction		31,747,517			31,747,517
Restricted for Scholarship				1,274	1,274
Restricted for Debt Service			118,692		118,692
Committed for Severance	195,000				195,000
Unassigned	2,153,870				2,153,870
<b>TOTAL FUND BALANCES</b>	<b>3,921,894</b>	<b>31,747,517</b>	<b>118,692</b>	<b>383,474</b>	<b>36,171,577</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 7,864,765</b>	<b>\$ 33,537,836</b>	<b>\$ 3,237,378</b>	<b>\$ 530,430</b>	<b>\$ 45,170,409</b>

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

**INDEPENDENT SCHOOL DISTRICT NO. 549  
 PERHAM, MINNESOTA  
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF  
 NET POSITION  
 June 30, 2017**

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Total fund balances - governmental funds	\$ 36,171,577
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in the governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.	
Cost of capital assets	36,300,768
Less accumulated depreciation	(11,436,057)
Deferred outflows of resources relating to the cost sharing defined benefit plans and other postemployment benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	19,760,143
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	
Bonds	(43,270,000)
Unamortized premium and discount	(1,199,364)
Special assessment debt	(211,512)
Severance payable	(1,165,860)
Net pension liability	(31,501,744)
Net other postemployment benefit liability	(1,242,127)
Deferred inflows of resources relating to the cost sharing defined benefit plans in the governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	(350,572)
Vacation payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(91,000)
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable in the governmental funds.	24,695
An allowance has been set up for taxes receivable in the government-wide financial statements.	(45,000)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the debt service fund.	<u>(514,625)</u>
Net position - governmental activities	<u>\$ 1,229,322</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 549**

**PERHAM, MINNESOTA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS**

**For the Year Ended June 30, 2017**

	General Fund	Building Construction Fund	Debt Service Fund	OPEB Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Local Property Tax Levies	\$ 2,765,150	\$	\$ 2,576,362	\$ 509,909	\$ 145,763	\$ 5,997,184
Other Local & County Revenues	524,206	251,289			228,848	1,004,343
Revenue From State Sources	12,725,399		31,442	6,139	174,440	12,937,420
Revenue From Federal Sources	323,581				498,017	821,598
Sale/Other Conversion of Asset	5,226				330,946	336,172
<b>TOTAL REVENUES</b>	<b>16,343,562</b>	<b>251,289</b>	<b>2,607,804</b>	<b>516,048</b>	<b>1,378,014</b>	<b>21,096,717</b>
<b>EXPENDITURES</b>						
Current						
Administration	796,291					796,291
District Support Services	403,687					403,687
Elementary & Secondary						
Regular Instruction	6,491,702					6,491,702
Vocational Education Instruction	407,372					407,372
Special Education Instruction	2,696,857					2,696,857
Community Education and Services					429,167	429,167
Instructional Support Services	736,501					736,501
Pupil Support Services	1,756,318				842,604	2,598,922
Sites and Buildings	1,367,058					1,367,058
Fixed Costs	61,625				1,400	63,025
Debt Service						
Principal	139,810		2,000,000	465,000		2,604,810
Interest	11,456		1,147,590	18,600		1,177,646
Capital Outlay	682,071	12,383,615				13,065,686
<b>TOTAL EXPENDITURES</b>	<b>15,550,748</b>	<b>12,383,615</b>	<b>3,147,590</b>	<b>483,600</b>	<b>1,273,171</b>	<b>32,838,724</b>
Revenues Over (Under) Expenditures	792,814	(12,132,326)	(539,786)	32,448	104,843	(11,742,007)
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfer In	147,685					147,685
Transfer Out				(147,685)		(147,685)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>147,685</b>			<b>(147,685)</b>		
Net Change in Fund Balances	940,499	(12,132,326)	(539,786)	(115,237)	104,843	(11,742,007)
Fund Balances - Beginning	2,981,395	43,879,843	658,478	115,237	278,631	47,913,584
Fund Balances - Ending	\$ 3,921,894	\$ 31,747,517	\$ 118,692	\$	\$ 383,474	\$ 36,171,577

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

**INDEPENDENT SCHOOL DISTRICT NO. 549**

**PERHAM, MINNESOTA**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2017**

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Total net change in fund balances - governmental funds \$ (11,742,007)

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

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

Capital outlays	12,798,539
Depreciation expense	(638,126)

Change in net pension liability (22,652,043)

Recognition of additional pension expense and grant revenue for the District's proportionate share of the State of Minnesota's contribution to the PERA and TRA.

Payment of debt principal is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net position. 2,604,810

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires 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. Also, governmental funds report the effect of premiums and discounts when the debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. (65,818)

Revenue in the statement of activities that does not provide current financial resources is not reported as revenues in the governmental funds. (28,883)

Changes in deferred outflows and inflows of resources related to net pension liability 18,718,427

Changes in deferred outflows and inflows of resources related to other postemployment benefit liability 25,539

In the statement of activities, certain expenses are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid.)

Vacation payable	(9,000)
Other postemployment benefits	(226,676)
Severance payable	77,916

Change in net position - governmental activities \$ (1,137,322)

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

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
June 30, 2017**

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	OPEB Trust Fund
ASSETS	
Cash and Investments	\$ <u>1,608,462</u>
TOTAL ASSETS	<u>1,608,462</u>
LIABILITIES	
Due to Independent School District No. 549	<u>166,496</u>
TOTAL LIABILITIES	<u>166,496</u>
NET POSITION	
Held in Trust of OPEB	\$ <u><u>1,441,966</u></u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 549  
 PERHAM, MINNESOTA  
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 For the Year Ended June 30, 2017**

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	<u>OPEB Trust Fund</u>
ADDITIONS	
Investment Earnings:	
Interest	\$ <u>6,277</u>
TOTAL ADDITIONS	<u>6,277</u>
DEDUCTIONS	
Benefits	<u>166,496</u>
TOTAL DEDUCTIONS	<u>166,496</u>
Change in Net Position	(160,219)
Net Position Held in Trust for OPEB - Beginning	<u>1,602,185</u>
Net Position Held in Trust for OPEB - Ending	<u>\$ 1,441,966</u>

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

**INDEPENDENT SCHOOL DISTRICT NO. 549**  
**PERHAM, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Basis of Presentation**

The financial statements of Independent School District No. 549 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

**B. Reporting Entity**

The District's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the District is considered to be financially accountable.

Component units are legally separated entities for which the District (primary government) is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit includes whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally dependent upon by the potential component unit.

Based on these criteria, there are no organizations considered to be component units of the District.

Extracurricular student activities are carried on primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, the District's school board has elected not to control or be otherwise financially accountable with respect to the underlying extracurricular activities. Accordingly, the extracurricular student activity accounts are not included in these basic financial statements.

**C. Basic Financial Statement Presentation**

The district-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the non-fiduciary activities of the reporting government as a whole. These statements include all the financial activities of the District.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The District applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function.

Separate fund financial statements are provided for governmental funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2017**

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**D. Measurement Focus and Basis of Accounting**

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

Revenue Recognition – Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered available if collected within 60 days after year-end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year.

Recording of Expenditures – Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

As a general rule, the effect of interfund activity has been eliminated from the district-wide financial statements.

**Description of Funds**

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

**Major Governmental Funds**

General Fund – Accounts for all financial resources and transactions except those required to be accounted for in other funds including pupil transportation and capital outlay activities, which were previously (prior to July 1, 1996) accounted for in separate special revenue funds.

Building Construction Fund – Accounts for the accumulation of resources for, and the payment of, building construction.

Debt Service Fund – Accounts for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs.

OPEB Debt Service Fund – Accounts for the accumulation of resources for, and the payment of, OPEB bond principal, interest and related costs.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2017**

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**Nonmajor Governmental Funds**

Special Revenue Funds:

Food Service Fund – Accounts for all activities associated with the preparation and serving of regular and incidental meals, lunches, or snacks in connection with school activities.

Community Service Fund – Accounts for all resources designated for programs other than those for elementary and secondary students.

Scholarship Fund – Accounts for all resources designated for specified purposes, which supports the District's programs.

**Fiduciary Fund**

OPEB Trust Fund – Accounts used for reporting resources set aside and held in an irrevocable trust arrangement for postemployment benefits.

GASB No. 34 also requires that budget vs. actual information be presented for the general fund and all major special revenue funds.

**E. Specific Account Information**

Cash and Investments – Cash and temporary investments include balances from all funds that are combined and invested to the extent available in various securities as authorized by state law. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

Investments are carried at fair value. The District considers certificates of deposit to be cash.

When fair value measurements are required, various data is used in determining those values. Assets and liabilities that are carried at fair value must be classified and disclosed in the following levels based on the nature of the data used.

Level 1: Quoted market prices in active markets for identical assets or liabilities

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data

Level 3: Unobservable market inputs that are not corroborated by market data

Taxes Receivable – Taxes receivable represents taxes levied in 2016 which are not payable until 2017, net of the amount received prior to June 30.

Property Taxes – Property tax levies are certified to the County Auditor in December of each year for collection from taxpayers in May and October of the following year. In Minnesota, counties act as collection agents for all property taxes. The county spreads all levies over taxable property. Such taxes become a lien on property on the following January 1. The county generally remits taxes to the District at periodic intervals as the taxes are collected.

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

**INDEPENDENT SCHOOL DISTRICT NO. 549**  
**PERHAM, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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Generally, tax revenue is recognized in the fiscal year ending June 30, following the calendar year in which the tax levy is collectible, while the current calendar year tax levy is recorded as unavailable revenue (property taxes levied for subsequent years).

The majority of the revenue in the general fund is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated 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 the "tax shift".

Taxes which remain unpaid are classified as delinquent taxes receivable. Revenue from these delinquent property taxes that is not collected within 60 days of year-end is deferred in the fund based financial statements because it is not known to be available to finance the operations of the District in the current year. The allowance for uncollectible taxes is \$45,000.

Inventory – Inventory is recorded using the consumption method of accounting and consists of purchased food, supplies, and surplus commodities received from the federal government. Food and supply purchases are recorded at invoice cost, computed on a first-in, first-out method. Surplus commodities are stated at standardized costs, as determined by the Department of Agriculture.

Capital Assets – Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of donation. The District maintains a threshold level of \$5,000 or more for capitalizing capital assets. Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expense as incurred.

Capital assets are recorded in the district-wide financial statements, but are not reported in the fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for site improvements and buildings, and 5 to 15 years for equipment. Capital assets not being depreciated include land, land improvements, and construction in progress, if any.

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

Vacation Payable – It is the District's policy to permit employees to accumulate earned but unused vacation. All vacation pay is accrued when incurred in the district-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Long-Term Obligations – In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Existing bonded debt is reported at the face value of remaining indebtedness. For any new indebtedness that may be issued in the future, bond premiums and discounts will be deferred and amortized over the life of the bonds using the effective interest method. Bonds payable will be reported net of the applicable bond premium or discount. Bond issuance costs will be expensed in the period incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on

**INDEPENDENT SCHOOL DISTRICT NO. 549**  
**PERHAM, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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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.

Other Postemployment Benefits (OPEB) – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Retiree Benefits Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of the purchase of one year or less, which are reported at cost. Postemployment healthcare expenditures have been funded through contributions to an irrevocable trust and on a pay as you go basis in the future.

Pensions – For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) and additions to/deductions from PERA and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

PERA has a special funding situation created by direct aid contributions of \$6,000,000 made by the State of Minnesota to the fund in 2017.

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.

Deferred Outflows/Inflows 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 resource (expense/expenditure) until then. The District has two items that qualify for reporting in this category named *Cost Sharing Defined Benefit Pension Plan* which represents actuarial differences within PERA and TRA pension plans as well as amounts paid to the plans after the measurement date and *Other Postemployment Benefit Plan* which represents actuarial differences with OPEB plans.

In addition to liabilities, the statement of net position 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 three types of items, one of which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue – delinquent taxes*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source, property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The item, *property taxes levied – subs. years*, is reported as a deferred inflow of resources for both the Balance Sheet – Governmental Funds and the Statement of Net Position as these amounts represent property tax revenue levied for a subsequent period. The third item, *Cost Sharing Defined Benefit Pension Plan*, represents actuarial differences within PERA and TRA pension plans.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2017**

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Net Position – Net position represents the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources in the District’s financial statements. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any long-term debt attributable to the acquisition, construction, or improvement of those assets. Restricted Net Position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Unrestricted Net Position is the net amount of assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Net Position Flow Assumption – Sometimes the government will fund outlays for a particular purpose for both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance – The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable – Consists of amounts that are not in spendable form (such as inventory) or are required to be maintained intact.

Restricted – Consists of amounts related to externally imposed constraints established by creditors, grantors or contributors; or constraints imposed by state statutory provisions and administered by the Minnesota Department of Education.

Committed – Consists of amounts constrained to specific purposes by a government itself, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.

Assigned – Consists of amounts a government intends to use for a specific purpose. These constraints are established by the Board of Education and/or management.

Unassigned – Consists of amounts that are available for any purpose; positive amounts are reported only in the general fund.

When both restricted and unrestricted resources are available for use, it is the District’s policy to first use restricted resources, and then use unrestricted resources as they are needed. When committed, assigned or unassigned resources are available for use, it is the District’s policy to use resources in the following order: 1) committed, 2) assigned and 3) unassigned.

The District will strive to maintain a minimum unassigned general fund balance of \$500,000.

**F. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial

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statements and the reported amounts of revenues and expenses during the reporting period. Ultimate results could differ from those estimates.

**NOTE 2 ACCOUNTING CHANGES**

**Restatement of Net Position**

The District implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. For plans with an irrevocable trust, this statement requires the District record their net OPEB liability, which is their total OPEB liability reduced by their plan assets, on the Statement of Net Assets. A 20-year Municipal Bond rate is used to discount the unfunded benefit payments and the long-term rate of return on plan investments is used to discount the benefits projected to be paid by plan assets. Liabilities are calculated using the Entry Age actuarial cost method.

As a result, beginning net position has been restated as of July 1, 2016 as follows:

OPEB Balance as of June 30, 2016 (GASB 75)	\$ (1,015,451)
Net OPEB Asset (GASB 45)	1,190,106
Decrease in Net Position as of July 1, 2016	<u>\$ (2,205,557)</u>

**NOTE 3 DEPOSITS AND INVESTMENTS**

The District maintains a cash account at its depository bank. Investments are carried at fair value. The District considers certificates of deposit to be cash.

The District's interest income for the year ended June 30, 2017, was \$229,197.

The pooled cash and investment account is comprised of the following:

	Governmental Activities	Fiduciary Funds	Total
Cash	\$ 319,840	\$	\$ 319,840
Investments	39,963,219	1,608,462	41,571,681
Total	<u>\$ 40,283,059</u>	<u>\$ 1,608,462</u>	<u>\$ 41,891,521</u>

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

<u>Investments</u>	<u>Fair Value (Level 1)</u>
MnTrust	\$ 41,571,681

MnTrust is a common law trust organized and existing under the laws of the State of Minnesota, in accordance with the provisions of the Minnesota Joint Powers Act. The general objective of the Fund is to provide a high yield for the participants while maintaining liquidity and preserving capital by investing only in instruments authorized by Minnesota Statutes, which govern the temporary investment of school district monies. In addition, the fixed rate/fixed term portion of the program is also structured with safety of principal as the major objective. MnTrust is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

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Interest Rate Risk - The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The District may invest idle funds as authorized in Minnesota Statutes, as follows:

- (a) Direct obligations or obligations guaranteed or insured issued by the United States, its agencies, its instrumentalities, or organizations created by an act of Congress.
- (b) General obligations and revenue obligations of any state or local government with taxing powers rated "A" and "AA", respectively, and general obligations of the Minnesota Housing Finance Agency which is a moral obligation of the State of Minnesota and rated "A" or better.
- (c) Commercial paper issued by United States corporations or their Canadian subsidiaries, rated in the highest quality by at least two rating agencies, and maturing in 270 days or less.
- (d) Time deposits that are fully insured by the FDIC or bankers acceptances of U.S. banks.
- (e) Shares of investment companies registered under the Federal Investment Company Act of 1940 and whose only investments are in securities described in (a) above.
- (f) Repurchase or reverse repurchase agreements with banks that are qualified as a "depository" of public funds of the government entity, any other financial institution which is a member 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.
- (g) Guaranteed investment contracts (GIC's) issued or guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories, or in the top three rating categories for long-term GIC's issued by Minnesota banks.
- (h) Securities lending agreements with financial institutions having its principal executive office in Minnesota and meeting the qualifications described in (f) above.

MnTrust is rated Aaa by Moody's Investors Services.

Concentration of Credit Risk - The District places no limit on the amount the District may invest in any one issuer.

Custodial Credit Risk - Deposits - The District does not have a policy for custodial credit risk. In accordance with Minnesota Statutes, the District maintains deposits at those depository banks authorized by the District's board, all of 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 or bonds. As of June 30, 2017, the District was not exposed to custodial credit risk.

Custodial Credit Risk - Investments - The investment in MnTrust is not subject to the credit risk classifications as noted in paragraph 9 of GASB Statement 40.

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**NOTE 4 CAPITAL ASSETS**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets, Not Being Depreciated:				
Land	\$ 303,348	\$	\$	\$ 303,348
Land Improvements	58,157			58,157
Construction in Process	<u>2,001,619</u>	<u>12,690,659</u>	<u>7,914,414</u>	<u>6,777,864</u>
Total Capital Assets, Not Being Depreciated	<u>2,363,124</u>	<u>12,690,659</u>	<u>7,914,414</u>	<u>7,139,369</u>
Capital Assets, Being Depreciated:				
Site Improvements	679,460			679,460
Buildings	17,955,269	7,994,061		25,949,330
Equipment	<u>2,504,376</u>	<u>28,233</u>		<u>2,532,609</u>
Total Capital Assets, Being Depreciated	<u>21,139,105</u>	<u>8,022,294</u>		<u>29,161,399</u>
Less Accumulated Depreciation For:				
Site Improvements	225,234	31,724		256,958
Buildings	8,748,293	505,362		9,253,655
Equipment	<u>1,824,404</u>	<u>101,040</u>		<u>1,925,444</u>
Total Accumulated Depreciation	<u>10,797,931</u>	<u>638,126</u>		<u>11,436,057</u>
Total Capital Assets, Being Depreciated, Net	<u>10,341,174</u>	<u>7,384,168</u>		<u>17,725,342</u>
Governmental Activities Capital Assets, Net	<u>\$ 12,704,298</u>	<u>\$ 20,074,827</u>	<u>\$ 7,914,414</u>	<u>\$ 24,864,711</u>

In the statement of activities, depreciation expense was charged to the following governmental functions:

District Support Services	\$ 2,754
Elementary & Secondary Regular Instruction	45,687
Community Education and Services	1,338
Instructional Support Services	95
Pupil Support Services	12,991
Sites and Buildings	<u>87,951</u>
	150,816
Unallocated	<u>487,310</u>
Total Depreciation Expense	<u>\$ 638,126</u>

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**NOTE 5 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. Public Employees Retirement Association**

Plan Description – The District participates in the following cost-sharing multiple-employer 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 (General Employees Plan (accounted for in the General Employees Fund))*

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

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

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

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

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

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

Coordinated Plan members were required to contribute 6.50% of pay in fiscal year 2017. The District was required to contribute 7.50% of pay for Coordinated Plan members. The District's contributions to the General Employees Fund for the year ended June 30, 2017, were \$164,365. The District's contributions were equal to the required contributions as set by state statute.

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Pension Costs – At June 30, 2017, the District reported a liability of \$2,711,914 for its proportionate share of the General Employees Fund’s net pension liability. The District’s net pension liability reflected a reduction due to the State of Minnesota’s contribution of \$6,000,000 to the fund in 2017. 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 \$35,485. 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 0.0334% which was an increase of 0.0011% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of \$349,527 for its proportionate share of the General Employee Plan’s pension expense. In addition, the District recognized an additional \$10,581 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota’s contribution of \$6,000,000 to the General Employees Fund.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 7,954	\$ 218,387
Difference between projected and actual investment earnings	300,622	
Changes in actuarial assumptions	584,410	18,790
Changes in proportion	45,659	
Contributions paid to PERA subsequent to the measurement date	164,365	
Total	<u>\$ 1,103,010</u>	<u>\$ 237,177</u>

\$164,365 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2018	\$ 194,562
2019	133,192
2020	275,754
2021	97,960

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

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

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

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

The following changes in actuarial assumptions occurred in 2016:

General Employees Fund

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

The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness 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%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%

Discount Rate – The discount rate used to measure the total pension liability in 2016 was 7.50%, a reduction from the 7.9% used in 2015. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and employers will be made at rates set in Minnesota Statutes. Based on these assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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,

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as well as what the District's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

District Proportionate Share of NPL		
1% Decrease (6.5%)	Current (7.5%)	1% Increase (8.5%)
\$ 3,851,722	\$ 2,711,914	\$ 1,773,023

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

**B. Teachers Retirement Association**

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

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

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

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

Tier I Benefits:

<u>Tier I</u>	<u>Step Rate Formula</u>	<u>Percentage</u>
Basic	1 <sup>st</sup> ten years	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	1 <sup>st</sup> ten years if service years are prior to July 1, 2006	1.2 percent per year
	1 <sup>st</sup> 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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With these provisions:

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

or

Tier II Benefits:

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

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

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

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

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

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

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:

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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 <i>Schedule of Employer and Non-Employer Allocations</i>	<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.

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

Key Methods and Assumptions Used in Valuation of Total Pension Liability

Actuarial Information

Valuation Date	July 1, 2016
Experience Study	June 5, 2015
Actuarial Cost Method	Entry Age Normal

Actuarial Assumptions:

Investment Rate of Return	4.66%, from the Single Equivalent Interest Rate calculation
Price Inflation	2.75%
Wage Growth Rate	3.5%
Projected Salary Increase	3.5 – 9.5%
Cost of Living Adjustment	2.0%

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.

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:

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

The TRA actuary has determined the average of the expected remaining service lives of all members for fiscal year 2016 is 6 years. The “Difference Between Expected and Actual Experience” and “Changes of Assumptions” use the amortization period of 6 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 years as required by GASB 68.

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 prior year measurement date, the discount rate of 8.00 percent was used and it was not necessary to calculate the SEIR.

Net Pension Liability - On June 30, 2017, the District reported a liability of \$28,789,830 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 0.1207% at the end of the measurement period and 0.1160% for the beginning of the year.

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

District's proportionate share of net pension liability	\$ 28,789,830
State's proportionate share of the net pension liability associated with the district	\$ 2,889,419

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

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For the year ended June 30, 2017, the District recognized pension expense of \$4,230,080. It also recognized \$403,463 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	\$ 281,562	\$ 803
Net difference between projected and actual earnings on plan inv.	1,224,570	
Changes in actuarial assumptions	16,399,434	
Changes in proportion	229,775	112,592
Contributions paid to TRA subsequent to the measurement date	496,253	
Total	<u>\$ 18,631,594</u>	<u>\$ 113,395</u>

\$496,253 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year Ending June 30	Pension Expense Amount
2018	\$ 3,547,793
2019	3,547,794
2020	3,971,692
2021	3,715,984
2022	3,238,683

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% Decrease (3.66%)	Current (4.66%)	1% Increase (5.66%)
\$ 37,088,497	\$ 28,789,830	\$ 22,030,836

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.

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.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
 PERHAM, MINNESOTA  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 June 30, 2017**

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**NOTE 6 OTHER POSTEMPLOYMENT BENEFITS**

Plan Description - The District's Plan is a single-employer defined benefit healthcare plan to eligible retirees and their spouses. The authority and requirement to provide these benefits is established in Minnesota Statutes Section 471.61, Subd. 2b. The benefit levels, employee contributions, and employer contributions are governed by the District and can be amended by the District through the District's collective bargaining agreements with employee groups.

Benefits Provided – The District provides healthcare benefits for retirees and their dependents. Benefits are provided through a third-party insurer, and the full cost of the benefits is covered by the plan.

Funding Policy - Retirees and their spouses contribute to the healthcare plan at the same rate as District employees. Since the premium is a blended rate determined on the entire active and retiree population, the retirees are receiving an implicit rate subsidy. The District provides postemployment healthcare benefits to qualifying retirees.

The District may contribute the actuarially determined contribution (ADC), an amount actuarially determined in accordance with parameters of GASB Statement No. 75, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The ADC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The pay as you go cost for OPEB benefits is \$166,496. The annual employer contributions were \$65,343 and \$101,153 was the implicit subsidy. These costs are recognized as an expense when claims or premiums are paid. The General Fund paid for \$166,496 of the 2016-2017 costs and transferred \$166,496 from the OPEB trust fund.

Employees covered by benefit term – At June 30, 2017, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefit payments	19
Active plan members	<u>195</u>
Total Members	<u><u>214</u></u>

Net OPEB Liability – The District's net OPEB liability was measured as of June 30, 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions – The total OPEB liability in the July 1, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.5 percent
Salary increases	3.0 percent, average, including inflation
Investment Rate of Return	2.4 percent, net of OPEB plan investment expense, including inflation
Healthcare Cost Trend Rates	7.0 percent decreasing to 5.0 percent over 8 years

Mortality rates were based on the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

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

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The long term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These 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 arithmetic 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>
Fixed Income	95%	2.50%
Cash	5%	1.00%

Discount Rate – The Discount rate used to measure the total OPEB liability was 2.9 percent. The projection of cash flows that was used to determine the discount rate assumed that District contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in the Net OPEB Liability:

	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balances at 6/30/2016	\$ 2,617,636	\$ 1,602,185	\$ 1,015,451
Changes for the year:			
Service Cost	154,945		154,945
Interest Cost	78,008		78,008
Projected Investment Return		38,452	(38,452)
Differences between Expected and Actual Experience		(31,925)	31,925
Benefit Payments	(166,496)	(166,496)	
Administrative Expenses		(250)	250
Net Changes	<u>66,457</u>	<u>(160,219)</u>	<u>226,676</u>
Balances at 6/30/2017	<u>\$ 2,684,093</u>	<u>\$ 1,441,966</u>	<u>\$ 1,242,127</u>

Sensitivity of the Net OPEB Liability to changes in the discount rate – The following presents the net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.9 percent) or one percentage point higher (3.9 percent) than the current rate:

District Net OPEB Liability		
<u>1% Decrease (1.9%)</u>	<u>Current (2.9%)</u>	<u>1% Increase (3.9%)</u>
\$ 1,389,039	\$ 1,242,127	\$ 1,098,814

**INDEPENDENT SCHOOL DISTRICT NO. 549  
 PERHAM, MINNESOTA  
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 June 30, 2017**

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Sensitivity of the Net OPEB Liability to changes in the healthcare cost trend rates – The following presents the net OPEB liability of the District, as well as what the District’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (6.0 percent decreasing to 4.0 percent over 8 years) or one percentage point higher (8.0 percent decreasing to 6.0 percent over 8 years) than the current healthcare cost trend rates:

District Healthcare Cost Trend Rates		
(6.0% decreasing to 4.0% over 8 years)	(7.0% decreasing to 5.0% over 8 years)	(8.0% decreasing to 6.0% over 8 years)
\$ 999,142	\$ 1,242,127	\$ 1,526,121

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – For the year ended June 30, 2017, the District recognized OPEB expense of \$201,137. At June 30, 2017, the District reported outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between expected and actual earnings on OPEB plan investments	\$ 25,539	\$
Total	\$ 25,539	\$

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

Year Ending June 30	Pension Expense Amount
2018	\$ 6,385
2019	6,385
2020	6,385
2021	6,384

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**NOTE 7 LONG-TERM DEBT**

Changes in the District's long-term debt for the year ended June 30, 2017 are as follows:

	Beginning Balance	Additions	Retired	Ending Balance	Due Within One Year
G.O. Taxable OPEB Bonds	\$ 465,000	\$	\$ 465,000	\$	\$
G.O. Building Bonds	45,270,000		2,000,000	43,270,000	1,735,000
Unamortized Premium (Discount)	1,257,891		58,527	1,199,364	59,968
Total Bonds	46,992,891		2,523,527	44,469,364	1,794,968
Capital Lease	117,970		117,970		
Special Assessment Debt	233,353		21,841	211,512	22,001
Severance Payable	1,280,164	22,876	99,388	1,203,652	37,792
Total Long-Term Debt	<u>\$ 48,624,378</u>	<u>\$ 22,876</u>	<u>\$ 2,762,726</u>	<u>\$ 45,884,528</u>	<u>\$ 1,854,761</u>

The District's interest expense on long-term debt for the year ended June 30, 2017, was \$1,243,464.

Special assessment debt and severance payable are generally liquidated by the general fund.

**A. General Obligation Bonds**

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2017	Amounts Due in 2017-2018	
						Principal	Interest
2009	4.0%		\$ 2,690,000	\$ 465,000	\$	\$	\$
2016	2.0-4.0%	2018/37	45,270,000	2,000,000	43,270,000	1,735,000	1,235,100
				<u>\$ 2,465,000</u>	<u>\$ 43,270,000</u>	<u>\$ 1,735,000</u>	<u>\$ 1,235,100</u>

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2018	\$ 1,735,000	\$ 1,235,100
2019	1,770,000	1,200,400
2020	1,805,000	1,165,000
2021	1,840,000	1,128,900
2022	1,880,000	1,092,100
2023-2027	10,030,000	4,820,800
2028-2032	11,840,000	3,013,250
2033-2037	12,370,000	1,052,250
	<u>\$ 43,270,000</u>	<u>\$ 14,707,800</u>

**INDEPENDENT SCHOOL DISTRICT NO. 549  
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 June 30, 2017**

**B. Special Assessment Debt**

Date of Issue	Net Interest Rate	Maturity Dates	Original Amount	Current Year Retired	Balance 6/30/2017	Amounts Due in 2017-2018	
						Principal	Interest
2010	4.50%	2018/26	\$ 58,157	\$ 3,566	\$ 37,893	\$ 3,726	\$ 1,689
2012	4.25%	2018/27	274,133	18,275	173,619	18,275	7,767
				<u>\$ 21,841</u>	<u>\$ 211,512</u>	<u>\$ 22,001</u>	<u>\$ 9,456</u>

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Principal	Interest
2018	\$ 22,001	\$ 9,456
2019	22,168	8,512
2020	22,344	7,561
2021	22,527	6,601
2022	22,720	5,632
2023-2027	99,752	13,095
	<u>\$ 211,512</u>	<u>\$ 50,857</u>

**NOTE 8 OPERATING LEASE**

The District has entered into a lease agreement with the Perham Area Community Center as a lessee for building and recreational space. For the year ended June 30, 2017, the District paid \$134,526 in lease costs. The District has agreed to pay \$138,555 under this lease agreement for the year end June 30, 2018.

**NOTE 9 INTERFUND TRANSFERS**

Interfund Transfers:

Transfer In	Transfer Out	Amount
General	OPEB Debt Service	\$ 147,685

The purpose of the transfer is to transfer excess OPEB debt service to the general fund.

**NOTE 10 SEVERANCE PAY**

The District has several severance pay plans for various groups of employees. The plans call for employees to receive a severance payment based on accumulated sick leave and years of service to the District. At June 30, 2017, the estimated liability under these plans was \$1,203,652.

**NOTE 11 CONTINGENCIES**

The District receives significant financial assistance from numerous federal, state, and local governmental agencies in the form of grants and aids. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
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June 30, 2017**

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grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any disallowed claims will not have a material effect on any of the financial statements of the individual fund types included herein or on the overall financial position of the District at June 30, 2017.

**NOTE 12 RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks.

The District has joined together with other school districts in Minnesota in the Lake Country Service Cooperative's Minimum Premium Funding Plan (Plan). The Plan is a public entity risk pool established as a health insurance purchasing pool for its members. The agreement for the formation of the Plan provides that the Plan will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$300,000. The pool and its members purchase reinsurance, currently with a \$300,000 specific stop loss attachment point and 110% aggregate stop loss attachment point. If the assets of the Plan were to be exhausted, members would not be responsible for the Plan's liabilities. The Lake Country Service Cooperative retains the risk of the Plan's liabilities.

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

**NOTE 13 CONSTRUCTION COMMITMENTS**

As of June 30, 2017, the District had construction commitments in the building construction fund of \$27,858,000 for the elementary school and the high school.

**NOTE 14 NEW PRONOUNCEMENTS**

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67 and No. 73*, provides further guidance regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement amends GASB Statements No. 67 and No. 68 to require the presentation of covered payroll to be defined as the payroll on which contributions to a pension plan are based, rather than the payroll of employees that are provided with pensions through the pension plan. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 85, *Omnibus 2017*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

**INDEPENDENT SCHOOL DISTRICT NO. 549**  
**PERHAM, MINNESOTA**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2017**

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GASB Statement No. 86, *Certain Debt Extinguishment Issues*, provides guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. This Statement requires that any remaining prepaid insurance related to the extinguished debt be included in the net carrying amount of that debt for the purpose of calculating the difference between the reacquisition price and the net carrying amount of the debt. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. This Statement is effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 87, *Leases*, establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. This Statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

Management has not yet determined the effect these statements will have on the District's financial statements.

**INDEPENDENT SCHOOL DISTRICT NO. 549**  
**PERHAM, MINNESOTA**  
**BUDGETARY COMPARISON SCHEDULE FOR THE GENERAL FUND**  
**For the Year Ended June 30, 2017**

	Budgeted Amounts		Actual	Over (Under) Final Budget
	Original	Final		
<b>REVENUES</b>				
Local Property Tax Levies	\$ 2,857,866	\$ 2,767,866	\$ 2,765,150	\$ (2,716)
Other Local & County Revenues	359,000	359,000	524,206	165,206
Revenue From State Sources	12,363,825	12,631,290	12,725,399	94,109
Revenue From Federal Sources	267,500	322,864	323,581	717
Sale/Other Conversion of Asset	1,500	1,500	5,226	3,726
<b>TOTAL REVENUES</b>	<u>15,849,691</u>	<u>16,082,520</u>	<u>16,343,562</u>	<u>261,042</u>
<b>EXPENDITURES</b>				
Current				
Administration	805,893	807,593	796,291	(11,302)
District Support Services	508,213	443,413	403,687	(39,726)
Elementary & Secondary				
Regular Instruction	6,751,678	6,624,277	6,491,702	(132,575)
Vocational Education Instruction	358,233	358,233	407,372	49,139
Special Education Instruction	2,273,542	2,317,251	2,696,857	379,606
Instructional Support Services	802,014	802,039	736,501	(65,538)
Pupil Support Services	1,753,836	1,817,387	1,756,318	(61,069)
Sites and Buildings	1,344,159	1,411,159	1,367,058	(44,101)
Fixed Costs	212,000	276,800	61,625	(215,175)
Debt Service				
Principal	40,000	40,000	139,810	99,810
Interest	15,000	15,000	11,456	(3,544)
Capital Outlay	1,051,500	1,051,925	682,071	(369,854)
<b>TOTAL EXPENDITURES</b>	<u>15,916,068</u>	<u>15,965,077</u>	<u>15,550,748</u>	<u>(414,329)</u>
Revenues Over (Under) Expenditures	(66,377)	117,443	792,814	675,371
<b>OTHER FINANCING SOURCES</b>				
Transfer In	170,000	170,000	147,685	(22,315)
<b>TOTAL OTHER FINANCING SOURCES</b>	<u>170,000</u>	<u>170,000</u>	<u>147,685</u>	<u>(22,315)</u>
Net Change in Fund Balances	103,623	287,443	940,499	653,056
Fund Balances - Beginning	2,981,395	2,981,395	2,981,395	
Fund Balances - Ending	<u>\$ 3,085,018</u>	<u>\$ 3,268,838</u>	<u>\$ 3,921,894</u>	<u>\$ 653,056</u>

The notes to required supplementary information are an integral part of this schedule.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
 PERHAM, MINNESOTA  
 SCHEDULE OF CHANGES IN THE DISTRICT'S NET OPEB LIABILITY AND RELATED RATIOS  
 Last 10 Years**

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	<u>2017</u>
Total OPEB Liability	
Service Cost	\$ 154,945
Interest	78,008
Benefit payments	<u>(166,496)</u>
Net Change in Total OPEB Liability	66,457
Total OPEB Liability - Beginning	<u>2,617,636</u>
Total OPEB Liability - Ending	<u><u>\$ 2,684,093</u></u>
 Plan Fiduciary Net Position	
Net Investment Income	\$ 6,527
Benefit payments	(166,496)
Administrative expenses	<u>(250)</u>
Net Change in Plan Fiduciary Net Position	(160,219)
Plan Fiduciary Net Position - Beginning	<u>1,602,185</u>
Plan Fiduciary Net Position - Ending	<u><u>\$ 1,441,966</u></u>
 District's Net OPEB Liability - Ending	 \$ 1,242,127
 Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	 53.72%
 Covered - Employee Payroll	 \$ 7,913,720
 District's Net OPEB Liability as a Percentage of a Covered - Employee Payroll	 15.70%

The notes to required supplementary information are an integral part of this schedule.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
 PERHAM, MINNESOTA  
 SCHEDULE OF DISTRICT CONTRIBUTIONS  
 Last 10 Years**

	<u>Fiscal Year Ended June 30</u>	<u>Statutorily Required Contribution</u>	<u>Contributions in Relation to the Statutorily Required Contributions</u>	<u>Contribution Deficiency (Excess)</u>	<u>District's Covered- Employee Payroll</u>	<u>Contributions as a Percentage of Covered- Employee Payroll</u>
<b>PERA</b>						
	2015	\$ 142,894	\$ 142,894	\$	1,895,318	7.54 %
	2016	155,818	155,818		2,077,575	7.50
	2017	164,365	164,365		2,191,523	7.50
<b>TRA</b>						
	2015	\$ 446,408	\$ 446,408	\$	5,952,109	7.50 %
	2016	474,193	474,193		6,322,558	7.50
	2017	496,253	496,253		6,616,713	7.50

The amounts presented for each fiscal year were determined as of the District's year end which is June 30th.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

The notes to required supplementary information are an integral part of this schedule.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
 PERHAM, MINNESOTA  
 SCHEDULE OF DISTRICT SHARE OF NET PENSION LIABILITY  
 Last 10 Years**

<u>Fiscal Year Ended June 30</u>	<u>District's Proportion of the Net Pension Liability</u>	<u>District's Proportionate Share of the Net Pension Liability</u>	<u>State's Proportionate Share of the Net Pension Liability Associated with the District (if Applicable)</u>	<u>Total</u>	<u>District's Covered- Employee Payroll</u>	<u>District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered- employee Payroll</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</u>
<b>PERA</b>							
2014	0.0331 % \$	1,554,872 \$	\$	1,554,872 \$	1,740,550	89.33 %	78.70 %
2015	0.0323	1,673,954		1,673,954	1,895,318	88.32	78.19
2016	0.0334	2,711,914	35,485	2,747,399	2,077,575	130.53	68.90
<b>TRA</b>							
2014	0.1206 % \$	5,557,161 \$	390,987 \$	5,948,148 \$	5,507,254	100.91 %	81.50 %
2015	0.1160	7,175,747	879,981	8,055,728	5,952,109	120.56	76.80
2016	0.1207	28,789,830	2,889,419	31,679,249	6,322,558	455.35	44.88

The amounts presented for each fiscal year were determined as of the measurement date of the collective net pension liability which is June 30 of the previous fiscal year.

The District implemented GASB Statement No. 68 for its fiscal year ended June 30, 2015. Information for the prior years is not available.

The notes to required supplementary information are an integral part of this schedule.

**INDEPENDENT SCHOOL DISTRICT NO. 549**  
**PERHAM, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2017**

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**NOTE 1 BUDGETARY DATA**

Budgets are prepared for District funds on the same basis and using the same accounting practices as are used to account and prepare financial reports for the funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. All appropriations lapse at year-end. Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting is not utilized in the governmental funds of the District.

The budget is adopted through the passage of a resolution. Administration can authorize the transfer of budgeted amounts within any fund. Any revisions that alter the total expenditures of any fund must be approved by the governing board. The legal level of budgetary control is the fund level. The annual appropriated budget is not legally binding on the District unless the District has a deficit fund balance which exceeds 2.5% of expenditures.

**NOTE 2 DEFINED BENEFIT PLANS**

**PERA**

Changes in Actuarial Assumptions:

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

**TRA**

Changes in Actuarial Assumptions:

- The Cost of Living Adjustment was not assumed to increase for funding or GASB calculations (it remained at 2% for all future years).
- The price inflation assumption was lowered from 3.00% to 2.75%.
- The general wage growth and payroll growth assumptions were lowered from 3.75% to 3.50%.
- Minor changes at some durations for the merit scale of the salary increase assumption.
- The pre-retirement mortality assumption was changed to the RP-2014 white collar employee table, male rates set back 6 years and female rates set back 5 years. Generational projection uses the MP-2015 scale.
- The post-retirement mortality assumption was changed to the RP-2014 white collar annuitant table, male rates set back 3 years and female rates set back 3 years, with further adjustments of the rates. Generational projection uses the MP-2015 scale.
- The post-disability mortality assumption was changed to the RP-2014 disabled retiree mortality table, without adjustment.
- Separate retirement assumptions for members hired before or after July 1, 1989 were created to better reflect each group's behavior in light of different requirements for retirement eligibility.
- Assumed termination rates were changed to be based solely on years of service in order to better fit the observed experience.
- A minor adjustment and simplification of the assumption regarding the election of optional forms of payment at retirement were made.

**INDEPENDENT SCHOOL DISTRICT NO. 549**  
**PERHAM, MINNESOTA**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2017**

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**NOTE 3 OTHER POSTEMPLOYMENT BENEFITS**

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Amortization period	Average of expected remaining service on a closed basis for differences between expected and actual experience and assumption changes. Closed five-year period for differences between expected and actual asset returns.
Asset valuation method	Trustee value as of the measurement date
Inflation	2.5 percent
Healthcare cost trend rates	7.0 percent decreasing to 5.0 percent over 8 years
Salary increases	3.0 percent
Investment rate of return	2.4 percent, net of OPEB plan investment expense
Retirement age	In the 2017 actuarial valuation, expected retirement ages of general employees were adjusted to more closely reflect actual experience.
Mortality	In the 2017 actuarial valuation, assumed life expectancies were adjusted as a result of adopting the RP-2014 White Collar Mortality Tables with MP-2015 Generational Improvement Scale.

**INDEPENDENT SCHOOL DISTRICT NO. 549**  
**PERHAM, MINNESOTA**  
**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**  
**June 30, 2017**

	Special Revenue			Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	Scholarship Fund	
<b>ASSETS</b>				
Cash and Investments	\$ 236,111	\$ 171,545	\$ 1,274	\$ 408,930
Accounts Receivable	1,976	451		2,427
Current Property Taxes Receivable		67,125		67,125
Delinquent Property Taxes Receivable		266		266
Due From Department of Education	392	9,358		9,750
Due From Federal Govt. - DOE	15,668			15,668
Inventory	26,264			26,264
<b>TOTAL ASSETS</b>	<b>\$ 280,411</b>	<b>\$ 248,745</b>	<b>\$ 1,274</b>	<b>\$ 530,430</b>
<b>LIABILITIES</b>				
Accounts Payable	\$ 6,913	\$ 512		\$ 7,425
<b>TOTAL LIABILITIES</b>	<b>6,913</b>	<b>512</b>		<b>7,425</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue - Delinquent Taxes		266		266
Property Taxes Levied - Subs. Years		139,265		139,265
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>		<b>139,531</b>		<b>139,531</b>
<b>FUND BALANCES</b>				
Nonspendable for Inventory	26,264			26,264
Restricted for Food Service	247,234			247,234
Restricted for Community Service		28,743		28,743
Restricted for Community Education		7,321		7,321
Restricted for ECFE		72,281		72,281
Restricted for School Readiness		357		357
Restricted for Scholarship			1,274	1,274
<b>TOTAL FUND BALANCES</b>	<b>273,498</b>	<b>108,702</b>	<b>1,274</b>	<b>383,474</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ 280,411</b>	<b>\$ 248,745</b>	<b>\$ 1,274</b>	<b>\$ 530,430</b>

**INDEPENDENT SCHOOL DISTRICT NO. 549**

**PERHAM, MINNESOTA**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
NONMAJOR GOVERNMENTAL FUNDS**

**For the Year Ended June 30, 2017**

	Special Revenue			Total Nonmajor Governmental Funds
	Food Service Fund	Community Service Fund	Scholarship Fund	
<b>REVENUES</b>				
Local Property Tax Levies	\$	\$ 145,763	\$	\$ 145,763
Other Local & County Revenues	6,741	222,100	7	228,848
Revenue From State Sources	79,131	95,309		174,440
Revenue From Federal Sources	498,017			498,017
Sale/Other Conversion of Asset	330,946			330,946
<b>TOTAL REVENUES</b>	<u>914,835</u>	<u>463,172</u>	<u>7</u>	<u>1,378,014</u>
<b>EXPENDITURES</b>				
Current				
Community Education and Services		429,167		429,167
Pupil Support Services	833,644	8,960		842,604
Fixed Costs			1,400	1,400
<b>TOTAL EXPENDITURES</b>	<u>833,644</u>	<u>438,127</u>	<u>1,400</u>	<u>1,273,171</u>
Net Change in Fund Balances	81,191	25,045	(1,393)	104,843
Fund Balances - Beginning	<u>192,307</u>	<u>83,657</u>	<u>2,667</u>	<u>278,631</u>
Fund Balances - Ending	<u>\$ 273,498</u>	<u>\$ 108,702</u>	<u>\$ 1,274</u>	<u>\$ 383,474</u>

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
SCHEDULE OF CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2017**

	Balance Beginning of Year	Revenues	Expenditures	Transfers	Balance End of Year
<b>General Fund</b>					
Restricted for:					
Health and Safety	\$ 49,414	\$ (18,790)	\$	\$	\$ 30,624
Capital Projects	205,347	443,797	519,937		129,207
Levy Reduction	164,027				164,027
Operating Capital	84,934	378,274	364,558		98,650
Area Learning Center	414,888	345,445	253,562		506,771
Safe Schools	71,138	56,596	21,275		106,459
LTFM	255,279	301,879	19,872		537,286
Committed for Severance	234,000			(39,000)	195,000
Unassigned	1,502,368	14,836,361	14,371,544	186,685	2,153,870
<b>Food Service Fund</b>					
Nonspendable for Inventory	22,009			4,255	26,264
Restricted for Food Service	170,298	914,835	833,644	(4,255)	247,234
<b>Community Service Fund</b>					
Restricted for:					
Community Education	25,569	125,339	143,587		7,321
ECFE	35,730	80,431	43,880		72,281
School Readiness	3,623	218,833	222,099		357
Community Service	18,735	38,569	28,561		28,743
<b>Building Construction Fund</b>					
Restricted for Building	43,879,843	251,289	12,383,615		31,747,517
<b>Scholarship Fund</b>					
Restricted for Scholarships	2,667	7	1,400		1,274
<b>Debt Service Fund</b>					
Restricted for Debt Service	658,478	2,607,804	3,147,590		118,692
<b>OPEB Debt Service Fund</b>					
Restricted for OPEB Debt Service	115,237	516,048	483,600	(147,685)	
<b>Fiduciary Fund</b>					
OPEB Trust Fund					
Held in Trust for OPEB	1,602,185	6,277	166,496		1,441,966



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## **INDEPENDENT AUDITOR'S REPORT ON MINNESOTA LEGAL COMPLIANCE**

To the Board of Education  
Independent School District No. 549  
Perham, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 549 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 4, 2017.

### **Legal Compliance**

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

### **Purpose of the Report**

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.

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

December 4, 2017

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**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**

To the Board of Education  
Independent School District No. 549  
Perham, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 549, 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 4, 2017.

**Internal Control over Financial Reporting**

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

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

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

## **Compliance and Other Matters**

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

## **The District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

December 4, 2017



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

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

To the Board of Education  
Independent School District No. 549  
Perham, Minnesota

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

We have audited Independent School District No. 549's 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 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.

## ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003. Our opinion on each major federal program is not modified with respect to this matter.

The District's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Management of Independent School District No. 549 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, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003, which we consider to be significant deficiencies.

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

## **Purpose of the Report**

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

A handwritten signature in black ink that reads "Brady Martz". The signature is written in a cursive, flowing style.

**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

December 4, 2017

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**INDEPENDENT SCHOOL DISTRICT NO. 549  
 PERHAM, MINNESOTA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2017**

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Amount
<u>U.S. Department of Education</u>		
Passed-Through Minnesota Department of Education:		
Title II, Part A	84.367	\$ 57,457
Title I, Part A	84.010	<u>213,258</u>
<i>Special Education Cluster:</i>		
Passed-Through Freshwater Education District:		
IDEA Part B 611	84.027	42,800
IDEA Part B 611 CEIS	84.027	9,500
Special Education Preschool Grants	84.173	566
<i>Total Special Education Cluster:</i>		<u>52,866</u>
Total U.S. Department of Education		<u>323,581</u>
<u>U.S. Department of Agriculture</u>		
Passed-Through Minnesota Department of Education:		
<i>Child Nutrition Cluster:</i>		
School Breakfast Program	10.553	116,812
National School Lunch Program	10.555	281,390
Commodity Distribution (Nonmonetary Assistance)	10.555	58,400
Special Milk Program	10.556	235
Summer Food Service Program for Children	10.559	41,180
<i>Total Child Nutrition Cluster</i>		<u>498,017</u>
Total U.S. Department of Agriculture		<u>498,017</u>
TOTAL FEDERAL AWARDS		<u>\$ 821,598</u>

The notes to schedule of expenditures of federal awards are an integral part of this schedule.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
June 30, 2017**

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**NOTE 1 BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Independent School District No. 549 under programs of the federal government for the year ended June 30, 2017 and is presented on the accrual basis of accounting. 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). Because the Schedule presents only a selected portion of the operations of Independent School District No. 549, it is not intended to be and does not present the financial position or changes in net position of Independent School District No. 549.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Expenditures reported on the Schedule are reported under generally accepted accounting principles (U.S. GAAP). Such expenditures are recognized following 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. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NOTE 3 COMMODITY DISTRIBUTION**

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

**NOTE 4 PASS-THROUGH ENTITIES**

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

**NOTE 5 SUBRECIPIENTS**

During 2017, the District did not pass any federal money to subrecipients.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
 PERHAM, MINNESOTA  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended June 30, 2017**

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

Financial Statements

Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

    Material weakness(es) identified?      \_\_\_ yes      x   no

    Significant deficiency(ies) identified?      x   yes    \_\_\_ none reported

Noncompliance material to financial statements noted?      \_\_\_ yes      x   no

Federal Awards

Internal Control over major programs:

    Material weakness(es) identified?      \_\_\_ yes      x   no

    Significant deficiency(ies) identified?      x   yes    \_\_\_ none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?        x   yes    \_\_\_ no

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

*Child Nutrition Cluster:*

10.553      School Breakfast Program

10.555      National School Lunch Program

10.555      Commodity Distribution (Nonmonetary Assistance)

10.556      Special Milk Program

10.559      Summer Food Service Program for Children

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee?        x   yes    \_\_\_ no

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
For the Year Ended June 30, 2017**

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**Section II-Financial Statement Findings**

**2017-001 FINDING**

Criteria

The District does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the board of education. For the year ended June 30, 2017, the District's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the District does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements for external reporting. The board of education is aware of this significant deficiency and addresses it by obtaining our assistance in the preparation of the District's annual financial statements.

Cause

The District does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect

The Superintendent is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Repeat Finding

Yes. Prior audit finding 2016-001

Recommendation

For entities of the District's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will review on an annual basis.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
For the Year Ended June 30, 2017**

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

**2017-002 FINDING**

Child Nutrition Cluster (School Breakfast Program, CFDA No. 10.553; National School Lunch Program, CFDA No. 10.555; Commodity Distribution, CFDA No. 10.555; Special Milk Program, CFDA No. 10.556; Summer Food Service Program for Children, CFDA No. 10.559)

Criteria

To receive reimbursement payment for meals served, the District must submit the number of meals served and all claims must be supported by accurate meal counts by category and type.

Condition

Two instances were identified where household income was not calculated properly.

Questioned Costs

Undeterminable

Context

A sample of 40 applications were selected for audit from a population of 296 applications. Household income was not calculated correctly on one application. As a result, the student was incorrectly determined to be eligible for reduced price but should have been eligible for free. The District performed income verification on 6 applications. Household income was not calculated correctly on one application that was verified. The student's eligibility was incorrectly changed from free to reduced price and should have stayed at free based on the income documentation provided.

Cause

The District does not have sufficient procedures in place to ensure all information is entered correctly from the application into the software.

Effect

The District reported reduced priced meals that should have been free.

Repeat Finding

Yes. Prior audit finding 2016-002

Recommendation

The District should review their policies and procedures for calculating eligibility and income verification.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will correct immediately.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - Continued  
For the Year Ended June 30, 2017**

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**2017-003 FINDING**

Child Nutrition Cluster (School Breakfast Program, CFDA No. 10.553; National School Lunch Program, CFDA No. 10.555; Commodity Distribution, CFDA No. 10.555; Special Milk Program, CFDA No. 10.556; Summer Food Service Program for Children, CFDA No. 10.559)

Criteria

To receive reimbursement payment for meals served, the District must submit the number of meals served and all claims must be supported by accurate meal counts by category and type.

Condition

Two instances were identified where the number of meals submitted for reimbursement was not accurate.

Questioned Costs

Undeterminable

Context

Three months of meal reimbursement claim reports were selected for testing. In one month, the District missed submitting 96 meals for reimbursement. In another month, the District submitted one extra meal. This was due to keying errors.

Cause

The District does not have sufficient procedures in place to ensure all information is entered correctly from the application into the software.

Effect

The District submitted less meals for reimbursement than they were otherwise eligible for.

Recommendation

The District should review their policies and procedures for calculating eligibility.

Views of Responsible Officials and Planned Corrective Actions

The District agrees with the recommendation and will correct immediately.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
SCHEDULE OF PRIOR AUDIT FINDINGS  
June 30, 2017**

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**2016-001 FINDING**

Criteria

The District does not have the internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements in conformity with generally accepted accounting principles (GAAP).

Condition

The District's personnel prepare periodic financial information for internal use that meets the needs of management and the board of education. For the year ended June 30, 2017, the District's personnel assisted in the preparation of the year-end journal entries and reviewed a disclosure checklist. However, the District does not have internal resources to identify all journal entries required to maintain a general ledger and prepare full-disclosure financial statements for external reporting. The board of education is aware of this significant deficiency and addresses it by obtaining our assistance in the preparation of the District's annual financial statements.

Cause

The District does not have the internal expertise needed to handle all aspects of the external financial reporting.

Effect

The Superintendent is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and the completed statements prior to distribution to the end users.

Recommendation

For entities of the District's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting.

Corrective Action Taken

No action taken. See current year finding 2017-001 and Corrective Action Plan.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
SCHEDULE OF PRIOR AUDIT FINDINGS - Continued  
June 30, 2017**

---

**2016-002 FINDING**

Child Nutrition Cluster (School Breakfast Program, CFDA No. 10.553; National School Lunch Program, CFDA No. 10.555; Commodity Distribution, CFDA No. 10.555; Special Milk Program, CFDA No. 10.556; Summer Food Service Program for Children, CFDA No. 10.559)

Criteria

To receive reimbursement payment for meals served, the District must submit the number of meals served and all claims must be supported by accurate meal counts by category and type.

Condition

Two instances were identified where other income was not included in total household income.

Questioned Costs

Undeterminable

Context

A sample of 40 applications were selected for audit from a population of 390 applications. There were errors on three applications. On two applications, household income was not properly calculated. As a result, both students were incorrectly determined to be eligible for free but should have been full pay. The District was made aware of the error by the State in January 2016 during an onsite review and the error was corrected. On one application, the income provided was not complete. We were unable to determine if the additional income would have changed the student's eligibility status.

Cause

The District does not have sufficient procedures in place to ensure all information is entered correctly from the application into the software.

Effect

The District reported ineligible meals for reimbursement.

Recommendation

The District should review their policies and procedures for calculating eligibility.

Corrective Action Taken

No action taken. See current year finding 2017-002 and Corrective Action Plan.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
CORRECTIVE ACTION PLAN  
June 30, 2017**

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**2017-001 FINDING**

Contact Person – Superintendent

Corrective Action Plan – School district personnel will receive additional training to better prepare personnel to understand the financial statements and to work more closely with an accounting firm in the preparation of the financial statements.

Completion Date – Ongoing

**2017-002 FINDING**

Contact Person – Superintendent

Corrective Action Plan – The District will review their policies and procedures over calculating eligibility.

Completion Date – Immediately

**2017-003 FINDING**

Contact Person – Superintendent

Corrective Action Plan – The District will review their policies and procedures for submitting meals for reimbursement.

Completion Date – Immediately

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CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

**INDEPENDENT AUDITOR'S REPORT ON THE STATEMENT OF CASH RECEIPTS AND  
DISBURSEMENTS OF THE STUDENT ACTIVITY ACCOUNTS**

Members of the School Board, Advisors, and Students  
Independent School District No. 549  
Perham, Minnesota

We have audited the accompanying statement of cash receipts and disbursements of the student activity accounts of Independent School District No. 549, for the year ended June 30, 2017, and the related note to the financial statement.

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

Management is responsible for the preparation and fair presentation of the financial statement in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of the entity'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 statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

### **Basis for Qualified Opinion**

The District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. Accordingly, it was not practicable for us to extend our audit of such cash collections beyond the amounts recorded. The financial statement impact cannot be reasonably determined.

### **Qualified Opinion**

In our opinion, except for such adjustments, if any, as might have been determined to be necessary had the cash collections referred to above been susceptible to satisfactory audit tests, the financial statement referred to above presents fairly, in all material respects, the cash transactions of the District's student activity accounts for the year ended June 30, 2017, and the cash balances at that date, in accordance with the cash basis of accounting as described in Note 1.

### **Basis of Accounting**

We draw attention to Note 1 to the Student Activity Accounts Financial Statement, which describes the basis of accounting; this financial statement is prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.



**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

December 4, 2017

**INDEPENDENT SCHOOL DISTRICT NO. 549**

**PERHAM, MINNESOTA**

**STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS OF THE STUDENT ACTIVITY ACCOUNTS**

**For the Year Ended June 30, 2017**

	Fund Balance 06-30-16	Receipts	Disbursements	Fund Balance 06-30-17
Concessions	\$ 690	\$	\$ 690	\$
Interest	4,886	13,464	6,836	11,514
Student Ambassadors - Elementary	4,740	5,030	4,042	5,728
Annual - Middle School	731	3,101		3,832
Band - Middle School	2,166	540	2,333	373
Laurentian	2,868	23,030	24,670	1,228
Student Ambassadors - Middle School	917		917	
Student Council - Middle School	2,079		2,079	
Annual	4,408	7,100	8,792	2,716
Band	5,235	1,360	1,544	5,051
Close Up	2,148	17,045	19,193	
Concert Choir	10,460	45,934	56,394	
FCA	1,379	100		1,479
FFA	7,931	22,503	22,879	7,555
Spanish Trip	35		35	
Students Making a Difference		2,830	70	2,760
Interact	823	1,602	55	2,370
Junior Class	174	400	373	201
Knowledge Bowl		300		300
Orchestra	5,357		5,357	
Science Research	2,490		2,490	
Senior Class	5,630	1,865	1,838	5,657
Special Prom	644		276	368
Speech & Drama	179	6,532	6,469	242
Student Council - Senior High	1,824	1,967	2,278	1,513
Baseball	2,050	1,105	2,531	624
Basketball - Boys	104		104	
Basketball - Girls	340		340	
Cross country	18		18	
Golf Boys	954	480	263	1,171
Golf Girls	192	810	972	30
Softball	6,322	1,400		7,722
Swimming - Boys	839		839	
Tennis - Girls	2,950	1,600		4,550
Track	135		135	
Volleyball	416		416	
Wrestling	1,207		419	788
ALC Student Senate	98		98	
	<u>\$ 83,419</u>	<u>\$ 160,098</u>	<u>\$ 175,745</u>	<u>\$ 67,772</u>

The note to student activity accounts financial statement is an integral part of this statement.

**INDEPENDENT SCHOOL DISTRICT NO. 549  
PERHAM, MINNESOTA  
NOTE TO STUDENT ACTIVITY ACCOUNTS FINANCIAL STATEMENT  
June 30, 2017**

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**NOTE 1      STUDENT ACTIVITY ACCOUNTS**

Student activity fund transactions are defined as extracurricular programs conducted for the motivation and enjoyment of students. These programs and activities are not offered for school credits nor required for graduation. Activities are generally conducted outside of school hours. The content of the activities is determined primarily by the students, under the guidance of a staff member or other adult.

Student activities are to be self-sustaining with all expenses paid by dues, admissions, or other student fund raising events.

The accounts of the student activity funds are maintained, and the accompanying financial statement has been prepared on the cash basis of accounting. Consequently, receipts are recognized when received rather than when earned and disbursements are recognized when paid rather than when the obligations are incurred.



CERTIFIED PUBLIC ACCOUNTANTS  
AND CONSULTANTS

## **INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE**

To the School Board, Advisors, and Students  
Independent School District No. 549  
Perham, Minnesota

We have audited in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the student activity accounts of Independent School District No. 549, for the year ended June 30, 2017, and the related note to the financial statement, and have issued our report thereon dated December 4, 2017, which was qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records, therefore, we were unable to audit the cash collections beyond the amounts recorded.

### **Compliance**

The *Manual for Activity Fund Accounting*, issued by the Minnesota Department of Education, pursuant to Minnesota Statutes, provides uniform financial accounting and reporting standards for student activities. We have performed auditing procedures to test compliance with the provisions of this manual.

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 *Manual for Activity Fund Accounting*. 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.

### **Purpose of the Report**

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.

A handwritten signature in black ink that reads "Brady Martz".

**BRADY, MARTZ & ASSOCIATES, P.C.**  
**Thief River Falls, Minnesota**

December 4, 2017

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**INDEPENDENT SCHOOL DISTRICT NO. 549**  
**PERHAM, MINNESOTA**  
**UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE**  
**June 30, 2017**

District Name:	INDEPENDENT SCHOOL DISTRICT NO. 549			District Number:	549		
	Audit	UFARS	Variance		Audit	UFARS	Variance
<b>01 GENERAL FUND</b>				<b>06 BUILDING CONSTRUCTION</b>			
Total Revenue	16,343,562	16,343,562		Total Revenue	251,289	251,289	
Total Expenditures	15,550,748	15,550,750	(2)	Total Expenditures	12,383,615	12,383,615	
<i>Non Spendable:</i>				<i>Non Spendable:</i>			
460 Non Spendable Fund Balance				460 Non Spendable Fund Balance			
<i>Restricted/Reserve:</i>				<i>Restricted/Reserve:</i>			
403 Staff Development				407 Capital Projects Levy			
406 Health & Safety	30,624	30,621	3	413 Projects Funded By COP			
407 Capital Projects Levy	129,207	129,206	1	467 LTFM			
408 Cooperative Revenue				<i>Restricted:</i>			
413 Project Funded by Cop				464 Restricted Fund Balance	31,747,517	31,747,517	
414 Operating Debt				467 LTFM			
416 Levy Reduction	164,027	164,027		<i>Unassigned:</i>			
417 Taconite Building Maintenance				463 Unassigned Fund Balance			
423 Certain Teacher Programs				Reconciliation of Building Construction	44,382,421	44,382,421	
424 Operating Capital	98,650	98,648	2				
426 \$25 Taconite				<b>07 DEBT SERVICE</b>			
427 Disabled Accessibility				Total Revenue	2,607,804	2,607,803	1
428 Learning & Development				Total Expenditures	3,147,590	3,147,590	
434 Area Learning Center	506,771	506,768	3	<i>Non Spendable:</i>			
435 Contracted Alt Programs				460 Non Spendable Fund Balance			
436 State Approved Alt Program				<i>Restricted/Reserve:</i>			
438 Gifted & Talented				425 Bond Refundings			
440 Teacher Development and Eval				451 QZAB Payments			
441 Basic Skills Programs				<i>Restricted:</i>			
445 Career and Technical Programs				464 Restricted Fund Balance	118,692	118,691	1
448 Achievement and Integration				<i>Unassigned:</i>			
449 Safe Schools Levy	106,459	106,459		463 Unassigned Fund Balance			
450 Prekindergarten				Reconciliation of Debt Service	5,874,086	5,874,084	2
451 QZAB Payments							
452 OPEB Liab Not In Trust				<b>08 TRUST</b>			
453 Unfnded Sev & Retirement Levy				Total Revenue	7	7	
467 LTFM	537,286	537,283	3	Total Expenditures	1,400	1,400	
472 Medical Assistance				422 Unassigned Fund Balance	1,274	1,274	
<i>Restricted:</i>				Reconciliation of Trust	2,681	2,681	
464 Restricted Fund Balance							
<i>Committed:</i>				<b>20 INTERNAL SERVICE</b>			
418 Committed for Separation	195,000	195,000		Total Revenue			
461 Committed Fund Balance				Total Expenditures			
<i>Assigned:</i>				422 Unassigned Fund Balance			
462 Assigned Fund Balance				Reconciliation of Internal Service			
<i>Unassigned:</i>							
422 Unassigned Fund Balance	2,153,870	2,153,885	(15)	<b>25 OPEB REVOCABLE TRUST FUND</b>			
Reconciliation of General	35,816,204	35,816,209	(5)	Total Revenue			
				Total Expenditures			
<b>02 FOOD SERVICE</b>				422 Unassigned Fund Balance			
Total Revenue	914,835	914,834	1	Reconciliation of OPEB Revocable Trust			
Total Expenditures	833,644	833,644					
<i>Non Spendable:</i>				<b>45 OPEB IRREVOCABLE TRUST FUND</b>			
460 Non Spendable Fund Balance	26,264	26,264		Total Revenue	6,277	6,277	
<i>Restricted:</i>				Total Expenditures	166,496	166,496	
452 OPEB Liab Not In Trust				422 Unassigned Fund Balance	1,441,966	1,441,967	(1)
464 Restricted Fund Balance	247,234	247,236	(2)	Reconciliation of OPEB Irrevocable Trust	1,614,739	1,614,740	(1)
<i>Unassigned:</i>							
463 Unassigned Fund Balance				<b>47 OPEB DEBT SERVICE FUND</b>			
Reconciliation of Food Service	2,021,977	2,021,978	(1)	Total Revenue	516,048	516,049	(1)
				Total Expenditures	483,600	483,600	
<b>04 COMMUNITY SERVICE</b>				<i>Non Spendable:</i>			
Total Revenue	463,172	463,172		460 Non Spendable Fund Balance			
Total Expenditures	438,127	438,127		<i>Restricted:</i>			
<i>Non Spendable:</i>				464 Restricted Fund Balance			
460 Non Spendable Fund Balance				<i>Unassigned:</i>			
<i>Restricted/Reserve:</i>				463 Unassigned Fund Balance			
426 \$25 Taconite				Reconciliation of OPEB Debt Service	999,648	999,649	(1)
431 Community Education	7,321	7,322	(1)				
432 E.C.F.E.	72,281	72,280	1				
440 Teacher Development and Eval							
444 School Readiness	357	357					
447 Adult Basic Education							
452 OPEB Liab Not In Trust							
<i>Restricted:</i>							
464 Restricted Fund Balance	28,743	28,743					
<i>Unassigned:</i>							
463 Unassigned Fund Balance							
Reconciliation of Community Service	1,010,001	1,010,001					