INDEPENDENT SCHOOL DISTRICT NO. 518

FINANCIAL STATEMENTS
AS OF JUNE 30, 2017

INDEPENDENT SCHOOL DISTRICT NO. 518

TABLE OF CONTENTS

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHOOL DISTRICT OFFICIALS

JUNE 30, 2017

Ms. Lori Dudley	December 31, 2018	Chairman
Mr. Scott Rosenberg	December 31, 2018	Vice-Chairman
Mr. Joel Lorenz	December 31, 2020	Clerk
Mr. Bradley Shaffer	December 31, 2020	Treasurer
Ms. Victoria Blanchette	December 31, 2017	Director
Mr. Linden Olson	December 31, 2020	Director
Mr. Stephen Schneider	December 31, 2020	Director
Mr. John Landgaard		Superintendent
Mr. David Skog		Director of Management Services

DREALAN KVILHAUG HOEFKER & CO., P.A.

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VICKIE L. KUIPERS, EA
MARILYN B. McDOWELL, CPA
CINDY M. PENNING, CPA

INDEPENDENT AUDITOR'S REPORT

To the Members of the School Board
Independent School District No. 518
Worthington, 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. 518 (the District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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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 the District, as of June 30, 2017, and the respective changes in financial position and the respective budgetary comparison for the general fund, food service fund, and the community service fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report of Summarized Comparative Information

We have previously audited the District's 2016 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information, and we expressed unmodified audit opinions on those audited financial statements in our report dated October 10, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of funding progress for postemployment benefits plan and the schedules of proportionate share of net pension liability and employer contributions on pages 4-18, 83 and 84 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 uniform financial accounting and reporting standards compliance table and combining and individual nonmajor fund financial statements, 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 uniform financial accounting and reporting standards compliance table, the combining and individual nonmajor fund financial statements, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 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.

Brenlan Kvilhaug Hoefker & Co., P.A.

Worthington, Minnesota
October 10, 2017

INDEPENDENT SCHOOL DISTRICT NO. 518

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2017

This section of Worthington Schools - Independent School District 518's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section. Certain comparative information between the current year (2016-2017) and the prior year (2015-2016) is presented in the MD&A.

FINANCIAL HIGHLIGHTS

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

- Overall actual expenses in the Statement of Activities were more than $51,835,000 and over $2,207,000 more than revenues. Changes in Other Pension Employment Benefits (OPEB) actuarial assumptions significantly increased the reported expenses.

- The District's General Fund unassigned fund balance (under the governmental fund presentation) increased $534,475 from the prior year. Overall expenditures were less than budgeted combined with increased revenue due to enrollments above projections and a significant increase in the English Language Learner funding.

- The District held an election in November 2016 asking the voters for authorization to issue general obligation bonds in the amount of $79,000,000 to construct a new high school building. The ballot question was defeated.

- Increased enrollment, participation, and formula funding increases allowed the District to maintain operations financial stability while expanding services to students and the community.

- The District authorized the issuance of Certificates of Participation to be repaid by available lease levy funding to construct a new building for the Area Learning Center and gymnastics programs. Those certificates were sold in August 2017 and construction will begin in the fall of 2017.

- The District received a $10,000 grant from the Super Bowl legacy funds to purchase food service equipment.

INDEPENDENT SCHOOL DISTRICT NO. 518

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2017

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The financial statements also include notes that explain some of the information in the statements and provide more detailed data.

Government-Wide Statements

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

The two government-wide statements report the District's net position and it has changed. Net position - the difference between the District's assets and liabilities - is one way to measure the District's financial health.

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

In the government-wide financial statements, the District's activities are shown in one category titled "governmental activities":

- Governmental activities - Most of the District's basic services are included here, such as regular and special education, transportation, administration, food services, and community education. Property taxes and state aids finance most of these activities.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

Fund Financial Statements

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

For Minnesota schools, funds are established in accordance with Uniform Financial Accounting and Reporting Standards in accordance with statutory requirements and accounting principles generally accepted in the United States of America

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

The District maintains two kinds of funds:

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

- Fiduciary funds - The District is the trustee, or fiduciary, for assets that belong to others, such as the Nobles County Integration Collaborative. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

INDEPENDENT SCHOOL DISTRICT NO. 518

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was $12,151,838 on June 30, 2017. (See Table A-l.)

Table A-1
Independent School District No. 518
Net Position-Governmental Activities
As of June 30

	2017	2016	Percentage Change
Current and other assets	$ 36,163,813	$ 31,217,184	15.85%
Capital assets	38,328,275	37,683,751	1.71%
Total assets	$ 74,492,088	$ 68,900,935	8.11%
Deferred Outflows of Resources-pensions	$ 52,018,433	$ 6,828,226	661.81%
Long-term liabilities	$ 101,935,955	$ 47,796,675	113.27%
Other liabilities	4,172,882	3,924,035	6.34%
Total liabilities	$ 106,108,837	$ 51,720,710	105.16%
Deferred Inflows of Resources	4,566,410	4,883,103	(6.49%)
Deferred Inflows of Resources-pensions	3,683,436	4,814,914	(23.50%)
Total Deferred Inflows of Resources	$ 8,249,846	$ 9,698,017	(14.93%)
Net Position			
Net investment in capital assets	$ 15,943,275	$ 13,338,751	19.53%
Restricted	9,099,573	9,147,954	(0.53%)
Unrestricted	(12,891,010)	(8,176,271)	57.66%
Total net position	$ 12,151,838	$ 14,310,434	(15.08%)

The District's financial position decreased during the year.

- A change in the OPEB actuarial assumptions significantly increased the District's long-term liabilities and deferred outflows of resources for pensions.

Changes in net position. The District's total revenues were $49,627,738 for the year ended June 30, 2017. Property taxes and state formula aid accounted for 59.87% of total revenue for the year. (See Figure A-3.) Another 1.10% came from other general revenues combined with investment earnings and the remainder from program revenues.

The total cost of all programs and services was $51,835,421. The District's expenses are predominantly related to educating and caring for students (82.21%). (See Figure A-4.) The purely administrative activities of the District accounted for just 2.94% of total costs.

Total expenses exceeded revenues, decreasing net position $2,158,596 from last year.

INDEPENDENT SCHOOL DISTRICT NO. 518

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Changes in net position (continued)

Table A-2 is similar to the fund financial statements except it is presented on an accrual basis of accounting, and it includes all of the governmental activities of the District. It also includes depreciation expense and excludes capital asset purchase costs, debt issuance proceeds and the repayment of debt principal.

Table A-2
Independent School District No. 518
Change in Net Position
For the Year Ended June 30

	2017	2016	Percentage Change
Revenues:			
Program revenues-			
Charges for services	$ 1,241,276	$ 1,221,777	1.60%
Operating grants and contributions	17,322,327	16,236,448	6.69%
Capital grants and contributions	807,812	460,968	75.24%
General revenues-			
Property taxes	5,094,031	4,583,126	11.15%
State aid - formula grants	24,756,750	22,711,692	9.00%
Other	405,542	130,014	211.92%
Total revenues	$ 49,627,738	$ 45,344,025	9.45%
Expenses:			
District and school administration	$ 1,523,138	$ 1,043,630	45.95%
District support services	986,653	807,884	22.13%
Regular instruction	24,871,827	17,561,914	41.62%
Exceptional instruction	8,091,725	5,829,750	38.80%
Vocational instruction	829,793	553,718	49.86%
Instructional support services	3,155,522	2,371,014	33.09%
Pupil support services	5,666,301	5,015,124	12.98%
Site, buildings and equipment	3,742,314	3,405,815	9.88%
Fiscal and other fixed cost programs	733,797	584,844	25.47%
Community education and services	2,234,351	1,614,264	38.41%
Total expenses	$ 51,835,421	$ 38,787,957	33.64%
Change in net position before special item	$ (2,207,683)	$ 6,556,068	
Special items	49,087	(13,401)	
Change in net position	$ (2,158,596)	$ 6,542,667	
Beginning net position	14,310,434	7,767,767	
Net position - June 30	$ 12,151,838	$ 14,310,434	

INDEPENDENT SCHOOL DISTRICT NO. 518

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Figure A-3 Sources of Independent School District 518's Revenues for Fiscal Year 2017

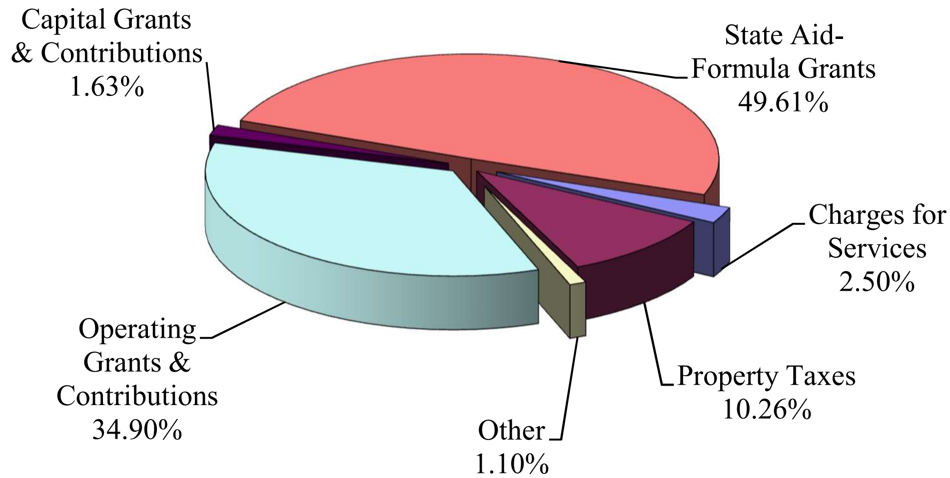
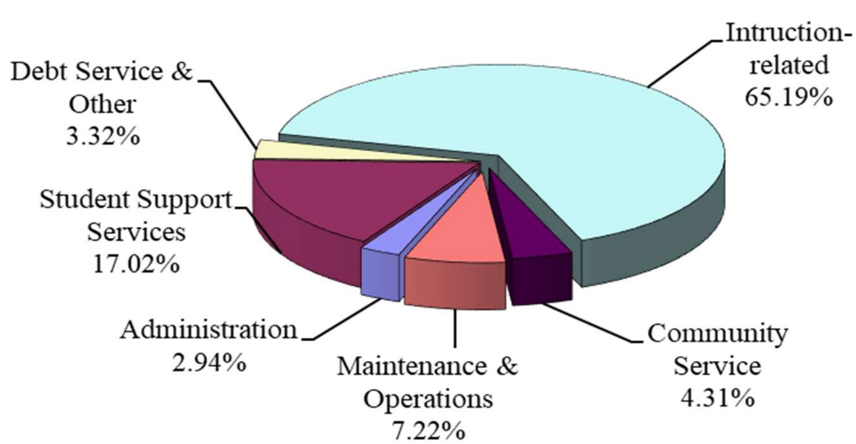


Figure A-4 Independent School District 518's Expenses for Fiscal Year 2017



- The cost of all governmental activities this year was $51,835,421.
- Some of the cost was paid by the users of the District's programs ($1,241,276).
- The federal and state governments subsidized certain programs with grants and contributions ($17,322,327 operating, $807,812 capital).
- Most of the District's costs ($32,464,006), however, were paid for by District taxpayers and the taxpayers of our state. This portion of governmental activities was paid for with $5,094,031 in property taxes, $24,756,750 of state aid based on the statewide education aid formula, and with investment earnings and other general revenues.

INDEPENDENT SCHOOL DISTRICT NO. 518

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (Continued)

Table A-3
Independent School District No. 518
Net Cost of Governmental Activities
For the Year Ended June 30

	2017		2016
	Total Cost of Services	Net Cost of Services	Net Cost of Services
District and school administration	$ 1,523,138	$ 1,485,099	$ 1,028,816
District support services	986,653	968,603	803,599
Regular instruction	24,871,827	16,031,626	9,569,431
Exceptional instruction	8,091,725	3,802,570	1,431,617
Vocational instruction	829,793	774,070	529,391
Instructional support services	3,155,522	2,614,986	1,883,541
Pupil support services	5,666,301	2,587,490	2,069,124
Site, buildings and equipment	3,742,314	3,148,329	2,867,506
Fiscal and other fixed cost programs	733,797	468,291	584,844
Community education and services	2,234,351	582,942	100,895
Total	$ 51,835,421	$ 32,464,006	$ 20,868,764

The total cost of district services was $51,835,421 as compared to the prior year total cost of district services of $38,787,957, an increase of $13,047,464.

When program specific revenues are considered, the net service cost was $32,464,006, which represents an increase of $11,595,242 from the prior year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds. As the District completed the year, its governmental funds reported a combined fund balance of $27,666,802, an increase of $5,026,408 from the June 30, 2016 combined fund balance of $22,640,394, or a 22.20% increase.

Revenues for the District's governmental funds were $48,626,970, while total expenditures were $43,674,321.

General Fund

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

INDEPENDENT SCHOOL DISTRICT NO. 518

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

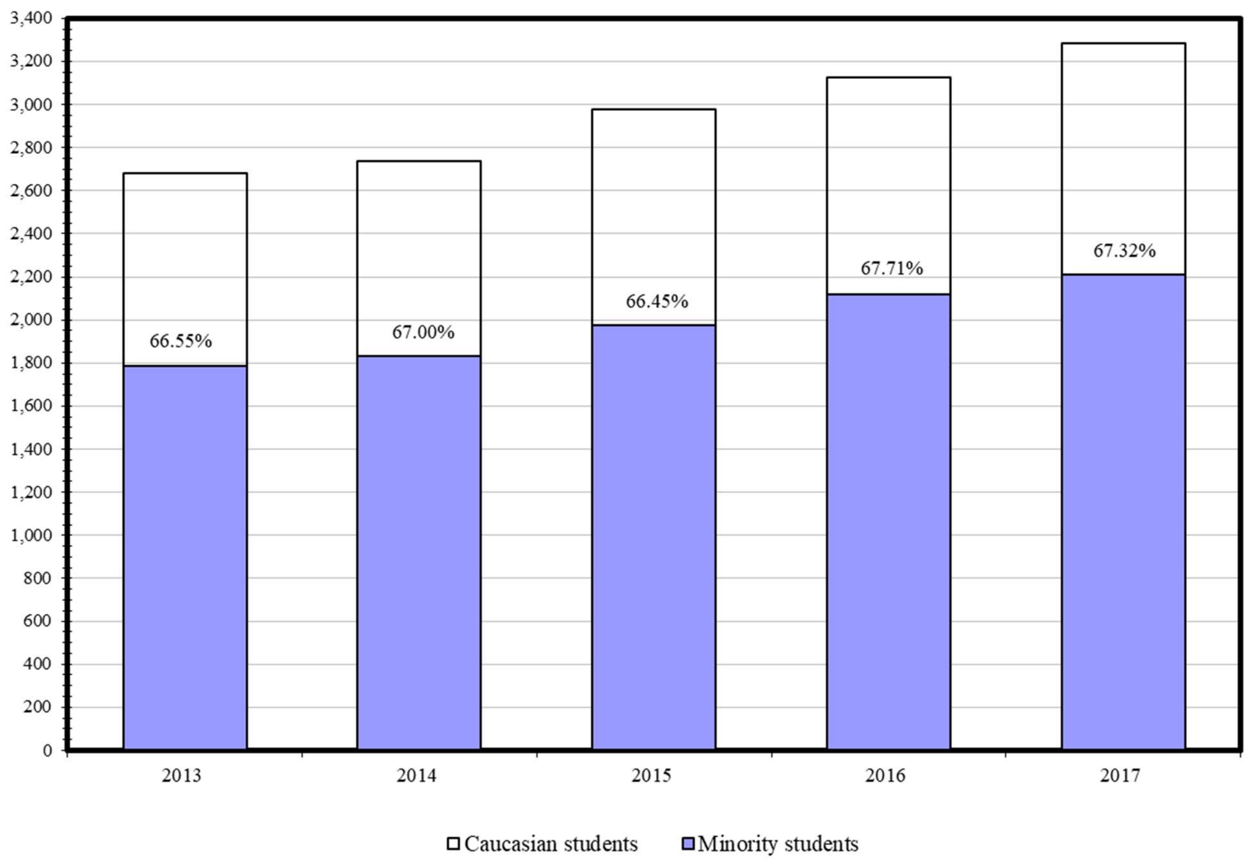
FOR THE YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund (continued)

The following graph shows that the total number of students has increased over the last few years, while the number of minority students has increased.

Students (Average Daily Membership)



Over the past few years, the District has seen an increasing enrollment. Based on the District's birth to age 5 census counts, we anticipate enrollment increases the next few years. New residents along with an increase in the number of students open enrolling in our District are factors in the increase. During the 2016-17 school year the District's on-line education program enrollment increased significantly.

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FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund (continued)

The following schedule presents a summary of General Fund revenues (including operating, pupil transportation, and capital expenditure accounts).

	Year Ended June 30, 2016	Year Ended June 30, 2017	Amount of Increase (Decrease)	Percent Increase (Decrease)
Local Sources				
Property taxes	$ 2,367,735	$ 3,129,608	$ 761,873	32.18%
Interest earnings	77,601	151,892	74,291	95.73%
Other	1,035,098	1,136,397	101,299	9.79%
State sources	34,139,405	36,757,211	2,617,806	7.67%
Federal sources	1,249,474	1,109,998	(139,476)	(11.16%)
Total revenues	$ 38,869,313	$ 42,285,106	$ 3,415,793	8.79%
Other financing sources				
Land and equipment sales	2,143	73,459	71,316	3,327.86%
Total	$ 38,871,456	$ 42,358,565	$ 3,487,109	8.97%

Total General Fund revenue increased by $3,415,793 or 8.79% 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.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund (continued)

The following schedule presents a summary of General Fund Expenditures (including operating, pupil transportation, and capital expenditure accounts).

	Year Ended June 30, 2016	Year Ended June 30, 2017	Amount of Increase (Decrease)	Percent Increase (Decrease)
Salaries	$ 20,118,607	$ 21,292,137	$ 1,173,530	5.83%
Benefits	5,747,004	6,070,958	323,954	5.64%
Purchased Services	4,681,522	4,935,723	254,201	5.43%
Supplies, Materials and Equipment	5,323,965	4,501,619	(822,346)	(15.45%)
Other	5,771,535	435,676	(5,335,859)	(92.45%)
Total	$ 41,642,633	$ 37,236,113	$ (4,406,520)	(10.58%)

Total General Fund expenditures decreased $4,406,520 or 10.58% from the previous year.

The significant decrease has a number of components with prior year construction ($5,340,000) and the purchase of land ($3,026,837) for a future building and sports complex site. Adjusting the prior year amounts for these items results in an expenditure increase of $3,960,318 or 9.5%.

In fiscal 2017, salaries increased 5.83% with the addition of staff to meet the needs of increased enrollment. Employee benefits increased by 5.64%. The District continues to investigate cost containment measures to minimize the effect rising insurance premiums have on the costs of the District's employee compensation packages.

Other expenditures for the year ended 2016 include the high school building construction.

In 2016-2017, General Fund revenues and other financing sources exceeded expenditures by $5,122,452. Therefore, total fund balance increased to $20,406,393 at June 30, 2017. After deducting statutory restrictions, the unassigned fund balance increased from $10,403,681 at June 30, 2016, to $10,938,156 at June 30, 2017.

INDEPENDENT SCHOOL DISTRICT NO. 518

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

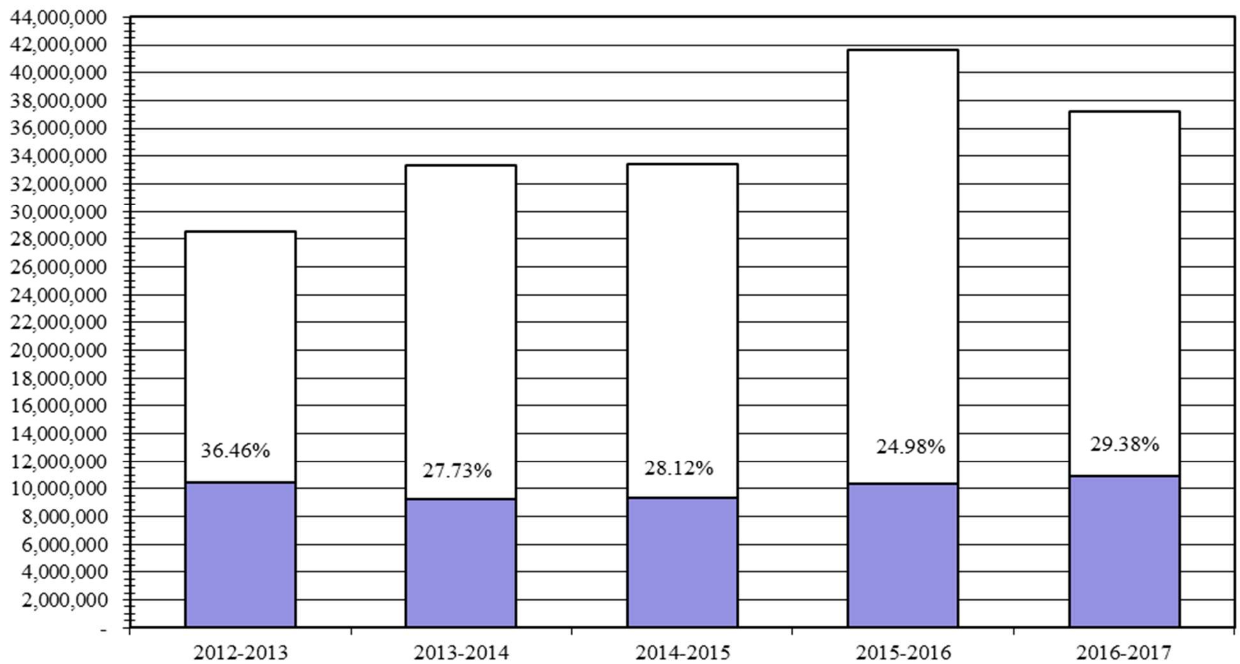
FOR THE YEAR ENDED JUNE 30, 2017

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund (continued)

The following graph shows the General Fund unassigned fund balance as a percentage of expenditures.

General Fund Unassigned Fund Balance as a Percent of Expenditures



The graph above is the single best measure of overall financial health. The unassigned fund balance of $10,938,156 at June 30, 2017, represents 29.38% of annual expenditures or fifteen weeks of operations. Given the current state funding legislation and other economic conditions, the District will continue to monitor its spending and fund balances closely.

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Unassigned fund balance	$10,339,754	$10,411,065	$ 9,243,373	$ 9,387,340	$10,403,681	$10,938,156
% Increase (decrease)	8.22%	0.69%	(11.22%)	1.56%	10.83%	5.14%
Expenditures	$28,125,544	$28,551,830	$33,337,874	$33,383,519	$41,642,634	$37,236,113
% Increase (decrease)	11.36%	1.52%	16.76%	0.14%	24.74%	(10.58%)
	36.76%	36.46%	27.73%	28.12%	24.98%	29.38%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (Continued)

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget. The budget amendments fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants, debt refunding, and budgeting for clearing, resale, and gifts.

- Increases in appropriations for significant unbudgeted costs.

	Original Budget	Final Budget	Increase (Decrease)	Percent Change
Revenue	$ 39,547,157	$ 41,259,536	$ 1,712,379	4.33%
Expenditure	$ 39,263,367	$ 39,576,888	$ 313,521	0.80%
Other financing Sources (Uses)	$ 1,000	$ 50,000	$ 49,000	4900.00%

While the District's final budget for the general fund anticipated that revenues and other financing sources would exceed expenditures and other financing uses by $1,732,648, the actual results for the year show that revenues and other financing sources exceeded expenditures and other financing uses by $5,122,452.

- Actual revenues were $1,049,029 more than expected, a variance of 2.54%, due to higher than estimated basic formula pupil units and increased English Language services funding.

- The actual expenditures were $2,340,775 under budget or a 5.91% variance.

Other Governmental Funds

The Debt Service Fund expenditures and other financing uses exceeded revenues and other financing sources by $163,880 in 2016-2017 compared to a budgeted decrease of $206,578. The fund balance decreased to $6,054,205 at June 30, 2017, and is available for meeting future debt service obligations including the call of the remaining 2010B Alternative Facility Bonds in 2019.

The Food Service Fund revenues and other financing sources exceeded expenditures and other financing uses by $38,128. The Food Service fund balance increased to $828,945 or 34.97% of annual operating expenditures. Student lunch and breakfast prices have seen mandated increases in the past couple of years. Increased free and reduced lunch eligibility helps the Food Service fund to continue to operate on a sound financial basis.

The Community Service Fund revenues exceeded expenditures by $29,408 leaving a year-end fund balance of $377,259 or 21.15% of annual expenditures. Increased Adult Basic Education funding, and the continued Pathways II early learning scholarship grants helped increase programming and fund balance.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of June 2017, the District had invested $62,569,867 in a broad range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment, and administrative offices. (See Table A-4.) (More detailed information about capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year was $2,410,400.

Additional technology equipment, building security entrance doors, custodial equipment, were among the capital asset additions for the year. Disposals included equipment no longer usable and land no longer suitable for District purposes.

Table A-4
Independent School District No. 518
Capital Assets

	2017	2016	Increase (Decrease)
Land	$ 3,509,122	$ 482,285	$ 3,026,837
Land Improvements	3,644,781	2,179,842	1,464,939
Buildings	42,932,640	36,992,206	5,940,434
Equipment	11,497,670	10,090,385	1,407,285
Vehicles	503,000	276,115	226,885
Construction in progress	482,654	822,747	(340,093)
Less accumulated depreciation	(24,241,592)	(20,724,662)	(3,516,930)
Total	$ 38,328,275	$ 30,118,918	$ 8,209,357
Depreciation Expense	$ 2,410,400	$ 2,046,342	$ 364,058

Construction - Next Five Years

The District has committed to building a new Area Learning Center and Gymnastic facility with completion in fall 2018.

Together with Nobles County, the City of Worthington and other community entities, the District is investigating the possibility of a collaborative project for a multi-purpose facility housing the Districts' Community Education and Early Childhood programs, the Nobles County library as well as other entities' programs serving the community.

In coordination with the City of Worthington, Nobles County, Minnesota West Community and Technical College, and other partners; the District is assessing community needs for athletic facilities and grounds.

Routine maintenance such as replacement of roofs, parking lots and building repairs will be funded through the General Fund.

CAPITAL ASSET AND DEBT ADMINISTRATION (Continued)

Long-Term Liabilities

At year-end, the District had $22,385,000 in general obligation bonds and certificates of participation payable outstanding.

- The District retired $1,960,000 of outstanding bonds and other long-term debt during 2016-2017.

The District's general obligation bonds carry a rating of Aa1.

Limitations on Debt

The state limits the amount of general obligation debt the District can issue to 15% of the market value of all taxable property within the District's corporate limits. Our outstanding debt of $22,385,000 is significantly below this limit which is currently $270,590,514.

FACTORS BEARING ON THE DISTRICT'S FUTURE

To meet the facility needs resulting from increased enrollment, the Board of Education has approved a February 13, 2018 general election ballot question asking for voter approval of a $68,500,000 bond issue. Passage would construct a new building and restructure the existing grade alignment to provide sufficient space for existing k-12 programs and expanding early-learning programs.

With the exception of the voter-approved excess operating referendum, the District is dependent on the State of Minnesota for its revenue authority. Although there were still budget reductions in some areas, the success of this operating referendum made it possible for the School Board to increase total FTE teachers to accommodate projected enrollment increases and program changes for the 2016-2017 school year.

Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation. Requests for increased programming will need to be closely scrutinized for sustainability.

To meet these financial challenges, the District will continue to utilize the Site Based Budgeting process. This process has been successful in the past and will improve our allocation of resources according to District priorities. The District will strive to maintain its long-standing commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

The District continues to strive to meet Adequate Yearly Progress (AYP) as required by statute. Between 2016 and 2017, District 518 made gains in meeting AYP in some buildings and student groups while failing to meet AYP in areas such as Special Education, Free and Reduced and Limited English Proficiency in certain buildings. Areas considered to not be meeting AYP will be targeted for additional assistance in an effort to bring all groups and subgroups into compliance.

The District's Community Service fund, early childhood program was awarded a Pathways II continuation grant in the amount of $139,117 for fiscal year 2018.

INDEPENDENT SCHOOL DISTRICT NO. 518

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2017

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Administration Building:

Independent School District No. 518
1117 Marine Avenue
Worthington, Minnesota 56187-1610
(507) 372-2172

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF NET POSITION

JUNE 30, 2017

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2016)

	Governmental Activities	
	2017	2016
ASSETS:		
Cash and investments	$ 21,447,334	$ 16,877,937
Cash and investments held by trustee	5,534,868	5,708,495
Receivables-		
Current property taxes	2,196,982	2,315,460
Delinquent property taxes	26,012	22,345
Other school districts and governmental units	409,050	250,453
Department of Education	4,517,684	3,816,356
Federal government	191,171	218,217
Accounts and interest receivable	60,347	65,167
Inventory	149,828	158,367
Prepaid items	392,526	337,426
Restricted assets - temporarily restricted-		
Cash and investments for debt service	1,238,011	1,446,961
Capital assets (net of accumulated depreciation)-		
Land	3,509,122	3,509,122
Land improvements	2,648,705	2,522,659
Buildings	26,971,069	27,491,920
Equipment	4,454,622	4,088,273
Vehicles	262,103	71,777
Construction in progress	482,654	-
Total assets	$ 74,492,088	$ 68,900,935
DEFERRED OUTFLOWS OF RESOURCES:		
Related to Pensions	52,018,433	6,828,226
Total assets and deferred outflows of resources	$ 126,510,521	$ 75,729,161

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF NET POSITION (CONTINUED)

JUNE 30, 2017

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2016)

	Governmental Activities	
	2017	2016
LIABILITIES:		
Accounts payable	$ 786,307	$ 643,958
Salaries payable	1,259,370	1,200,683
Accrued payroll taxes and other payroll deductions	1,819,596	1,800,796
Accrued interest payable	268,293	252,693
Due to other school districts and governmental units	21,166	4,427
Unearned revenue	18,150	21,478
Long-term liabilities-		
Due within one year	2,001,103	2,109,791
Due in more than one year	99,934,852	45,686,884
Total liabilities	$ 106,108,837	$ 51,720,710
DEFERRED INFLOWS OF RESOURCES:		
Property taxes levied for subsequent year's expenditures	$ 4,566,410	$ 4,883,103
Related to pensions	3,683,436	4,814,914
Total deferred inflows of resources	$ 8,249,846	$ 9,698,017
NET POSITION:		
Net investment in capital assets	$ 15,943,275	$ 13,338,751
Restricted for-		
Debt service	6,054,205	6,218,085
Food service	828,945	790,517
Community service	377,259	347,851
Disabled accessibility	-	64,511
Capital projects	753,545	629,113
Area learning center	362,885	361,297
Health and safety	192,554	145,489
Other purposes	530,180	591,091
Unrestricted	(12,891,010)	(8,176,271)
Total net position	$ 12,151,838	$ 14,310,434
Total liabilities, deferred inflows of resources, and net position	$ 126,510,521	$ 75,729,161

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	2017				2017	2016
		Program Revenues			Net (Expense)	Net (Expense)
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities	Total Governmental Activities
Governmental Activities						
Instruction-						
Regular instruction	$ 24,871,827	$ 429,994	$ 8,410,207	$ -	$ (16,031,626)	$ (9,569,431)
Exceptional instruction	8,091,725	221,933	4,067,222	-	(3,802,570)	(1,431,617)
Vocational instruction	829,793	400	55,323	-	(774,070)	(529,391)
Total instruction	$ 33,793,345	$ 652,327	$ 12,532,752	$ -	$ (20,608,266)	$ (11,530,439)
Support services-						
Instructional support services	$ 3,155,522	$ 60,109	$ 480,427	$ -	$ (2,614,986)	$ (1,883,541)
Pupil support services	5,666,301	370,928	2,707,883	-	(2,587,490)	(2,069,124)
District and school administration	1,523,138	-	38,039	-	(1,485,099)	(1,028,816)
District support services	986,653	9,600	8,450	-	(968,603)	(803,599)
Site, buildings and equipment	2,876,799	8,590	43,089	542,306	(2,282,814)	(2,001,991)
Community education and services	2,234,351	139,722	1,511,687	-	(582,942)	(100,895)
Fiscal and other fixed cost programs	733,797	-	-	265,506	(468,291)	(584,844)
Depreciation expense - unallocated	865,515	-	-	-	(865,515)	(865,515)
Total support services	$ 18,042,076	$ 588,949	$ 4,789,575	$ 807,812	$ (11,855,740)	$ (9,338,325)
Total governmental activities	$ 51,835,421	$ 1,241,276	$ 17,322,327	$ 807,812	$ (32,464,006)	$ (20,868,764)

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF ACTIVITIES (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2017

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

General Revenue	2017	2016
Taxes-		
Property taxes, levied for general purposes	$ 1,784,177	$ 1,353,867
Property taxes, levied for debt service	1,728,277	1,990,239
Property taxes, levied for specific purpose-		
Integration collaborative	247,638	237,888
Vocational programs	74,982	120,313
Health and Safety projects	47,066	75,547
Building Lease	296,516	429,620
Community Service	752,360	197,169
Safe Schools	118,217	111,772
Other local taxes	44,798	66,711
Property tax replacement aid	131,952	131,601
State aid not restricted to specific purpose-		
General Education aid	24,618,622	22,580,091
Other state aids	6,176	-
Interest and investment earnings	203,249	89,208
Other local revenue	202,293	40,806
Subtotal, general revenues	$ 30,256,323	$ 27,424,832
Excess of revenues over expenses before special items	$ (2,207,683)	$ 6,556,068
Special Items		
Sale or disposal of surplus property and equipment	$ 49,087	$ (13,401)
Subtotal, special items	$ 49,087	$ (13,401)
Total general revenues and special items	$ 30,305,410	$ 27,411,431
Change in net position	$ (2,158,596)	$ 6,542,667
NET POSITION, Beginning of year	$ 14,310,434	$ 7,767,767
NET POSITION, End of year	$ 12,151,838	$ 14,310,434

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

BALANCE SHEETS

GOVERNMENTAL FUNDS

JUNE 30, 2017

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2016)

	General	Food Service	Community Service	Capital Projects-Building Construction	Debt Service	Total Governmental Funds 2017	Total Governmental Funds 2016
ASSETS:							
Cash and investments	$ 20,407,514	$ 670,268	$ 369,552	$ -	$ 1,238,011	$ 22,685,345	$ 18,324,898
Cash and investments held by trustee	-	-	-	-	5,534,868	5,534,868	5,708,495
Receivables-							
Current property taxes	1,474,475	-	80,630	-	641,877	2,196,982	2,315,460
Delinquent property taxes	18,757	-	697	-	6,558	26,012	22,345
Accounts and interest receivable	59,747	600	-	-	-	60,347	65,167
Due from Other school districts and governmental units	315,555	-	93,495	-	-	409,050	250,453
Due from Department of Education-							
General education aid	3,921,237	-	-	-	-	3,921,237	3,290,627
Special education aid	413,390	-	-	-	-	413,390	395,779
Other education aid	99,338	-	43,439	-	26,058	168,835	116,962
State school lunch aid	-	1,125	-	-	-	1,125	-
Market value credit aid	2,473	-	324	-	2,980	5,777	5,668
Disparity aid	3,133	-	411	-	3,776	7,320	7,320
Due from Federal government-							
Federal title programs	105,215	-	-	-	-	105,215	135,301
School lunch program	-	85,956	-	-	-	85,956	82,916
Inventory	50,698	99,130	-	-	-	149,828	158,367
Prepaid items	392,526	-	-	-	-	392,526	337,426
Total assets	$ 27,264,058	$ 857,079	$ 588,548	$ -	$ 7,454,128	$ 36,163,813	$ 31,217,184
LIABILITIES:							
Salaries payable	$ 1,259,370	$ -	$ -	$ -	$ -	$ 1,259,370	$ 1,200,683
Accrued payroll taxes and other payroll deductions	1,819,596	-	-	-	-	1,819,596	1,800,796
Accounts payable	740,720	9,984	35,603	-	-	786,307	643,958
Due to other school districts and governmental units	21,163	-	3	-	-	21,166	4,427
Unearned revenue	-	18,150	-	-	-	18,150	21,478
Total liabilities	$ 3,840,849	$ 28,134	$ 35,606	$ -	$ -	$ 3,904,589	$ 3,671,342
DEFERRED INFLOWS OF RESOURCES:							
Property taxes levied for subsequent year's expenditures	$ 2,998,059	$ -	$ 174,986	$ -	$ 1,393,365	$ 4,566,410	$ 4,883,103
Unavailable revenue - Delinquent taxes	18,757	-	697	-	6,558	26,012	22,345
Total deferred inflows of resources	$ 3,016,816	$ -	$ 175,683	$ -	$ 1,399,923	$ 4,592,422	$ 4,905,448

INDEPENDENT SCHOOL DISTRICT NO. 518

BALANCE SHEETS (CONTINUED)

GOVERNMENTAL FUNDS

JUNE 30, 2017

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2016)

	General	Food Service	Community Service	Capital Projects-Building Construction	Debt Service	Total Governmental Funds 2017	Total Governmental Funds 2016
FUND BALANCES:							
Nonspendable for-							
Nonspendable amounts	$ 443,224	$ 99,130	$ -	$ -	$ -	$ 542,354	$ 495,793
Restricted for-							
Operating capital	$ 753,545	$ -	$ -	$ -	$ -	$ 753,545	$ 629,113
Health and safety	192,554	-	-	-	-	192,554	145,489
Disabled accessibility	-	-	-	-	-	-	64,511
Long term facility maintenance	385,340	-	-	-	-	385,340	418,399
Gifted and talented	69,950	-	-	-	-	69,950	50,788
Area learning center	362,885	-	-	-	-	362,885	361,297
Safe schools	44,881	-	-	-	-	44,881	35,452
Staff development	30,009	-	-	-	-	30,009	37,354
Food service	-	729,815	-	-	-	729,815	702,361
Community education	-	-	47,338	-	-	47,338	47,205
Adult basic education	-	-	247,000	-	-	247,000	212,418
School readiness	-	-	28,068	-	-	28,068	28,068
Early childhood family education	-	-	53,813	-	-	53,813	46,454
Certificates of participation	-	-	-	-	-	-	49,098
Refunding	-	-	-	-	5,538,221	5,538,221	5,710,494
Debt service	-	-	-	-	515,984	515,984	507,591
Restricted for other purposes	-	-	1,040	-	-	1,040	1,039
Total restricted fund balances	$ 1,839,164	$ 729,815	$ 377,259	$ -	$ 6,054,205	$ 9,000,443	$ 9,047,131
Committed for-							
Separation	$ 185,849	$ -	$ -	$ -	$ -	$ 185,849	$ 193,789
Projects	-	-	-	-	-	-	-
Total committed fund balances	$ 185,849	$ -	$ -	$ -	$ -	$ 185,849	$ 193,789
Assigned for-							
Projects	$ 7,000,000	$ -	$ -	$ -	$ -	$ 7,000,000	$ 2,500,000
Total assigned fund balances	$ 7,000,000	$ -	$ -	$ -	$ -	$ 7,000,000	$ 2,500,000
Unassigned	$ 10,938,156	$ -	$ -	$ -	$ -	$ 10,938,156	$ 10,403,681
Total fund balances	$ 20,406,393	$ 828,945	$ 377,259	$ -	$ 6,054,205	$ 27,666,802	$ 22,640,394
Total liabilities, deferred inflows of resources and fund balances	$ 27,264,058	$ 857,079	$ 588,548	$ -	$ 7,454,128	$ 36,163,813	$ 31,217,184

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

RECONCILIATION OF THE BALANCE SHEET GOVERNMENTAL FUNDS

TO THE STATEMENT OF NET POSITION

JUNE 30, 2017

(WITH PARTIAL COMPARATIVE INFORMATION AS OF JUNE 30, 2016)

	2017	2016
Total fund balances - governmental funds	$ 27,666,802	$ 22,640,394
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental funds are not financial resources and therefore are not reported as assets in the funds.		
Land	3,509,122	3,509,122
Construction in progress	482,654	-
Land improvements, net of accumulated depreciation	2,648,705	2,522,659
Buildings, net of accumulated depreciation	26,971,069	27,491,920
Equipment and vehicles, net of accumulated depreciation	4,716,725	4,160,050
Deferred outflows and inflows of resources related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred Outflows of Resources Related to Pensions	52,018,433	6,828,226
Deferred Inflows of Resources Related to Pensions	(3,683,436)	(4,814,914)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds.		
Bonds principal payable	(22,832,376)	(24,873,520)
Pension Benefits Payable	(78,897,674)	(22,764,789)
Capital leases payable	-	-
Other post employment benefits	(145,946)	(89,719)
Accrued compensated absences payable	(59,959)	(68,647)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	26,012	22,345
Governmental funds do not report a liability for accrued interest until due and payable.	(268,293)	(252,693)
Total net position - governmental activities	$ 12,151,838	$ 14,310,434

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	General	Food Service	Community Service	Capital Projects-Building Construction	Debt Service	Total Governmental Funds 2017	Total Governmental Funds 2016
REVENUES:							
Local property tax levies	$ 3,129,608	$ -	$ 187,682	$ -	$ 1,739,938	$ 5,057,228	$ 4,568,455
Other local and county revenues	996,882	16,765	334,726	-	44,322	1,392,695	1,117,191
Revenues from state sources	36,757,211	132,156	1,152,074	-	333,072	38,374,513	35,394,383
Revenues from federal sources	1,109,998	1,825,611	138,246	-	-	3,073,855	3,172,116
Sales and other conversion of assets	27,590	437,229	43	-	-	464,862	484,753
Interdistrict revenues	263,817	-	-	-	-	263,817	255,883
Total revenues	$ 42,285,106	$ 2,411,761	$ 1,812,771	$ -	$ 2,117,332	$ 48,626,970	$ 44,992,781
EXPENDITURES:							
Current expenditures-							
District and school administration	$ 1,080,963	$ -	$ -	$ -	$ -	$ 1,080,963	$ 991,593
District support services	846,295	-	-	-	-	846,295	776,541
Regular instruction	18,313,615	-	-	-	-	18,313,615	16,476,495
Vocational instruction	537,563	-	-	-	-	537,563	525,734
Exceptional instruction	6,237,295	-	-	-	-	6,237,295	5,728,584
Community education and services	-	-	1,771,075	-	-	1,771,075	1,586,978
Instructional support services	2,504,444	-	-	-	-	2,504,444	2,286,091
Pupil support services	3,271,474	2,373,633	12,288	-	-	5,657,395	5,006,688
Site and building services	2,284,277	-	-	-	-	2,284,277	2,162,678
Fiscal and other fixed cost programs	478,129	-	-	-	-	478,129	477,539
Capital outlay	1,682,058	-	-	-	-	1,682,058	9,773,955
Debt service-							
Principal	-	-	-	-	1,690,000	1,690,000	1,500,000
Interest and other financing costs	-	-	-	-	591,212	591,212	649,358
Total expenditures	$ 37,236,113	$ 2,373,633	$ 1,783,363	$ -	$ 2,281,212	$ 43,674,321	$ 47,942,234
Excess (Deficiency) of revenues over (under) expenditures	$ 5,048,993	$ 38,128	$ 29,408	$ -	$ (163,880)	$ 4,952,649	$ (2,949,453)
OTHER FINANCING SOURCES (USES):							
Sale of capital assets	$ 73,459	$ 300	$ -	$ -	$ -	$ 73,759	$ 2,143
Debt issuance	-	-	-	-	-	-	4,938,309
Total other financing sources (uses)	$ 73,459	$ 300	$ -	$ -	$ -	$ 73,759	$ 4,940,452
Net change in fund balances	$ 5,122,452	$ 38,428	$ 29,408	$ -	$ (163,880)	$ 5,026,408	$ 1,990,999
FUND BALANCE, Beginning of year	15,283,941	790,517	347,851	-	6,218,085	22,640,394	20,649,395
FUND BALANCE, End of year	$ 20,406,393	$ 828,945	$ 377,259	$ -	$ 6,054,205	$ 27,666,802	$ 22,640,394

INDEPENDENT SCHOOL DISTRICT NO. 518

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

FOR THE YEAR ENDED JUNE 30, 2017

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
Total net changes in fund balances - governmental funds	$ 5,026,408	$ 1,990,999
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets are allocated over the estimated useful lives as depreciation expense.		
Capital outlays	3,079,597	9,785,764
Depreciation expense	(2,410,400)	(2,205,387)
The amount of bond proceeds used to refund prior school building bonds is reported in the governmental funds as an other financing source. Bond proceeds are not revenues in the statements of activities, but rather constitute long-term liabilities. Issuing debt increases long-term liabilities and does not affect the statement of activities.	-	(4,938,309)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces the long term liabilities in the statement of net assets.	1,960,000	1,765,000
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net assets.		
Principal payments – capital leases	-	169,637

INDEPENDENT SCHOOL DISTRICT NO. 518

RECONCILIATION OF THE STATEMENT OF

REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

TO THE STATEMENT OF ACTIVITIES (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2017

(WITH PARTIAL COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 20165)

	2017	2016
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as anexpenditure when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is is recognized as the interest accrues, regardless of when it is due.	$ (15,600)	$ 22,059
In the Statement of Activities, certain operating expenses - pension, other post-employment benefits and compensated absences-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 actually paid).		
Pensions	(9,811,200)	(45,818)
Compensated absences	8,688	1,534
Other post employment benefits	(56,227)	(36,855)
In the statement of activities, only the loss on disposal of capital assets is reported. However, in the governmental funds, proceeds from the disposal increase financial resources. Thus, the change in net assets differs from the change in fund balance by the net book value of the disposed assets.	(24,673)	(15,544)
Delinquent property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	3,667	(35,770)
Governmental funds report debt premiums and discounts as an other financing source or use at the time of issuance. Premiums and discounts are reported net of debt in the Government-wide financial statements.	81,144	85,357
Change in net position - governmental activities	$ (2,158,596)	$ 6,542,667

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

BUDGET AND ACTUAL

GENERAL AND SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED JUNE 30, 2017

	General Fund				Food Service Fund				Community Service Fund			
	Budgeted Amounts			Variance with	Budgeted Amounts			Variance with	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget	Original	Final	Actual	Final Budget	Original	Final	Actual	Final Budget
REVENUE:												
Local property tax levies	$ 3,215,587	$ 3,134,269	$ 3,129,608	$ (4,661)	$ -	$ -	$ -	$ -	$ 186,865	$ 187,480	$ 187,682	$ 202
Other local and county revenues	416,700	914,588	996,882	82,294	1,775	3,800	16,765	12,965	263,535	283,980	334,726	50,746
Revenues from state sources	34,528,380	35,607,485	36,757,211	1,149,726	116,500	140,000	132,156	(7,844)	1,155,156	1,155,137	1,152,074	(3,063)
Revenues from federal sources	1,116,740	1,279,444	1,109,998	(169,446)	1,731,500	1,778,200	1,825,611	47,411	97,176	138,757	138,246	(511)
Sales and other conversion of assets	23,750	23,750	27,590	3,840	388,500	406,000	437,229	31,229	-	-	43	43
Interdistrict revenues	246,000	300,000	263,817	(36,183)	-	-	-	-	-	-	-	-
Total revenues	$ 39,547,157	$ 41,259,536	$ 42,285,106	$ 1,025,570	$ 2,238,275	$ 2,328,000	$ 2,411,761	$ 83,761	$ 1,702,732	$ 1,765,354	$ 1,812,771	$ 47,417
EXPENDITURES:												
Current expenditures-												
District and school administration	$ 1,144,857	$ 1,137,557	$ 1,080,963	$ 56,594	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District support services	1,108,655	1,167,355	846,295	321,060	-	-	-	-	-	-	-	-
Regular instruction	18,126,744	19,113,752	18,313,615	800,137	-	-	-	-	-	-	-	-
Vocational instruction	539,359	539,359	537,563	1,796	-	-	-	-	-	-	-	-
Exceptional instruction	6,194,427	6,476,698	6,237,295	239,403	-	-	-	-	-	-	-	-
Community education and services	-	-	-	-	-	-	-	-	1,663,529	1,733,346	1,771,075	(37,729)
Instructional support services	2,602,601	2,605,601	2,504,444	101,157	-	-	-	-	-	-	-	-
Pupil support services	3,573,353	3,564,391	3,271,474	292,917	2,238,275	2,348,275	2,373,633	(25,358)	9,356	10,622	12,288	(1,666)
Site and building services	2,854,729	3,350,294	2,284,277	1,066,017	-	-	-	-	-	-	-	-
Fiscal and other fixed cost programs	1,331,243	484,085	478,129	5,956	-	-	-	-	-	-	-	-
Capital outlay	1,787,399	1,137,796	1,682,058	(544,262)	-	-	-	-	-	-	-	-
Total expenditures	$ 39,263,367	$ 39,576,888	$ 37,236,113	$ 2,340,775	$ 2,238,275	$ 2,348,275	$ 2,373,633	$ (25,358)	$ 1,672,885	$ 1,743,968	$ 1,783,363	$ (39,395)
Excess (deficit) of revenues over (under) expenditures	$ 283,790	$ 1,682,648	$ 5,048,993	$ 3,366,345	$ -	$ (20,275)	$ 38,128	$ 58,403	$ 29,847	$ 21,386	$ 29,408	$ 8,022
OTHER FINANCING SOURCES (USES):												
Sale of capital assets	$ 1,000	$ 50,000	$ 73,459	$ 23,459	$ -	$ -	$ 300	$ 300	$ -	$ -	$ -	$ -
Total other financing sources (uses)	$ 1,000	$ 50,000	$ 73,459	$ 23,459	$ -	$ -	$ 300	$ 300	$ -	$ -	$ -	$ -
Net change in fund balances	$ 284,790	$ 1,732,648	$ 5,122,452	$ 3,389,804	$ -	$ (20,275)	$ 38,428	$ 58,703	$ 29,847	$ 21,386	$ 29,408	$ 8,022
FUND BALANCE, Beginning of year	15,283,941	15,283,941	15,283,941	-	790,517	790,517	790,517	-	347,851	347,851	347,851	-
FUND BALANCE, End of year	$ 15,568,731	$ 17,016,589	$ 20,406,393	$ 3,389,804	$ 790,517	$ 770,242	$ 828,945	$ 58,703	$ 377,698	$ 369,237	$ 377,259	$ 8,022

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

ASSETS

	Private Purpose Trust Funds	Agency Funds
ASSETS:		
Cash and investments	$ 323,160	$ 107,709
Total assets	$ 323,160	$ 107,709

LIABILITIES AND NET POSITION

	Private Purpose Trust Funds	Agency Funds
LIABILITIES:		
Salaries payable	$ -	$ 41,659
Accounts payable	120	66,050
Total liabilities	$ 120	$ 107,709
NET POSITION:		
Held in trust	$ 323,040	$ -

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED JUNE 30, 2017

		Private Purpose Trust Funds
ADDITIONS:		
Other local and county revenues-		
Interest income	$	914
Other local revenues		8,713
Total additions	$	9,627
DEDUCTIONS:		
Pupil support services	$	42,685
Total deductions	$	42,685
Change in net position	$	(33,058)
NET POSITION, Beginning of year		356,098
NET POSITION, End of year	$	323,040

The accompanying notes are an integral part of these financial statements.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Basis of Presentation-

Independent School District No. 518 (the District) was formed and operates pursuant to applicable Minnesota laws and statutes. The District is governed by a seven-member school board elected by voters of the District to serve four year terms. The financial statements of the District 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. Financial Reporting Entity-

Independent School District No. 518 is an instrumentality of the State of Minnesota established to function as an educational institution. The elected School Board (Board) is responsible for legislative and fiscal control of the District. A Superintendent is appointed by the Board and is responsible for administrative control of the district.

Accounting principles generally accepted in the United States of America (GAAP) require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

Financial accountability includes such aspects as appointing a voting majority of the organization's governing body, significantly influencing the programs, projects, activities or level of services performed or provided by the organization or receiving specific financial benefits from, or imposing specific financial burden on, the organization. There are no other entities for which the District is financially accountable.

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The School Board does have a fiduciary responsibility in establishing broad policies and ensuring that appropriate financial records are maintained for student activities. However, in accordance with Minnesota State Statutes, the District's School Board has elected not to control or exercise oversight responsibility with respect to the underlying student activities. Accordingly, the student activity accounts are not included in these financial statements.

c. Basic Financial Statement Presentation-

The Government-wide financial statements (i.e. the Statement of Net Position and the Statement of Activities) display information about the reporting government as a whole. These statements include all the financial activities of the District, except for the fiduciary funds. The Fiduciary Funds are only reported in the Statements of Fiduciary Net Position at the Fund Financial Statement level.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Basic Financial Statement Presentation (continued)-

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

The District applies restricted resources first when an expense is incurred for purpose 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. Interest on long-term debt is considered an indirect expense and is reported separately on the Statement of Activities. Generally, the effect of material interfund activity has been removed from the Government-wide financial statements.

Separate fund financial statements are provided for governmental and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: pension (or other benefit) trust, investment trust, private-purpose trust, and agency. Since by definition, fiduciary fund assets are being held for the benefit of a third-party and cannot be used for activities or obligations of the District, these funds are excluded from the district-wide statements.

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 government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as is the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are generally recognized as revenues in the fiscal year for which they are levied, except for amounts advance recognized in accordance with a statutory “tax shift” described later in these notes. 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:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. Measurement Focus and Basis of Accounting (continued)-

1. **Revenue Recognition** – Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue is generally considered as available if collected within 60 days after year end. State revenue is recognized in the year to which it applies according to Minnesota Statutes and accounting principles generally accepted in the United States of America. Minnesota Statutes include state aid funding formulas for specific years. Federal revenue is recorded in the year in which the related expenditure is made. Other revenue is considered available if collected within one year. Food service sales, community education tuition, and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month period of availability is generally used for other fund revenue.

2. **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.

The District reports unearned revenue on its statement of net position and balance sheet. Unearned revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the District before it has legal claim to them, as when grant monies are received prior to incurring the qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the District has legal claim to the resources, the liability for unearned revenue is removed from the statement of net position and balance sheet and revenue is recognized.

Private Purpose Trust Funds are reported using the economic resources measurement focus. All fiduciary funds use the accrual basis of accounting as described earlier in these notes.

Description of Funds-

The existence of the various District funds has been established by the State of Minnesota, Department of Education. The accounts of the district are organized on the basis of funds, each of which is considered a separate accounting entity A description of the funds included in this report are as follows:

Major Governmental Funds-

General Fund - The General Fund is used to account for all financial resources except those required to be accounted for in another fund. It includes the general operations and pupil transportation activities of the district, as well as the capital related activities such as maintenance of facilities equipment purchases, health and safety projects, and disabled accessibility projects.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. Measurement Focus and Basis of Accounting (continued)-

Description of Funds (continued)-

Major Governmental Funds (continued)-

Debt Service Funds – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general obligation bond principal, interest, and related costs.

Food Service Special Revenue Fund – The Food Service Fund is used to account for food service revenues and expenditures. Revenues recorded in this fund include meal sales to pupils along with state and federal reimbursements for meals.

Community Service Special Revenue Fund – The Community Service Fund is used to account for services provided to residents in the areas of recreation, civic activities, nonpublic pupils, veterans, adult or early childhood programs, or other similar services. Revenues recorded in this fund include property taxes restricted for Community Service purposes and tuition and fees charged for Community Education.

Capital Projects – Building Construction Fund – The Capital Projects – Building Construction Fund is used to account for financial resources used for the acquisition or construction of major capital facilities. The Fund was established for building construction activity authorized by specific bond issues.

Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources for, and payment of general long-term obligation bond principal, interest, and related costs. The regular debt service account is used for all general obligation bond debt service, except for refunding bond issues, for which a separate refunding bond trust account has been established.

Fiduciary Fund Types-

Private Purpose Trust Fund – The Foundation Private Purpose Trust Fund is used to account for resources held in trust to be used by various other third parties.

Agency Fund – Agency Funds are established to account for cash and other assets held by the District as the agent for others. These funds are used to account for the Nobles County Integration Collaborative.

e. Deferred Outflows/Inflows of Resources-

In addition to assets, the statement of financial position may report deferred outflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred outflows of resources from pensions on the government wide statement of net position result from the differences between expected and actual economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings, changes in proportion, and contributions paid to the pension subsequent to the measurement date.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

e. Deferred Outflows/Inflows of Resources (continued)-

In addition to liabilities, the statement of financial position may report deferred inflows of resources. Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. For the District, deferred inflows of resources consists of property taxes and pensions. Property taxes represent amounts for which there was an enforceable legal claim as of June 30, 2016, but which were levied to finance fiscal year 2016 operations. These amounts have been recorded as deferred inflows of resources on both the government-wide statement of net position and the governmental fund balance sheet and represents receivables which will not be collected within the available period. Pensions deferred inflows on the government wide statement of net position result from the differences between expected and actual economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings, and changes in proportion. For the District, unavailable revenue includes delinquent property taxes. These amounts are deferred and recognized as inflows of resources in the period when the amounts become available.

f. Budgeting-

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. Each June, the School Board adopts an annual budget for the following fiscal year for the General, Food Service, Community Service, Capital Projects – Building Construction, and Debt Service Funds. The approved budget is published in summary form in the District's legal newspaper. Reported budget amounts represent the amended budget as adopted by the school board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to the budgeted amounts must be approved by the School Board. Individual amendments were not material in relation to the original appropriations.

Total Fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

Budget provisions for the Debt Service Fund are set by state law governing required debt service levels.

At the end of each fiscal year, if the General Fund has a net unassigned deficit balance, calculated in accordance with the uniform financial accounting and reporting standards for Minnesota school districts which includes certain restrictions specified in Minnesota statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of Education.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

g. Cash and Investments-

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund. Earnings from the investments of the Private Purpose Trust Funds are allocated directly to those funds/accounts.

Investments are stated at their fair value as determined by quoted market prices, except for money market investments and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less which are recorded at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors. Money market investments are short-term, highly liquid debt instruments including commercial paper, banker's acceptances, and U.S. Treasury and agency obligations. Investments in external investment pools operated in a manner consistent with the SEC's Rule 2a7 of the Investment Act of 1940 are valued at the pool's share price.

h. Accounts Receivable-

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the District. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary. The only receivables not expected to be collected within one year are delinquent property taxes receivable.

i. Inventories-

Inventories are recorded using the purchase method of accounting and consist 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, and surplus commodities are stated at standardized costs, as determined by the U.S. Department of Agriculture.

j. Prepaid Items-

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. Prepaid items are reported using the consumption method and recorded as an expenditure at the time of consumption.

k. Property Taxes-

Property tax levies are established by the School Board in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to the Districts at periodic intervals as they are collected. A portion of property taxes levied is paid through the state credits which are included in revenue from state sources in the financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

k. Property Taxes (continued)-

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 tax levy is recorded as deferred revenue (property taxes levied for subsequent year). The majority of the District revenue in the General and Special Revenue Funds is determined annually by statutory funding formulas. The total revenue allowed by these formulas is then allocated between 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".

During the 2015 fiscal year the State of Minnesota enacted legislation reducing the tax shift to 31% of the Pay 2001 operating referendum (frozen at $75,873) plus 100% of the levies for vocational programs and unemployment costs.

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 because it is not known to be available to finance the operations of the District in the current year. No allowance for uncollectible taxes is considered necessary. Current levies of local taxes, less the amount recognized as revenue in the current period, including portions assumed by the State which will be recognized as revenue in the next fiscal year beginning July 1, 2017 are included in the Property Taxes Levied for Subsequent Year account to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

l. 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 $1,000 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Capital assets are recorded in the Government-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 generally sold for an immaterial amount or scrapped when declared as no longer fit or needed for public school purposes by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 20 years for equipment.

Capital assets not being depreciated include land and any construction in progress.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

m. Long-Term Obligations-

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

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

n. Vacation Pay-

Under the terms of contracts, certain employees accrue vacation at varying rates, portions of which may be carried over to future years. Employees are reimbursed for any unused, accrued vacation upon termination. Vacation pay is accrued when incurred in the district-wide and all fiduciary fund financial statements. Vacation pay is accrued in governmental fund financial statements only when it has matured due to employee termination or similar circumstances.

o. Sick Pay-

Substantially all District employees are entitled to sick leave at various rates. Unused sick leave enters into the calculation of retirement incentive payments for some employees upon termination.

p. Other Postemployment Health Care Benefits-

In addition to retirement benefits, the District provides post-retirement medical insurance benefits to teachers, administrators, principals, food service workers, custodians and clerical employees, in accordance with their respective master employment agreements. The eligibility for, amount of, duration of, and District's contribution to the cost of the benefits provided varies by contract and date of retirement.

q. Restricted Assets-

Restricted assets are cash and cash equivalents whose use is limited by legal requirements such as a bond indenture. Restricted assets are reported only in the government-wide financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

r. Fund Balance-

In the fund financial statements, governmental funds report fund balances in classifications that disclose constraints for which amounts in those funds can be spent. These classifications are as follows:

Nonspendable – resources that are not in spendable form or have legal or contractual requirements to maintain the balance intact.

Restricted – resources that have purpose constraints placed upon them by laws, regulations, creditors, grantors, or other external parties and are considered available only for the purpose for which they were received.

Committed – resources that are constrained for specific purposes that are internally imposed by the District at its highest level of decision making authority, the Board of Education. With an affirmative vote of its members, the Board of Education may create, modify, or rescind funds for which resources are committed to the established purpose of that fund.

Assigned – resources that are intended to be used for specific purposes as approved through the District's formal purchasing procedure by the Treasurer. Through the District's purchasing policy, the Board of Education has given the Treasurer the authority to constrain monies for the intended purpose.

Unassigned – residual fund balance within the general fund that is in spendable form and is not restricted, committed, or assigned.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is the District's policy to use restricted first, then unrestricted fund balance.

When an expenditure is incurred for purposes for which committed, assigned, and unassigned amounts are available, it is the District's policy to use committed first, then assigned, and finally unassigned amounts.

The school district will strive to maintain a minimum unassigned general fund balance of 10% percent of the annual budget at the end of the fiscal year.

s. Risk Management-

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

t. Net Position-

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

u. Comparative Financial Information-

The basic financial statements include certain prior-year partial comparative information in total but not at the level of detail required for a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the government's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

v. Use of Estimates-

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

w. Functional Allocation of Expenses-

The costs of various programs and supporting services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

a. Excess of Expenditures Over Budget-

Expenditures exceeded the budget in the following funds at June 30, 2017:

	Budget	Expenditures	Amount
Community Service Fund	$ 1,743,968	$ 1,783,363	$ 39,395

No remedial action is deemed necessary for the Community Service fund as the excess expenditures were in relation to revenues over budget as well.

b. Revenues Under Budget-

Revenues were below budgeted amounts in the following fund at June 30, 2017:

	Budget	Revenues	Amount
Trust Fund	$ 9,743	$ 9,627	$ 116

No remedial action is deemed necessary for the Trust fund as sufficient fund balance exists to cover the shortfall

3. DEPOSITS AND INVESTMENTS:

a. Deposits-

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

Minnesota Statutes require that all District deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or bonds.

Authorized collateral includes treasury bills, notes and bonds; issues of U.S. Government agencies; general obligations rated "A" or better; revenue obligations rated "AA" or better; irrevocable standard letters of credit issued by the Federal Home Loan Bank; and certificates of deposit. Minnesota statutes require that securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or in an account at a trust department of a commercial bank or other financial institution that is not owned or controlled by the financial institution furnishing the collateral.

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The government does not have a deposit policy for custodial credit risk. As of June 30, 2017, none of the District's bank balance of $14,812,754 was exposed to custodial credit risk. No amounts were uninsured or under collateralized.

3. DEPOSITS AND INVESTMENTS (Continued):

b. Investments-

The District may also invest idle funds as authorized by Minnesota Statutes, as follows: direct obligations or obligations guaranteed by the United States or its agencies; shares of investment companies registered under the Federal Investment Company Act of 1940 that receive the highest credit rating, are rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less; general obligations rated "A" or better; revenue obligations rated "AA" or better; general obligations of the Minnesota Housing Finance Agency rated "A" or better; bankers' acceptances of United States' banks eligible for purchase by the Federal Reserve System; commercial paper issued by United States' corporations or their Canadian subsidiaries, of the highest quality category by at least two nationally recognized rating agencies, and maturing in 270 days or less; Guaranteed Investment Contracts guaranteed by a United States commercial bank, domestic branch of a foreign bank, or a United States insurance company, and with a credit quality in one of the top two highest categories; repurchase or reverse purchase agreements and securities lending agreements with financial institutions qualified as a "depository" by the government entity, with banks that are members of the Federal Reserve System with capitalization exceeding $10,000,000; a primary reporting dealer in U.S. government securities to the Federal Reserve Bank of New York, or certain Minnesota securities broker-dealers.

The District's investments are potentially subject to various risks including the following:

- **Custodial credit risk** – The risk that in the event of a failure of the counterparty to an investment transaction (typically a broker) the government would not be able to recover the value of the investment or collateral securities.
- **Credit risk** – The risk that an issuer or other counterparty to an investment will not fulfill its obligations.
- **Concentration risk** – Investing 5 percent or more of the District's portfolio in the securities of a single issuer.
- **Interest rate risk** – The risk of potential variability in the fair value of fixed rate investments resulting from changes in interest rates (the longer the period for which an interest rate is fixed, the greater the risk).

Cash and Investments held by trustee are held by an escrow agent in accordance with escrow agreements established with the sale of refunding bonds totaling $5,708,495. The following shows the breakdown of investments held with the trustee and their maturities:

		Maturity Duration in Years	
Type	Total	Less than 1	1 to 2
Government Agencies	$ 5,534,868	$ 156,851	$ 5,378,017

The District has no internal policies that limit deposits on investment choices or address these potential risks beyond the statutory limitations described above.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

3. DEPOSITS AND INVESTMENTS (Continued):

b. Investments (continued)-

The following table presents the District's investment balances at June 30, 2017, and information relating to potential investment risks:

	Credit Risk		Concentration Risk	Interest Rate Risk	
	Credit Rating	Rating Agency	Over 5% of Portfolio	Maturity Date	Carrying Value
Governmental Agencies	N/A	N/A	36.4%	02/01/2019	$ 5,534,868
Investment pools/mutual funds					
Minnesota School District Liquid Asset Fund Plus	AAAm	S & P	0.3%	N/A	8,920
Minnesota School District Liquid Asset Fund Plus MAX Series	AAAm	S & P	63.3%	N/A	8,643,877
Total investments					$ 14,187,665
Nonparticipating certificates of deposits and MSDLAF term investments					14,382,000
Deposits					81,417
Total cash and investments					$ 28,651,082

N/A - Not applicable

Cash and investments are included on the basic financial statements as follows:

Cash and temporary investments-statements of net position	$ 21,447,334
Cash and investments for debt service-restricted–statements of net position	1,238,011
Cash and investments held by trustee–statements of net position	5,534,868
Cash and temporary investments-statement of fiduciary net position	430,869
	$ 28,651,082

The Minnesota School District Liquid Asset Fund is an external investment pool not registered with the Securities Exchange Commission (SEC) that follows the same regulatory rules of the SEC under rule 2a7. The fair value of the position in the pool is the same as the value of the pool shares.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

4. CAPITAL ASSETS:

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

Governmental Activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	$ 3,509,122	$ -	$ -	$ 3,509,122
Construction in progress	-	482,654	-	482,654
Total capital assets, not depreciated	$ 3,509,122	$ 482,654	$ -	$ 3,991,776
Capital Assets, depreciated:				
Land improvements	$ 3,413,142	$ 295,303	$ (63,664)	$ 3,644,781
Buildings	42,385,199	547,441	-	42,932,640
Equipment and vehicles	10,760,823	1,754,199	(514,352)	12,000,670
Total capital assets, depreciated	$ 56,559,164	$ 2,596,943	$ (578,016)	$ 58,578,091
Less accumulated depreciation for:				
Land improvements	$ (890,483)	$ (162,067)	$ 56,474	$ (996,076)
Buildings	(14,893,279)	(1,068,292)	-	(15,961,571)
Equipment and vehicles	(6,600,773)	(1,180,041)	496,869	(7,283,945)
Total accumulated depreciation	$ (22,384,535)	$ (2,410,400)	$ 553,343	$ (24,241,592)
Net capital assets, depreciated	34,174,629	186,543	(24,673)	34,336,499
Total capital assets, net	$ 37,683,751	$ 669,197	$ (24,673)	$ 38,328,275

Depreciation expense of $2,410,400 for the year ended June 30, 2017, was charged to the following governmental functions:

Governmental Activities:

Administration	$ 2,295
District support services	26,233
Regular instruction	870,221
Vocational instruction	9,348
Exceptional instruction	21,339
Community Service	19,387
Instructional support services	104,806
Pupil support services	39,735
Food service	19,162
Site, buildings and equipment	432,359
Unallocated	865,515
	$ 2,410,400

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM LIABILITIES:

a. General Obligation School Building Bonds and Certificates of Participation-

The District currently has the following general obligation school building bonds and Certificates of Participation outstanding:

Issue	Issue Date	Interest Rates	Final Maturity	Principal Outstanding
General Obligation Alternative Facilities Building Bonds	1/7/2010	3.25%-3.50%	2/1/2019	$ 5,960,000
General Obligation Capital Facilities Building Bonds	1/7/2010	2.75%-3.75%	2/1/2024	585,000
General Obligation Refunding School Building Bonds	11/14/2013	2.00%-3.00%	2/1/2024	8,610,000
General Obligation Refunding Alternative Facilities Bonds	6/2/2016	2.00%-2.25%	2/1/2030	4,665,000
Certificates of Participation	1/7/2010	3.50%-4.40%	4/1/2025	2,565,000
Total general obligation bonds				$ 22,385,000

Assets of the Debt Service Fund, together with scheduled future ad valorem tax levies are dedicated for the retirement of these bonds. The annual future debt service levies authorized are equal to 105% of the principal and interest due each year. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

Certificates of Participation are repaid through funds from the Leased Facility Levy and general operations energy savings.

The General Obligation School Building Bonds require semiannual payments of principal and/or interest from the date the bonds were issued.

The Certificates of Participation require semiannual payments of principal and or interest from the date the bonds were issued. The portion of these certificates related to the energy savings improvements require monthly transfers to a separate debt service account.

In June 2016, the District issued $4,805,000 of General Obligation Refunding Bonds, Series 2016A. The proceeds of this issue and interest earned thereon were used to refund, in advance of their stated maturities, a portion of the interest for the 2017 through 2019 maturities and the full amount of the 2020 through 2030 maturities of the 2010B General Obligation Alternative facilities Building Bonds totaling $5,220,000. The proceeds of the 2016A issue were placed in an escrow account until the 2010B bonds call date of February 1, 2019. This refunding reduces the District's total future debt service payments by approximately $1,400,000.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM LIABILITIES (Continued):

b. Bond Premiums-

Bond premiums are amortized using the straight line method over the life of the bonds.

Issue	Issue Date	Bond Premium	Final Maturity	2017 Amortization
General Obligation Alternative Facilities Building Bonds	1/7/2010	147,343	2/1/2019	$ 29,806
General Obligation Capital Facilities Building Bonds	1/7/2010	6,582	2/1/2024	468
General Obligation Refunding School Building Bonds	11/1/2013	424,863	2/1/2024	41,116
General Obligation Refunding Alternative Facilities Bonds	6/2/2016	133,309	2/1/2030	9,754
Total current year amortization				$ 81,144

c. Minimum Debt Payments-

Minimum annual principal and interest payments to maturity for general obligation school building bonds, capital leases and special assessments payable are as follows:

Year Ending June 30 ,	General Obligation School Building Bonds, Including Refunding Bonds Principal	General Obligation School Building Bonds, Including Refunding Bonds Interest	Certificates of Participation Principal	Certificates of Participation Interest
2018	$ 1,580,000	$ 584,926	$ 280,000	$ 103,110
2019	1,620,000	549,113	290,000	93,310
2020	2,045,000	504,382	300,000	82,725
2021	2,100,000	450,803	315,000	71,325
2022	2,160,000	389,277	325,000	58,725
2023-2027	7,290,000	1,055,363	1,055,000	93,010
2028-2030	3,025,000	203,672	-	-
	$ 19,820,000	$ 3,737,536	$ 2,565,000	$ 502,205

d. Special Assessments Payable-

Special Assessments payable represents the outstanding liability relating to various improvements made to district property financed through municipalities. The annual assessment levies consisting of principal and interest at various rates will be paid for by the General Fund. As of June 30, 2017 there were no assessments payable.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

5. LONG-TERM LIABILITIES (Continued):

e. Changes in Long-Term Liabilities-

	June 30, 2016	Additions	Retirements	June 30, 2017	Due Within One Year
General obligation school building bonds	$ 21,510,000	$ -	$ 1,690,000	$ 19,820,000	$ 1,580,000
Bond premium	528,520	-	81,144	447,376	81,144
Certificates of Participation	2,835,000	-	270,000	2,565,000	280,000
Compensated Absences	68,647	59,959	68,647	59,959	59,959
Other Post Employment Benefits	89,719	56,227	-	145,946	-
Pension Benefits	22,764,789	58,206,244	2,073,359	78,897,674	-
	$ 47,796,675	$ 58,322,430	$ 4,183,150	$ 101,935,955	$ 2,001,103

6. OPERATING LEASES:

The District leases the facilities of the Armory Business Center, Worthington Hockey Arena, and Memorial Auditorium. The lease for the Armory Business Center was renewed through May 31, 2017, with additional one year renewal options. The renewal option allows the lessor to incorporate into the monthly rental cost increases related to utility rates, cost of snow removal, real estate taxes, or assessments for governmental projects. The lease for the Worthington Hockey Arena was renewed with a remaining term of one year through June 30, 2018. The lease for the Memorial Auditorium was renewed for a term of three years, expiring on June 30,2020. Rental expense for the year ended June 30, 2017, was $44,937.

Future minimum lease payments at June 30, 2017, are as follows:

2018	$ 55,100
2019	31,212
2020	31,836
Thereafter	-
	$ 118,148

7. INTERFUND TRANSFERS:

Transfers are used to move unrestricted revenues to finance various programs in accordance with budgetary authorizations. A transfer of the remaining Capital Projects Fund Alternative Facilities restricted fund balance to the Debt Service restricted for bond refunding fund balance was made to close the Capital Projects Fund as allowable purpose projects were completed.

8. RESTRICTED FUND BALANCES:

Certain portions of fund balance are restricted based on state requirements to track special program funding, to provide for funding on certain long-term liabilities, or as required by other outside parties. A description of deficit balance restrictions is included herein since the District has specific statutory authority to levy taxes for such deficits.

Restricted, Committed, and Assigned fund balances at June 30, 2017 are as follows:

Restricted for Area Learning Center-

Represents available resources to be used for students attending the area learning center. The fund balance as of June 30, 2017 is $362,885.

Restricted for Health and Safety-

Represents available resources from the levy to be used for health and safety. The fund balance as of June 30, 2017 is $192,554. The 2016 Minnesota Legislature reassigned eligible health & safety expenditures to the long term facilities fund balance account effective July 1, 2016 with an adjustment balancing prior health & safety revenues to eligible expenditures to be made on the 2018 levy. After those adjustments any remaining balance is to be transferred to the general fund unassigned fund balance.

Restricted for Operating Capital-

The district levies taxes and receives state aid to be used for the purchase of equipment, books and vehicles and to purchase, rent, improve and repair school facilities as allowed by state statute. The cumulative excess of such revenues over equipment and facilities expenditures is reported as a restriction of fund balance in the General Fund. The fund balance as of June 30, 2017 is $753,545.

Restricted for Gifted and Talented-

Represents available resources from state aid to be used for gifted and talented programming in accordance with funding made available for that purpose. The fund balance as of June 30, 2017 is $69,950.

Restricted for Safe Schools-

Represents available resources from the levy to be used for safe schools. The fund balance as of June 30, 2017 is $44,881.

Restricted for Long Term Facility Maintenance (formerly Deferred Maintenance)-

Represents available resources from the levy or aid to be used for future long term facility maintenance projects. The fund balance as of June 30, 2017 is $385,340.

8. RESTRICTED FUND BALANCES (Continued):

Restricted for Staff Development-

Represents available resources from the levy or aid to be used for future staff development activities. The fund balance as of June 30, 2017 is $30,009.

Restricted for Food Service-

Represents available resources to be used in providing food services to students. The fund balance as of June 30, 2017 is $729,815.

Restricted for Community Education-

Represents accumulated resources available to provide general community education programming. The fund balance as of June 30, 2017 is $47,338.

Restricted for Adult Basic Education-

Represents accumulated resources available to provide adult basic education services. The fund balance as of June 30, 2017 is $247,000.

Restricted for School Readiness-

Represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose. The fund balance as of June 30, 2017 is $28,068.

Restricted for Early Childhood Family Education-

Represents accumulated resources available to provide early childhood family education programming in accordance with funding made available for that purpose. The fund balance as of June 30, 2017 is $53,813.

Restricted for Other Programs-

Represents that amount that can be spent only for specific purposes stipulated by constitutional, external resource providers, or through enabling legislation. The fund balance as of June 30, 2017 is $1,040.

Restricted for Debt Service-

Represents available resources from the debt service levy available only for payment of outstanding debt and related expenses. The fund balance as of June 30, 2017 is $515,984.

Restricted for Bond Refunding-

Represents available resources to be used for bond refunding. The fund balance as of June 30, 2017 is $5,538,221.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

8. RESTRICTED FUND BALANCES (Continued):

Committed for Separation-

Represents amounts committed for severance, but not restricted. The fund balance as of June 30, 2017 is $185,849.

Assigned for Projects-

Represents amounts assigned for projects, but are not restricted or committed. The fund balance as of June 30, 2017, is $7,000,000.

9. EARLY RETIREMENT INCENTIVE:

a. Teachers-

Full-time teachers who have not less than 30 years of full time teaching service or who are at least fifty-five years of age and have 15 total years of full time teaching service are eligible for severance pay pursuant to the provisions of the master contract upon submission of a written resignation accepted by the Board.

Each full-time teacher will be paid up to a maximum of 100 days of any unused and accrued sick leave earned by that teacher while an employee of the District. The daily rate of pay is the basic daily rate at the time of retirement, as provided in the basic salary schedule (including career increment) for the basic school year, and does not include any additional compensation for extracurricular activities, extended employment or other extra compensation.

Payment will be contributed to a post-retirement health care savings plan sponsored by the District with half of the amount paid prior to September 1 of the year of separation and the remaining half will be paid prior to September 1 of the year following separation.

As of June 30, 2017, six teachers met the requirements representing a potential commitment of approximately $108,706 in severance pay if all would resign pursuant to the provisions of the master contract.

Severance pay is recorded as an expenditure when eligible employees retire. There were no retirements of eligible personnel and no expenditures in the year ended June 30, 2017.

b. Superintendent-

The Superintendent is eligible for severance pay after the Board receives a resignation. The amount of severance will be equal to the dollar amount per day of the existing contract times the number of accumulated sick leave days. The severance pay will be paid to the Superintendent according to timelines set by the Board.

As of June 30, 2017, there is a potential commitment of $77,143 in severance pay if the Superintendent would resign pursuant to the provisions in the contract.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

10. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN:

At June 30, 2009, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.* The District engaged an actuary to determine the District's liability for postemployment healthcare benefits other than pensions as of June 30, 2016.

a. Plan Description-

The District provides a single-employer defined benefit healthcare plan administered by the District which allows retirees to participate in that plan through contractual arrangement. There are 377 active participants and 15 retired participants. The plan does not issue a publicly available financial report.

Post-Employment Medical Plan – All eligible retirees of the District have the option to continue their medical coverage into retirement. Retirees pay the full district premium rate for the coverage and dependent coverage if elected. When the retiree is eligible for coverage under Medicare, the District plan allows continued participation as a healthcare plan secondary to that Medicare coverage.

b. Funding Policy-

As of June 30, 2017, none of the employee bargaining unit contracts and employment agreements include a provision for a District contribution for post-employment healthcare plan premiums.

c. Annual OPEB Cost and Net OPEB Obligation-

The District's annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC 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 over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually paid from the plan, and the changes in the District's net OPEB obligation.

Annual Required Contribution	$ 125,877
Adjustment to Annual Required Contribution	(5,189)
Annual OPEB Cost (Expense)	$ 120,688
Interest	3,589
Contributions made	(68,050)
Increase in Net OPEB Obligation	$ 56,227
Net OPEB Obligation (Asset) – Beginning of Year	89,719
Net OPEB Obligation (Asset) – End of Year	$ 145,946

10. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN (Continued):

c. Annual OPEB Cost and Net OPEB Obligation (continued)-

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017, 2016, 2015, 2014, and 2013 were:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2017	$124,277	54.76%	$ 145,946
6/30/2016	89,788	62.55%	89,719
6/30/2015	91,781	62.55%	52,864
6/30/2014	64,772	87.28%	18,422
6/30/2013	65,454	72.85%	10,085

d. Funded Status and Funding Progress-

As of July 1, 2016, the actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was $1,039,901. The annual payroll for active employees enrolled in the plan was $20,189,269 for a ratio of UAAL to covered payroll of 5.2%.

Actuarial valuations of an ongoing plan involve estimates of the reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

e. Actuarial Methods and Assumptions-

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

10. POST-EMPLOYMENT HEALTHCARE BENEFIT PLAN (Continued):

e. Actuarial Methods and Assumptions (continued)-

In the July 1, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.0% discount rate which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan at the valuation date. The Health Care Trend Rates have been revised to a rate of 8.0%, based on historical medical CPI information, then decreasing by 0.5% annually to an ultimate rate of 4.5%. Previously, the initial health care trend rate was -5.0% increased to 7.5% and then decreasing by 0.5% annually to an ultimate rate of 4.5%. The UAAL is being amortized as a level dollar over thirty years based on an open group for the implicit liability.

11. DEFINED BENEFIT PENSION PLANS:

Substantially all employees of the District are required by state law to belong to cost sharing, multiple employer, defined benefit pension plans administered by Teachers Retirement Association (TRA) and Public Employees Retirement Association (PERA), all of which are established and administered in accordance with Minnesota Statutes. TRA's and PERA's defined benefit pension plans are tax qualified plans under section 40(a) of the Internal Revenue Code.

a. Plan Descriptions-

1. Teachers Retirement Association (TRA)-

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 administered by a Board of Trustees. The Board consist 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, or 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 University (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

2. General Employees Retirement Fund (GERF)-

GERF's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapter 353 and 356.

All full time and certain part-time employees of the District other than teachers are covered by the General Employees retirement Fund (GERF) Coordinated Plan.

11. DEFINED BENEFIT PENSION PLANS (Continued):

b. Benefits Provided-

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

TRA: Post-retirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0%.

GERF: 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% funding 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 provisions in effect at the time they last terminated their public service.

1. TRA benefits-

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 Statutes 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 n 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. 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.

11. DEFINED BENEFIT PENSION PLANS Continued):

b. Benefits Provided (continued)-

1. TRA benefits (continued)-

Tier I	Step Rate Formula	Percentage
Basic	First ten years	2.2 percent per year
	All years after	2.7 percent per year
Coordinated	First ten years if service years are prior to July 1, 2006	1.2 percent per year
	First 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

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. 3.0 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 provision (age plus allowable service equals 90 or more).

or

Tier II	Step Rate Formula	Percentage
Basic	Service years prior to July 1, 2006	2.7 percent per year
	All years after July 1, 2006	2.7 percent per year
Coordinated	Service years prior to July 1, 2006	1.7 percent per year
	All years after July 1, 2006	1.9 percent per year

Actuarially equivalent early retirement reduction factors with augmentation are used for early retirement before the normal age of 65. 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 the individuals who reach age 62 and have 30 or more years of service credit.

11. DEFINED BENEFIT PENSION PLANS (Continued):

b. Benefits Provided (continued)-

1. TRA benefits (continued)-

Six different types of annuities are available to members upon retirement. The No Refund Life Plan (A-1) is a lifetime annuity that ceases upon the death of the retiree-no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans which have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

2. GERF benefits-

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

Method 1	**Step Rate Formula**	**Percentage**
Coordinated	First ten years of service	1.2 percent per year
	All service years over ten	1.7 percent per year

or

Method 2	**Step Rate Formula**	**Percentage**
Coordinated	All years of service	1.7 percent per year

For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

c. Contributions-

1. TRA contributions-

Minnesota Statutes Chapter 354 sets the rates for the employee and employer contributions. Rates for each fiscal year were:

	Ending June 30, 2016		Ending June 30, 2017	
	Employee	Employer	Employee	Employer
Basic	11.0%	11.5%	11.0%	11.5%
Coordinated	7.5%	7.5%	7.5%	7.5%

The District contributions for the plan's year ended June 30, 2017 was $1,251,475, equal to the required contributions as set by State Statute.

2. GERF 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 6.5% of their annual covered salary in calendar year 2016 and 2017. In calendar year 2016 and 2017, the District was required to contribute 7.5% for Coordinated Plan members. The District's contributions to the GERF for the plan's fiscal year ended June 30, 2017, were $441,679. The District's contributions were equal to the required contributions for each year as set by state statute.

d. Pension Costs-

1. TRA pension costs-

At June 30, 2017 the District reported a liability of $71,151,667 for its proportionate share of TRA's 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 the total system contributions including direct aid from the State of Minnesota, City of Minneapolis and Minneapolis School District. The District's proportionate share was 0.2983% at the end of the measurement period and 0.2855% for the beginning of the year.

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

d. Pension Costs (continued)-

1. TRA pension costs (continued)-

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

District's proportionate share of the net pension liability	$ 71,151,667
State's proportionate share of the net pension liability associated with the district	7,140,867

There was a change in actuarial assumptions that affected the measurement of the total pension liability since the prior measurement date. Postretirement benefit adjustments are now assumed to be 2.0 percent annually with no increase to 2.5 percent projected.

For the year ended June 30, 2017, the District recognized pension expense of $10,644,423. It also recognized $997,104 as pension expense for the support provided by direct aid.

At June 30, 2017, the District reported its proportionate share of TRA's deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ -	$(1,984)
Changes in actuarial assumptions	39,454,760	-
Difference between projected and actual investment earnings	3,866,463	-
Changes in proportion and differences between contributions made and the District's proportionate share of contributions	505,189	-
Prior year Contributions	(1,163,649)	-
Current Year Amortization of prior year amount	(1,113,889)	(1,135,686)
Contributions paid to TRA subsequent to the measurement date	1,251,475	-
Change in Deferred Outflows and Inflows for the year ended June 30, 2016	$ 42,800,349	$(1,137,670)
Balance at June 30, 2016	5,549,996	3,444,279
Balance at June 30, 2017	$ 48,350,345	$ 2,306,609

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

d. Pension Costs (continued)-

1. TRA pension costs (continued)-

The $1,251,475 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to TRA pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2018	$8,936,412
2019	$8,936,412
2020	$9,966,782
2021	$8,958,208
2022	$7,991,593

2. GERF pension costs-

At June 30, 2017, the District reported a liability of $7,746,007 for its proportionate share of the GERF's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of $6 million to the fund in 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 $101,118. 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 share was 0.0954 percent which was an increase of 0.005 percent from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the District recognized pension expense of $1,073,624 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional $30,151 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of $6 million to the General Employees Fund.

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

d. Pension Costs (continued)-

2. GERF pension costs (continued)-

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between projected and actual economic experience	$ -	$ 463,070
Changes in actuarial assumptions	1,516,675	-
Difference between projected and actual investment earnings	1,119,198	-
Changes in proportion and differences between contributions made and the District's proportionate share of contributions	19,434	-
Prior year Contributions	(443,949)	-
Current Year Amortization of prior year amount	(301,431)	(456,878)
Contributions paid to GERF subsequent to the measurement date	479,931	-
Change in Deferred Outflows and Inflows for the year ended June 30, 2017	$ 2,389,858	$ 6,192
Balance at June 30, 2016	1,278,230	1,370,635
Balance at June 30, 2017	$ 3,668,088	$ 1,376,827

The $479,931 reported as deferred outflows of resources related to pensions resulting from District contributions to GERF subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year ended June 30:	Pension Expense Amount
2017	$482,031
2018	$296,997
2019	$753,875
2020	$279,978

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

e. Actuarial Assumptions-

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

Assumptions	GERF	TRA
Inflation	2.50% per year	2.75%
Active Member Payroll Growth	3.25% per year	3.5% based on years of service
Investment Rate of Return	7.50%	4.66%

Actuarial Salary increases were based on a service –related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2000 tables for males and females, as appropriate, with slight adjustment.

Actuarial assumptions used in the June 30, 2016, valuation were based on the results of actuarial experience studies. The experience study in the GERF was for the period July 1, 2004, through June 30, 2008, with an update of economic assumptions in 2015 for inflation and long-term rate of return.

The following changes in actuarial assumptions for TRA that affects the measurement of total liability for TRA since the prior measurement date. Postretirement benefit increase is now assumed to be 2.0 percent for all future years.

The following changes in actuarial assumptions for GERF occurred in 2016: As of July 1, 2013, the postretirement benefit increase rate was assumed to increase from 1.0% to 2.5% on January 1, 2046. As of July 1, 2016, the postretirement benefit increase rate is now assumed to remain at 1.0% for all future years.

The GERF assumed investment return was changed from 7.9 percent to 7.5 percent. The single discount rate was changed from 7.9 percent to 7.5 percent.

Other GERF assumptions were changed pursuant to the experience study dated June 30, 2015. The assumed future salary increases, payroll growth, and inflation were decreased by 0.25 percent to 3.25 percent for payroll growth and 2.50 percent for inflation.

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

e. Actuarial Assumptions (continued)-

The long-term expected rate of return on pension plan investments is 7.9% for GERF and 8.0% for TRA. The State Board of Investment, which manages the investments of PERA and TRA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis 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 arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return**
Domestic Stocks	45%	5.50%
International Stocks	15%	6.00%
Bonds	18%	1.45%
Alternative Assets	20%	6.40%
Cash	2%	0.50%
Total	100%	

f. Discount Rate-

The discount rate used to measure the total pension liability was 4.66% for TRA and 7.5% for GERF. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in statute. Based on that assumption, each of the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

g. Pension Liability Sensitivity-

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

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
TRA Discount Rate	3.66%	4.66%	5.66%
District's proportionate share of the TRA net pension liability	$ 91,661,132	$ 71,151,667	$ 54,447,378
GERF Discount Rate	6.5%	7.5%	8.5%
District's proportionate share of the GERF net pension liability	$ 11,001,625	$ 7,746,007	$ 5,064,263

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

11. DEFINED BENEFIT PENSION PLANS STATEWIDE (Continued):

h. Pension Plan Fiduciary Net Position-

Detailed information about TRA's fiduciary net position is available in a separately-issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org. Alternatively, a copy of the report may be obtained by writing or calling TRA:

Teachers Retirement Association
60 Empire Drive, Suite 400
St. Paul, MN 55103-4000
(651) 296-2409 or (800) 657-3669

Detailed information about GERF's defined benefit pension plan's fiduciary net position is available in a separately-issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org. Alternatively, a copy of the report may be obtained by writing or calling PERA:

Public Employees Retirement Association
60 Empire Drive #200
St. Paul, Minnesota, 55103-2088
(651) 296-7460 or 1-800-652-9026

12. DEFINED CONTRIBUTION PENSION PLAN STATEWIDE:

School board members of the District are covered by the Public Employees Defined Contribution Plan (PEDCP), a multiple-employer deferred compensation plan administered by the Public Employees Retirement Association of Minnesota (PERA). The PEDCP is a tax qualified plan under Section 401(a) of the Internal Revenue Code and all contributions by or on behalf of employees are tax deferred until time of withdrawal.

Plan benefits depend solely on amounts contributed to the plan plus investment earnings, less administrative expenses. Minnesota Statutes, Chapter 353D.03, specifies the employee and employer contribution rates for those qualified personnel who elect to participate. An eligible elected official who decides to participate contributes 5 percent of salary which is matched by the elected official's employer. Employer and employee contributions are combined and used to purchase shares in one or more of the seven accounts of the Minnesota Supplemental Investment Fund. For administering the plan, PERA receives 2 percent of employer contributions and twenty-five hundredths of one percent of the assets in each member's account annually.

Total contributions made by the District during fiscal year 2017 were:

Contribution Amount		Percentage of Covered Payroll		Required
Employee	Employer	Employee	Employer	Rates
$1,138	$1,138	5.0%	5.0%	5.0%

INDEPENDENT SCHOOL DISTRICT NO. 518

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

13. JOINT VENTURES:

a. Cable Channel 3 Television-

The District and the City of Worthington, Minnesota, entered into a joint powers agreement for the purposes of operating Worthington Cable 3 Television Public Access Channel on January 1, 1998, updated in October 2016. The agreement provides that the District shall provide the Board with studio space for the operation of Cable Channel 3, shall contribute equipment that was located in the studio at the time of the agreement and an annual sum of no less than $8,800. The City of Worthington, Minnesota, shall remit to the Board all franchise fees and subscriber payments which are collected by two local cable companies pursuant to the Franchise Agreement between the City, and the respective cable companies, except that the City will retain an amount equal to the amount expended by the City during the prior calendar year for cable franchise expenses, including attorney fees. In addition, the City will contribute to the Board all of the equipment owned by the City and currently located at the Senior High School television studio. The fiscal year of Cable Channel 3 is January 1st to December 31st. Audited financial statements were not available for the year ended December 31, 2016. However, internal statements were issued and reflected a positive financial position at year end. There were no related party transactions during the year.

b. Nobles County Integration Collaborative (NCIC)-

Independent School District No. 518-Worthington, Independent School District No. 511-Adrian, Independent School District No. 514-Ellsworth, Independent School District No. 505-Fulda, Independent School District No. 330 Heron Lake-Okabena and Independent School District No. 2907-Round Lake-Brewster, entered into a joint powers agreement for the purpose of implementing the Nobles County Multi-District Integration Plan which was drafted by the Nobles County Multi-District Integration Council and submitted to the State of Minnesota in January, 2001. The member Districts' shall transfer to the Board the initial and subsequent integration and achievement funds as established at the conception of the agreement. Grants received from private foundations, corporate donations, regional, state and federal grants relating to the implementation of the plan will be used in addition to the member districts' transfers to finance the program. Any surplus is returned to member districts' at the end of the fiscal year; therefore, no material surplus or deficit exists or is anticipated. Independent School District No. 518-Worthington was named the fiscal agent for the Collaborative and the audited financial information appears as an agency fund in these financial statements.

The Collaborative is required to issue a separate audited financial statement detailing their revenues, expenditures and financial position.

14. RELATED PARTY TRANSACTIONS:

During the normal course of business, the District purchases goods and services from employees of the District and sells goods and services to employees of the District. The amounts of such transactions are not material to the financial statements.

15. COMMITMENTS AND CONTINGENCIES:

a. Grants and Aids-

The District receives significant financial assistance from numerous federal, state and local government agencies in the form of grants and aid. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

b. Legal Claims-

The District has the usual and customary types of miscellaneous legal claims pending at year end, mostly of a minor nature and usually covered by insurance carried for that purpose.

16. TAX ABATEMENTS:

The District has entered into tax abatement agreements which meet the criteria for disclosure under Governmental Accounting Standards Board Statement No. 77 Tax Abatement Disclosures. The District's authority to enter into these agreements comes from Minnesota Statute 469.1813 Subd.2.b.2 that limits the abatement amount to the amount of tax increase resulting from valuation increases. The District entered into these agreements for the purpose of economic development.

Under each agreement, the District and developer agree on an amount of the development cost to be reimbursed to the developer by the District through tax revenues levied as a result of the additional taxable value of the property generated by the development (tax abatement). A "pay-a-you-go" note is established for this amount, on which the District makes payments for a fixed period of time from the tax revenues generated.

One agreement coordinated by the City of Worthington was awarded by the City of Worthington on May 24, 2010 for a property located at 511 10th Street in compliance with the guidelines. The abatement of all combined governmental units is $80,000 or 15 years, whichever occurs first. As of June 30, 2017, the District had rebated $1,389 of which $625 was paid during the fiscal year then ended.

The District has entered into a tax abatement agreement titled the Nobles Home Initiative (NHI), with the City of Worthington and Nobles County under Minnesota State Statute 469.1813 Subdivision 8. This program is intended to encourage the construction of new owner occupied and rental residential housing units. Eligible projects may receive up to 100% tax abatement of the District's share of increased real estate taxes resulting from the newly constructed housing unit, for a period of five years. During the fiscal year ended June 30, 2017, taxes were abated for twelve eligible properties within the District's corporate limits in the amount of $2,803.

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies-				
Current levy	$ 3,134,269	$ 3,129,608	$ (4,661)	$ 2,367,735
Total local property tax levies	$ 3,134,269	$ 3,129,608	$ (4,661)	$ 2,367,735
Other local and county revenues-				
County apportionment	$ 21,000	$ 21,932	$ 932	$ 34,907
Tuition and fees from patrons	184,300	178,186	(6,114)	191,185
Interest income	84,500	151,892	67,392	77,601
Litigation & insurance settlements	123,000	125,687	2,687	56
Other local revenue	501,788	519,185	17,397	460,718
Total other local and county revenues	$ 914,588	$ 996,882	$ 82,294	$ 764,467
Revenues from state sources-				
Endowment fund apportionment	$ 108,995	$ 110,339	$ 1,344	$ 96,653
Department of Education aids-				
General education aid	31,743,803	32,490,621	746,818	29,800,938
Special education	3,000,000	3,458,638	458,638	3,630,532
Vocational and other education	696,164	640,619	(55,545)	575,010
Other appropriations by the state for replacement of local taxes-				
Market value aid	24,725	24,725	-	15,099
Disparity reduction aid and other	33,798	32,269	(1,529)	21,173
Total revenues from state sources	$ 35,607,485	$ 36,757,211	$ 1,149,726	$ 34,139,405
Revenues from federal sources-				
Federal aids through Minnesota Department of Education	$ 817,694	$ 666,282	$ (151,412)	$ 785,246
Federal aids through SWWC cooperative	461,750	443,716	(18,034)	464,228
Total revenues from federal sources	$ 1,279,444	$ 1,109,998	$ (169,446)	$ 1,249,474
Sales and other conversion of assets-				
Sales of materials and supplies	$ 23,750	$ 27,590	$ 3,840	$ 92,349
Tuition revenue from other school districts	$ 300,000	$ 263,817	$ (36,183)	$ 255,883
Total revenues	$ 41,259,536	$ 42,285,106	$ 1,025,570	$ 38,869,313

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES:				
District and school administration-				
School board expenses-				
Per diem	$ 32,400	$ 29,853	$ 2,547	$ 29,875
Employee benefits	7,379	6,549	830	5,369
Travel	6,500	4,515	1,985	4,317
Other	56,150	49,697	6,453	45,140
General administration-				
Superintendent salary	164,500	164,942	(442)	154,923
Administrative support salaries	39,850	40,682	(832)	39,999
Employee benefits	56,047	55,125	922	53,099
Travel and other	7,600	4,376	3,224	5,241
Building administration-				
Salaries	465,780	472,780	(7,000)	430,767
Employee benefits	168,691	154,247	14,444	139,143
Travel	760	1,360	(600)	315
Purchased services	86,700	59,296	27,404	62,253
Supplies and materials	31,400	25,205	6,195	14,600
Other	13,800	12,336	1,464	6,552
Capital outlay	-	-	-	6,723
Total district and school administration	$ 1,137,557	$ 1,080,963	$ 56,594	$ 998,316
District support services-				
District business services-				
Director of finance and personnel salary	$ 84,355	$ 83,658	$ 697	$ 81,498
Administrative support salaries	197,800	188,770	9,030	187,953
Employee benefits	296,117	85,262	210,855	111,877
Travel	8,900	2,733	6,167	3,955
Purchased services	92,000	96,960	(4,960)	62,702
Supplies and materials	7,500	4,826	2,674	3,251
Other	38,700	14,165	24,535	5,905
Capital outlay	26,172	3,664	22,508	3,760

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
District support services (continued)-				
Other support services-				
Salaries	$ 161,043	$ 160,430	$ 613	$ 151,853
Employee benefits	52,540	53,001	(461)	48,694
Travel	1,100	588	512	-
Contracted services-				
Printing and publishing	19,800	10,736	9,064	620
Legal	30,000	21,634	8,366	20,113
Data processing	170,500	120,662	49,838	78,027
Other	3,850	2,323	1,527	1,528
Supplies and materials	3,150	547	2,603	-
Capital outlay	-	-	-	18,565
Total district support services	$ 1,193,527	$ 849,959	$ 343,568	$ 780,301
Regular instruction-				
Salaries-				
Secondary teachers	$ 5,145,795	$ 5,096,185	$ 49,610	$ 4,820,094
Elementary teachers	4,799,074	4,593,923	205,151	4,482,216
Kindergarten teachers	787,596	792,128	(4,532)	680,925
Education aides	1,066,901	1,051,121	15,780	936,080
Other	217,900	172,241	45,659	239,972
Employee benefits	3,372,577	3,285,995	86,582	3,174,141
Travel	53,462	24,525	28,937	25,797
Purchased services	177,150	150,582	26,568	155,347
Tuition to other schools	85,400	60,368	25,032	33,899
Pupil transportation	56,688	66,909	(10,221)	52,407
General supplies and materials	328,064	163,832	164,232	267,499
Instructional supplies and materials	1,030,656	933,201	97,455	550,345
Textbooks	26,000	8,827	17,173	9,537
Other	1,064,194	1,036,168	28,026	228,639
Capital outlay	219,709	246,326	(26,617)	306,238
Student activities-				
Salaries	466,963	469,381	(2,418)	440,713
Employee benefits	87,047	85,850	1,197	69,555
Travel	9,785	11,523	(1,738)	7,218
Utilities	8,300	6,654	1,646	4,834

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Regular instruction (continued)-				
Student activities (continued)-				
Purchased services	$ 122,865	$ 101,230	$ 21,635	$ 113,166
Pupil transportation	124,300	124,021	279	117,469
General supplies and materials	59,710	56,720	2,990	51,870
Equipment purchased	18,200	17,306	894	12,987
Other	5,125	4,925	200	1,785
Capital outlay	76,541	71,711	4,830	67,846
Total regular instruction	$ 19,410,002	$ 18,631,652	$ 778,350	$ 16,850,579
Vocational instruction-				
Salaries	$ 385,259	$ 385,635	$ (376)	$ 366,296
Employee benefits	113,475	113,044	431	108,995
Travel	1,600	1,906	(306)	4,570
Purchased services	250	2,331	(2,081)	250
Pupil transportation	7,300	14,056	(6,756)	21,132
Tuition to other schools	17,125	-	17,125	7,482
General supplies and materials	1,900	975	925	1,975
Instructional supplies and materials	12,450	19,616	(7,166)	14,285
Other	-	-	-	749
Capital outlay	51,427	46,157	5,270	7,561
Total vocational instruction	$ 590,786	$ 583,720	$ 7,066	$ 533,295
Exceptional instruction-				
Salaries-				
Teachers	$ 2,671,903	$ 2,640,111	$ 31,792	$ 2,470,382
Psychologists	143,011	144,024	(1,013)	180,153
Aides	1,576,444	1,498,363	78,081	1,419,666
Office	139,600	140,965	(1,365)	134,505
Employee benefits	1,363,688	1,294,091	69,597	1,219,911
Travel	29,350	26,101	3,249	20,226
Professional services	53,000	61,630	(8,630)	48,582

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Exceptional instruction (continued)-				
Tuition to other schools	$ 139,900	$ 85,068	$ 54,832	$ 86,947
Other purchased services	34,025	44,278	(10,253)	15,142
General supplies and materials	29,410	26,797	2,613	22,735
Instructional supplies and materials	10,100	9,505	595	110,138
Other	286,267	266,362	19,905	197
Capital outlay	2,769	2,548	221	13,620
Total exceptional instruction	$ 6,479,467	$ 6,239,843	$ 239,624	$ 5,742,204
Community education and services-				
Capital outlay	$ 30,660	$ 25,446	$ 5,214	$ 7,747
Instructional support services-				
Salaries-				
Assistant principal	$ 309,826	$ 311,360	$ (1,534)	$ 301,016
Media	261,113	255,633	5,480	224,927
Technology	230,010	230,045	(35)	207,701
Curriculum development	228,310	211,962	16,348	184,667
Staff development	199,707	188,208	11,499	153,203
Secretarial and other	453,912	455,230	(1,318)	448,593
Employee benefits	508,496	512,004	(3,508)	452,055
Travel	63,807	56,918	6,889	34,408
Professional services	82,000	68,969	13,031	85,106
Other purchased services	62,400	49,217	13,183	75,339
General supplies and materials	75,850	42,002	33,848	29,510
Instructional supplies and materials	15,700	12,150	3,550	31,255
Other	114,470	110,746	3,724	58,311
Capital outlay	153,107	134,054	19,053	48,131
Total instructional support services	$ 2,758,708	$ 2,638,498	$ 120,210	$ 2,334,222
Pupil support services-				
Guidance and counseling-				
Salaries	$ 381,852	$ 377,402	$ 4,450	$ 277,589
Employee benefits	109,756	108,879	877	78,642
Supplies and materials	4,558	2,578	1,980	2,949

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Pupil support services (continued)-				
Health services-				
Salaries	$ 33,000	$ 31,660	$ 1,340	$ 31,895
Employee benefits	12,181	11,393	788	11,205
Travel	250	379	(129)	194
Purchased services	148,500	137,079	11,421	127,242
General supplies and materials	4,250	3,573	677	3,617
Capital outlay	1,160	1,160	-	-
Social & Psychological services-				
Salaries	25,000	12,830	12,170	-
Employee benefits	10,438	3,756	6,682	-
Violence prevention-				
Salaries	38,500	37,086	1,414	37,000
Employee benefits	5,942	5,899	43	5,872
Purchased services	50,420	42,757	7,663	41,845
Supplies and materials	50	-	50	-
Transportation-				
Salaries	162,000	182,224	(20,224)	153,980
Employee benefits	47,627	62,245	(14,618)	45,573
Supplies and materials	3,000	535	2,465	2,325
Contracted services and public carriers	1,637,689	1,369,940	267,749	1,259,393
Other	48,700	40,503	8,197	26,201
Nobles County integration collaborative	836,378	836,378	-	769,433
Other support services-				
Supplies and materials	4,300	4,378	(78)	3,688
Total pupil support services	$ 3,565,551	$ 3,272,634	$ 292,917	$ 2,878,643

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES (Continued):				
Site, buildings and equipment-				
Plant operations and maintenance-				
Salaries	$ 938,962	$ 873,305	$ 65,657	$ 850,167
Employee benefits	248,542	231,730	16,812	221,619
Travel	600	-	600	74
Repairs and maintenance service	273,000	219,708	53,292	194,272
Fuel for buildings	227,000	151,337	75,663	153,714
Utilities, except for fuel for buildings	699,750	619,766	79,984	596,748
Custodial supplies and materials	156,000	182,328	(26,328)	124,000
Other	25,775	6,103	19,672	20,702
Capital outlay-				
Operating capital	161,409	176,131	(14,722)	89,691
Long-term facility maintenance	780,665	628,762	151,903	78,380
Projects using committed or unrestricted funds	414,842	346,099	68,743	8,654,116
Health and safety	-	-	-	54,923
Disabled accessibility	-	-	-	1,382
Total site, buildings and equipment	$ 3,926,545	$ 3,435,269	$ 491,276	$ 11,039,788
Fiscal and other fixed cost programs-				
Fixed charges-				
Insurance and judgments	$ 100,000	$ 94,044	$ 5,956	$ 90,504
Debt redemption-				
Certificate of participation principal	270,000	270,000	-	265,000
Certificate of participation interest	111,885	111,885	-	119,835
Certificate of participation other expense	2,200	2,200	-	2,200
Total fiscal and other fixed cost programs	$ 484,085	$ 478,129	$ 5,956	$ 477,539
Total expenditures	$ 39,576,888	$ 37,236,113	$ 2,340,775	$ 41,642,634
Excess (deficit) of revenues over expenditures	$ 1,682,648	$ 5,048,993	$ 3,366,345	$ (2,773,321)

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Final Budget	Actual	Variance with Final Budget	Actual
OTHER FINANCING SOURCES:				
Sale of capital assets	$ 50,000	$ 73,459	$ 23,459	$ 2,143
Total other financing sources	$ 50,000	$ 73,459	$ 23,459	$ 2,143
Net change in fund balances	$ 1,732,648	$ 5,122,452	$ 3,389,804	$ (2,771,178)
FUND BALANCE, Beginning of year		15,283,941		18,055,119
FUND BALANCE, End of year		$ 20,406,393		$ 15,283,941

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

FOOD SERVICE SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local sales and other revenues-				
Meals sold	$ 406,000	$ 437,229	$ 31,229	$ 392,189
Other local revenues	3,800	16,765	12,965	3,220
Total local sales and other revenues	$ 409,800	$ 453,994	$ 44,194	$ 395,409
State sources-				
State lunch and breakfast program aid	$ 140,000	$ 132,156	$ (7,844)	$ 134,314
Total state sources	$ 140,000	$ 132,156	$ (7,844)	$ 134,314
Federal sources-				
Regular lunch and breakfast	$ 602,000	$ 638,647	$ 36,647	$ 611,867
Free and reduced	920,000	918,081	(1,919)	916,158
Summer food program	86,000	92,172	6,172	84,640
Commodity rebates	200	1,399	1,199	117
Commodities used	170,000	175,312	5,312	174,971
Total federal sources	$ 1,778,200	$ 1,825,611	$ 47,411	$ 1,787,753
Total revenues	$ 2,328,000	$ 2,411,761	$ 83,761	$ 2,317,476
EXPENDITURES:				
Pupil support services-				
Salaries	$ 687,950	$ 730,786	$ (42,836)	$ 682,376
Employee benefits	222,810	216,212	6,598	201,122
Repairs and maintenance	10,500	18,752	(8,252)	7,290
Utilities	18,700	18,625	75	10,250
Other purchased services	67,250	63,713	3,537	46,894
General supplies and materials	89,260	53,912	35,348	76,533
Food	1,133,792	1,141,231	(7,439)	1,081,067
Equipment purchased	117,073	127,370	(10,297)	12,277
Other	940	3,032	(2,092)	812
Total pupil support services	$ 2,348,275	$ 2,373,633	$ (25,358)	$ 2,118,621
Total expenditures	$ 2,348,275	$ 2,373,633	$ (25,358)	$ 2,118,621
Excess (deficit) of revenues over expenditures	$ (20,275)	$ 38,128	$ 58,403	$ 198,855
OTHER FINANCING SOURCES (USES):				
Sale of equipment	$ -	$ 300	$ 300	$ -
Total other financing sources	$ -	$ 300	$ 300	$ -
Net change in fund balances	$ (20,275)	38,428	$ 58,703	198,855
FUND BALANCE, Beginning of year		790,517		591,662
FUND BALANCE, End of year		$ 828,945		$ 790,517

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

COMMUNITY SERVICES SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies-				
Current levy	$ 187,480	$ 187,682	$ 202	$ 197,169
Total local property tax levies	$ 187,480	$ 187,682	$ 202	$ 197,169
Other local and county revenues-				
Tuition and fees from patrons	$ 196,117	$ 223,329	$ 27,212	$ 220,747
Other local revenues	87,863	111,397	23,534	120,452
Total other local and county revenues	$ 283,980	$ 334,726	$ 50,746	$ 341,199
Revenues from state sources-				
State aids from Department of Education-				
Vocational and other education	$ 1,147,752	$ 1,144,683	$ (3,069)	$ 1,025,336
Other appropriations by the state for replacement of local taxes-				
Disparity and other	7,385	7,391	6	8,666
Total revenues from state sources	$ 1,155,137	$ 1,152,074	$ (3,063)	$ 1,034,002
Revenues from federal sources-				
Federal aids through Minnesota Department of Education	$ 138,757	$ 138,246	$ (511)	$ 134,889
Total revenues from federal sources	$ 138,757	$ 138,246	$ (511)	$ 134,889
Sales and other conversion of assets-				
Sales of materials and supplies	$ -	$ 43	$ 43	$ 215
Total revenues	$ 1,765,354	$ 1,812,771	$ 47,417	$ 1,707,474

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL (CONTINUED)

COMMUNITY SERVICES SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Final Budget	Actual	Variance with Final Budget	Actual
EXPENDITURES:				
Community education and services-				
Civic activities and general	$ 157,922	$ 201,245	$ (43,323)	$ 196,966
Early Childhood Family Education	204,229	203,096	1,133	204,017
Pathways Early Learning	139,117	139,118	(1)	139,315
School readiness	192,462	195,090	(2,628)	120,395
Preschool screening	18,401	18,597	(196)	16,291
Parent involvement	34,908	34,908	-	37,563
Youth programs	59,211	59,432	(221)	57,377
Adult education programs	915,123	907,615	7,508	804,368
Non-public school assistance-				
Textbooks and standardized tests	11,973	11,974	(1)	10,686
Total community education and services	$ 1,733,346	$ 1,771,075	$ (37,729)	$ 1,586,978
Pupil support services-				
Non-public school health services-				
Salaries	$ 8,295	$ 8,314	$ (19)	$ 8,112
Employee benefits	1,319	1,349	(30)	1,266
Other	1,008	2,625	(1,617)	46
Total pupil support services	$ 10,622	$ 12,288	$ (1,666)	$ 9,424
Total expenditures	$ 1,743,968	$ 1,783,363	$ (39,395)	$ 1,596,402
Net change in fund balances	$ 21,386	$ 29,408	$ 8,022	$ 111,072
FUND BALANCE, Beginning of year		347,851		236,779
FUND BALANCE, End of year		$ 377,259		$ 347,851

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

CAPITAL PROJECTS FUND

FOR THE YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Other local and county revenues-				
Interest income	$ -	$ -	$ -	$ 2,528
Total revenues	$ -	$ -	$ -	$ 2,528
EXPENDITURES:				
Site, buildings and equipment-				
Buildings	$ -	$ -	$ -	$ 435,219
Total site, buildings and equipment	$ -	$ -	$ -	$ 435,219
Total expenditures	$ -	$ -	$ -	$ 435,219
Excess (deficit) of revenues over expenditures	$ -	$ -	$ -	$ (432,691)
OTHER FINANCING SOURCES (USES):				
Transfer (to) Debt Service fund	$ -	$ -	$ -	$ (849,124)
Net change in fund balances	$ -	$ -	$ -	$ (1,281,815)
FUND BALANCE, Beginning of year		-		1,218,815
FUND BALANCE, End of year		$ -		$ -

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

DEBT SERVICE FUND

FOR THE YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Final Budget	Actual	Variance with Final Budget	Actual
REVENUES:				
Local property tax levies	$ 1,742,250	$ 1,739,938	$ (2,312)	$ 2,003,551
Other local and county revenues-				
Interest income	$ 7,500	$ 44,322	$ 36,822	$ 5,777
Revenues from state sources-				
Department of Education aids-				
Long term facility maintenance aid	$ 257,321	$ 265,506	$ 8,185	$ -
Other appropriations by the state for replacement of local taxes-				
Homestead and agricultural credit aid	29,802	29,802	-	37,817
Disparity and other	37,764	37,764	-	48,845
Total revenues from state sources	$ 324,887	$ 333,072	$ 8,185	$ 86,662
Total revenues	$ 2,074,637	$ 2,117,332	$ 42,695	$ 2,095,990
EXPENDITURES:				
Debt redemption-				
Principal payment on bonds	$ 1,690,000	$ 1,690,000	$ -	$ 1,500,000
Interest expense	589,015	589,012	3	571,925
Other expense	2,200	2,200	-	77,433
Total debt redemption	$ 2,281,215	$ 2,281,212	$ 3	$ 2,149,358
Total expenditures	$ 2,281,215	$ 2,281,212	$ 3	$ 2,149,358
Excess (deficit) of revenues over expenditures	$ (206,578)	$ (163,880)	$ 42,698	$ (53,368)
OTHER FINANCING SOURCES (USES):				
Debt issuance	$ -	$ -	$ -	$ 4,938,309
Transfer from Capital Projects fund	-	-	-	849,124
Total other financing sources (uses)	$ -	$ -	$ -	$ 5,787,433
Net change in fund balances	$ (206,578)	$ (163,880)	$ 42,698	$ 5,734,065
FUND BALANCE, Beginning of year		6,218,085		484,020
FUND BALANCE, End of year		$ 6,054,205		$ 6,218,085

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF FIDUCIARY NET POSITION

TRUST AND AGENCY FUNDS

JUNE 30, 2017

(WITH COMPARATIVE TOTALS AS OF JUNE 30, 2016)

	Trust Fund	Agency Funds		
	Private Purpose	Interdistrict	Totals	
	Trust Fund	Integration	2017	2016
ASSETS:				
Cash and investments	$ 323,160	$ 107,709	$ 430,869	$ 424,127
Prepaid items	-	-	-	10,000
Total assets	$ 323,160	$ 107,709	$ 430,869	$ 434,127
LIABILITIES:				
Salaries payable	$ -	$ 41,659	$ 41,659	$ 39,421
Accounts payable	120	66,050	66,170	38,608
Total liabilities	$ 120	$ 107,709	$ 107,829	$ 78,029
NET POSITION:				
Held in trust	323,040	-	323,040	356,098
Total liabilities and net position	$ 323,160	$ 107,709	$ 430,869	$ 434,127

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF CHANGES IN FIDUCIARY NET POSITION

BUDGET AND ACTUAL

TRUST FUND

FOR THE YEAR ENDED JUNE 30, 2017

(WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2016)

	2017			2016
	Final Budget	Actual	Variance with Final Budget	Actual
ADDITIONS:				
Other local and county revenues-				
Interest income	$ 100	$ 914	$ 814	$ 344
Other local revenues	9,643	8,713	(930)	14,266
Total other local and county revenues	$ 9,743	$ 9,627	$ (116)	$ 14,610
Total revenues	$ 9,743	$ 9,627	$ (116)	$ 14,610
DEDUCTIONS:				
Other pupil support	$ 62,500	$ 42,685	$ 19,815	$ 59,303
Total expenditures	$ 62,500	$ 42,685	$ 19,815	$ 59,303
Change in net position	$ (52,757)	$ (33,058)	$ 19,699	$ (44,693)
NET POSITION, Beginning of year		356,098		400,791
NET POSITION, End of year		$ 323,040		$ 356,098

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES

AGENCY FUND

FOR THE YEAR ENDED JUNE 30, 2016

	Balance June 30, 2016	Additions	Deletions	Balance June 30, 2017
INTERDISTRICT INTEGRATION:				
Assets-				
Cash	$ 66,839	$ 1,004,558	$ 963,688	$ 107,709
Prepaid items	10,000	-	10,000	-
Total assets	$ 76,839	$ 1,004,558	$ 973,688	$ 107,709
Liabilities-				
Salaries and employee benefits payable	$ 39,421	$ 41,659	$ 39,421	$ 41,659
Accounts payable	37,418	66,050	37,418	66,050
Total liabilities	$ 76,839	$ 107,709	$ 76,839	$ 107,709

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULES OF CHANGES IN CAPITAL ASSETS

FOR THE YEAR ENDED JUNE 30, 2017

	Balance June 30, 2016	Additions	Transfers	Retirements	Balance June 30, 2017
CAPITAL ASSETS:					
Land	$ 3,509,122	$ -	$ -	$ -	$ 3,509,122
Land improvements	3,413,142	295,303	-	(63,664)	3,644,781
Buildings	42,385,199	547,441	-	-	42,932,640
Equipment	10,484,708	1,527,314	-	(514,352)	11,497,670
Vehicles	276,115	226,885	-	-	503,000
Construction in progress	-	482,654	-	-	482,654
Total capital assets	$ 60,068,286	$ 3,079,597	$ -	$ (578,016)	$ 62,569,867
CAPITAL ASSETS BY SOURCE:					
General and special revenue funds	$ 22,517,494	$ 3,079,597	$ -	$ (578,016)	$ 25,019,075
General obligation bonds	36,330,306	-	-	-	36,330,306
Capital leases	508,370	-	-	-	508,370
Federal grants	712,116	-	-	-	712,116
Total capital assets by source	$ 60,068,286	$ 3,079,597	$ -	$ (578,016)	$ 62,569,867
CAPITAL ASSETS BY FUNCTION AND ACTIVITY:					
Administration	$ 252,805	$ 8,074	6,233	(1,744)	$ 265,368
Instruction	7,361,130	1,467,668	(99,342)	(238,862)	8,490,594
Instructional support services	1,145,695	156,686	90,534	(179,545)	1,213,370
Pupil support services	342,655	322,532	(72,750)	(1,719)	590,718
Food service	559,737	54,779	-	(6,337)	608,179
Community education and services	189,815	6,973	(1)	(9,146)	187,641
Site, buildings and equipment	50,216,449	1,062,885	75,326	(140,663)	51,213,997
Total capital assets by function and activity	$ 60,068,286	$ 3,079,597	$ -	$ (578,016)	$ 62,569,867

INDEPENDENT SCHOOL DISTRICT NO. 518

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS FOR

OTHER POSTEMPLOYMENT BENEFITS PLAN

JUNE 30, 2017, 2016, 2015, 2014, 2013, 2012, 2011, 2010 AND 2009

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
06/30/2009	$ -	$ 644,836	$ (644,836)	0.0%	$ 11,124,473	5.8%
06/30/2010	$ -	$ 644,836	$ (644,836)	0.0%	$ 12,074,815	5.3%
06/30/2011	$ -	$ 529,053	$ (529,053)	0.0%	$ 12,955,001	4.1%
06/30/2012	$ -	$ 529,053	$ (529,053)	0.0%	$ 13,762,583	3.8%
06/30/2013	$ -	$ 750,522	$ (750,522)	0.0%	$ 14,144,577	5.3%
06/30/2014	$ -	$ 750,522	$ (750,522)	0.0%	$ 14,882,409	5.0%
06/30/2015	$ -	$ 818,958	$ (818,958)	0.0%	$ 16,785,140	4.9%
06/30/2016	$ -	$ 818,958	$ (818,958)	0.0%	$ 17,815,124	4.6%
06/30/2017	$ -	$ 1,039,901	$(1,039,901)	0.0%	$ 20,189,269	5.2%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2009	$ -	0.00%
2010	-	0.00%
2011	-	0.00%
2012	-	0.00%
2013	-	0.00%
2014	-	0.00%
2015	-	0.00%
2016	-	0.00%
2017	-	0.00%

INDEPENDENT SCHOOL DISTRICT NO. 518

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND EMPLOYER CONTRIBUTIONS

Schedule of Proportionate Share of Net Pension Liability

Actuarial Valuation Date June 30,	Plan	Employer's Proportion (Percentage) of the Net Pension Liability (Asset)	Employer's Proportionate Share (Amount) of the Net Pension Liability (Asset) (a)	Employer's Covered-Employee Payroll (b)	Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll (a/b)	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2014	TRA	0.3033%	$ 13,975,846	$ 14,002,116	99.81%	81.50%
	PERA	0.0998%	4,688,104	5,266,617	89.02%	78.70%
2015	TRA	0.2885%	$ 17,846,578	$ 15,031,466	118.73%	76.80%
	PERA	0.0949%	4,918,211	5,716,654	86.03%	78.20%
2016	TRA	0.2983%	$ 71,151,667	$ 15,874,765	448.21%	44.88%
	PERA	0.0954%	7,746,007	6,082,483	127.35%	68.90%

Schedule of Employer Contributions

Fiscal Year Ending June 30,	Plan	Statutorily Required Contribution (a)	Contributions in Relation to the Statutorily Required Contribution (b)	Contribution Deficiency (Excess) (a-b)	Covered-Employee Payroll (d)	Contributions as a Percentage of Covered-Employee Payroll (b/d)
2015	TRA	$ 1,112,088	$ 1,112,088	$ -	$ 15,031,466	7.40%
	PERA	415,104	415,104	-	5,716,654	7.26%
2016	TRA	$ 1,176,217	$ 1,176,217	$ -	$ 15,874,765	7.41%
	PERA	447,914	447,914	-	6,082,483	7.36%
2017	TRA	$ 1,251,475	$ 1,251,475	$ -	$ 16,686,333	7.50%
	PERA	479,931	479,931	-	6,540,992	7.34%

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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 Members of the School Board
Independent School District No. 518
Worthington, 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. 518 (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 10, 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 certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. The finding is indicated as items 2017-1.

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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* and which are described in the accompanying schedule of findings and questioned costs as items 2017-001 and 2017-002.

District's Response to Findings

Independent School District No. 518's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

This report is intended solely for the information and use of the School Board, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Dresslaw Kvilhaug Hoefker & Co., P.A.

Worthington, Minnesota
October 10, 2017

DREALAN KVILHAUG HOEFKER & CO., P.A.

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

To the Members of the School Board
Independent School District No. 518
Worthington, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 518's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings 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; 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.

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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, 2017-001 and 2017-002. Our opinion on each major federal program is not modified with respect to these matters.

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 2017-001 and 2017-002, that we consider to be significant deficiencies.

The District's response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. 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.

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.

Dreolan Kvilhaug Hoefker & Co., P.A.

Worthington, Minnesota
October 10, 2017

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture:		
Pass-through program from Minnesota Department of Education-		
Nutrition Cluster:		
School Breakfast	10.553*	$ 374,250
School Lunch	10.555*	1,090,713
After School Snack	10.555*	20,135
Commodities Distribution (Note B)	10.555*	175,312
Summer Food Service program	10.559*	92,172
Total Nutrition Cluster		$ 1,752,582
Fresh Fruits and Vegetables	10.582	$ 71,630
Commodity Cash Rebate Program	10.S6209	1,399
Total U.S. Department of Agriculture		$ 1,825,611
U.S. Department of Education:		
Pass-through programs from Minnesota Department of Education-		
Adult Basic Education	84.002	$ 36,594
English Language/Civics Appropriations	84.002A	$ 47,676
English Language Acquisition	84.365	$ 95,912
Teacher and Principal Training and Recruiting	84.367*	$ 37,831
Special Education Cluster:		
Special Education	84.027	$ 355,546
Special Education Coordinated Early Intervening Services	84.027	76,427
Special Education Preschool Grants	84.173	11,743
Total Special Education Cluster		$ 443,716
Title I:		
Title I Grants to LEA's	84.010*	$ 532,539
Total Title I		$ 532,539
Total U.S. Department of Education		$ 1,194,268
U.S. Department of Health & Human Services:		
Pass-through programs from Minnesota Department of Health & Human Services-		
Refugee Social Services ABE	93.566	$ 22,178
Refugee Social Services Youth Development	93.566	18,213
Total U.S. Department of Health & Human Services		$ 40,391
Total expenditures of Federal Awards		$ 3,060,270

*Denotes major program

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

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2017

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE A-BASIS OF PRESENTATION:

The accompanying Schedule of Expenditures of Federal Awards includes the federal award activity of the Independent School District No. 518 under programs of the federal government for the year ended June 30, 2017. 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 the Independent School District No. 518, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Independent School District No. 518.

NOTE B-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Independent School District No. 518 has elected to not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE C-OTHER UNIFORM GUIDANCE INFORMATION:

For the year ended June 30, 2017, Independent School District No. 518 had no expenditures in the form of no sub-recipients, no federally provided insurance in effect, and no loans or loan guarantees outstanding.

NOTE D-COMMODITY DISTRIBUTION:

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

NOTE E-PROGRAM NUMBERS

The individual grant identification numbers assigned by the pass-through agencies are unknown.

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED JUNE 30, 2017

A. SUMMARY OF AUDIT RESULTS:

1. The auditor’s report expresses an unmodified opinion on the financial statements of Independent School District No. 518.
2. Significant deficiencies relating to the audit of the financial statements are reported in the Schedule of Findings and Questioned Costs.
3. There were no instances of noncompliance material to the financial statements of Independent School District No. 518, which would be required to be reported in accordance with *Government Auditing Standards*, that were disclosed during the audit.
4. Significant deficiencies relating to the audit of the major federal awards programs are reported in the Schedule of Findings and Questioned Costs.
5. The auditor’s report on compliance for the major federal award programs for Independent School District No. 518 expresses an unmodified opinion on all major federal programs.
6. Audit findings relative to the major federal award programs for Independent School District No. 518 are reported in Part C of this Schedule.
7. The programs tested as major programs include:

Child Nutrition Cluster-	
School Breakfast	CFDA No. 10.553
National School Lunch	CFDA No. 10.555
Commodity Distribution Program	CFDA No. 10.555
Summer Food Service Program for Children	CFDA No. 10.559
Title I	CFDA No. 84.010
Teacher and Principal Training and Recruiting	CFDA No. 84.367

8. The threshold for distinguishing Type A and B programs was $750,000.

9. Independent School District No. 518 was determined to be a low-risk auditee.

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2017

B. FINDINGS - FINANCIAL STATEMENT AUDIT:

SIGNIFICANT DEFICIENCIES

2017-1. Condition: The District has a lack of segregation of duties in the financial department.

Criteria: Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.

Effect: As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.

Cause: The District has limited personnel available to perform accounting duties.

Recommendation: This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding*: The District board of directors will periodically monitor the duties of the financial department.
2. *Explanation of Disagreement*: There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action*: John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action*: June 30, 2018
5. *Plan to Monitor Completion of Corrective Action*: John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT:

SIGNIFICANT DEFICIENCIES

2017-001. Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559

Condition: The District has limited personnel available to perform accounting duties.

Criteria: Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2017

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT (Continued):

SIGNIFICANT DEFICIENCIES (continued)

2017-001. Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559 (continued)

Effect: As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.

Cause: The District has limited personnel available to perform accounting duties.

Recommendation: This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding*: The District board of directors will periodically monitor the duties of the financial department.
2. *Explanation of Disagreement*: There is no disagreement with the audit finding.
3. *Official Responsible for Ensuring Corrective Action*: John Landgaard, Superintendent.
4. *Planned Completion Date for the Corrective Action*: June 30, 2018
5. *Plan to Monitor Completion of Corrective Action*: John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

2017-002. Title I, CFDA No. 84.010
Teacher and Principal Training and Recruiting, CFDA No. 84.367

Condition: There were two instances where the District issued payments to non public school staff using coding for district staff payroll processing.

Criteria: Internal controls should be in place that provide reasonable assurance that invoice coding complies with program requirements.

Effect: As a result program expenditures were recorded improperly and year end payroll balances were incorrect.

Cause: The District financial manager manually entered the expenditures.

Recommendation: The District should follow the Minnesota Department of Education recording and reporting requirements.

INDEPENDENT SCHOOL DISTRICT NO. 518

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2017

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT (Continued):

SIGNIFICANT DEFICIENCIES (continued)

2017-002. Title I, CFDA No. 84.010
Teacher and Principal Training and Recruiting, CFDA No. 84.367(continued)

Correction Action Plan (CAP)

6. *Actions Planned in Response to the Finding*: The District financial manager reclassified these expenditures to the general fund fees for services.

7. *Explanation of Disagreement*: There is no disagreement with the audit finding.

8. *Official Responsible for Ensuring Corrective Action*: John Landgaard, Superintendent.

9. *Planned Completion Date for the Corrective Action*: June 30, 2018

10. *Plan to Monitor Completion of Corrective Action*: John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

INDEPENDENT SCHOOL DISTRICT NO. 518

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED JUNE 30, 2016

A. FINDINGS – FINANCIAL STATEMENT AUDIT:

SIGNIFICANT DEFICIENCIES

2016-1. Condition: The District has a lack of segregation of duties in the financial department.

Criteria: Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.

Effect: As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.

Cause: The District has limited personnel available to perform accounting duties.

Recommendation: This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding*: The District board of directors will periodically monitor the duties of the financial department.

2. *Explanation of Disagreement*: There is no disagreement with the audit finding.

3. *Official Responsible for Ensuring Corrective Action*: John Landgaard, Superintendent.

4. *Planned Completion Date for the Corrective Action*: June 30, 2016

5. *Plan to Monitor Completion of Corrective Action*: John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT:

2016-001. Title I, CFDA No. 84.010, 84.398
Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559
Special Education Cluster, CFDA No.'s 84.027 and 84.173

Condition: The District has limited personnel available to perform accounting duties.

Criteria: Internal controls should be in place that provide reasonable assurance that a proper segregation of duties has been established.

INDEPENDENT SCHOOL DISTRICT NO. 518

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS (CONTINUED)

FOR THE YEAR ENDED JUNE 30, 2016

B. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED):

SIGNIFICANT DEFICIENCIES (Continued)

2016-001. Title I, CFDA No. 84.010, 84.398
Child Nutrition Cluster, CFDA No.'s 10.553, 10.555, and 10.559
Special Education Cluster, CFDA No.'s 84.027 and 84.173 (continued)

Effect: As a result of the lack of segregation, personnel are performing duties which for internal control purposes should be performed by a separate individual.

Cause: The District has limited personnel available to perform accounting duties.

Recommendation: This is not unusual in District's of this size. The Board should be aware of this condition and periodically monitor duties.

Correction Action Plan (CAP)

1. *Actions Planned in Response to the Finding*: The District board of directors will periodically monitor the duties of the financial department.

2. *Explanation of Disagreement*: There is no disagreement with the audit finding.

3. *Official Responsible for Ensuring Corrective Action*: John Landgaard, Superintendent

4. *Planned Completion Date for the Corrective Action*: June 30, 2017

5. *Plan to Monitor Completion of Corrective Action*: John Landgaard, Superintendent, will monitor the financial department duties with the School Board and Management.

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INDEPENDENT AUDITOR'S REPORT ON LEGAL COMPLIANCE BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Members of the School Board
Independent School District No. 518
Worthington, 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 Independent School District No. 518, 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 October 10, 2017.

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions,* 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, except that we did not test for compliance with the provisions for miscellaneous provisions because the district did not have any miscellaneous provisions activity during the current reporting period.

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 518 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 Independent School District No. 518's noncompliance with the above referenced provisions.

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

Drealan Kvilhaug Hoefker & Co., P.A.

Worthington, Minnesota
October 10, 2017

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INDEPENDENT SCHOOL DISTRICT NO. 518

LEGAL COMPLIANCE

SCHEDULE OF FINDINGS AND RESPONSES ON COMPLIANCE WITH MINNESOTA STATUTES

FOR THE YEAR ENDED JUNE 30, 2017

CURRENT AUDIT

FINDINGS:

No findings

INDEPENDENT SCHOOL DISTRICT NO. 518

SUPPLEMENTARY INFORMATION

AS OF JUNE 30, 2017

INDEPENDENT SCHOOL DISTRICT NO. 518

UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS COMPLIANCE TABLE

June 30, 2017

	AUDIT	UFARS	Difference
01 GENERAL FUND			
Total Revenue	$ 42,285,106	$ 42,285,106	$ -
Total Expenditures	37,236,113	37,236,114	(1)
Nonspendable:			
460 Nonspendable Fund Balance	443,224	443,224	-
Restricted/Reserve:			
403 Staff Development	30,009	30,009	-
406 Health & Safety	192,554	192,554	-
407 Capital Projects Levy	-	-	-
413 Project Funded by Cop	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maint	-	-	-
423 Certain Teacher Programs	-	-	-
424 Operating Capital	753,545	753,545	-
426 $25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning & Development	-	-	-
434 Area Learning Center	362,885	362,885	-
435 Contracted Alt. Programs	-	-	-
436 State Approved Alt. Program	-	-	-
438 Gifted & Talented	69,950	69,950	-
440 Teacher Development & Eval	-	-	-
441 Basic Skills Programs	-	-	-
445 Career and Tech Programs	-	-	-
446 First Grade Preparedness	-	-	-
448 Achievement & Integration	-	-	-
449 Safe Schools Levy	44,881	44,881	-
450 Prekindergarten	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liab not in Trust	-	-	-
453 Unfnded Sev & Retiremt Levy	-	-	-
467 LTFM	385,340	385,340	-
472 Medical Assistance	-	-	-
Restricted:			
464 Restricted Fund Balance	-	-	-
Committed:			
418 Committed For Separation	185,849	185,849	-
461 Committed Fund Balance	-	-	-
Assigned:			
462 Assigned Fund Balance	7,000,000	7,000,000	-
Unassigned:			
422 Unassigened Fund Balance	10,938,156	10,938,156	-
02 FOOD SERVICE			
Total Revenue	2,411,761	2,411,760	1
Total Expenditures	2,373,633	2,373,633	-
Nonspendable:			
460 Nonspendable Fund Balance	99,130	99,130	-
Restricted/Reserved:			
452 OPEB Liab not in Trust	-	-	-
Reserve:			
464 Restricted Fund Balance	729,815	729,815	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE			
Total Revenue	1,812,771	1,812,771	-
Total Expenditures	1,783,363	1,783,363	-
Nonspendable:			
460 Nonspendable Fund Balance	-	-	-
Restricted/Reserve:			
426 $25 Taconite	-	-	-
431 Community Education	47,338	47,339	(1)
432 E.C.F.E.	53,813	53,813	-
444 School Readiness	28,068	28,068	-
447 Adult Basic Education	247,000	247,000	-
452 OPEB Liab not in Trust	-	-	-
Resticted:			
464 Restricted Fund Balance	1,040	1,040	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-

	AUDIT	UFARS	Difference
06 BUILDING			
Total Revenue	$ -	$ -	$ -
Total Expenditures	-	-	-
Nonspendable:			
460 Nonspendable Fund	-	-	-
Restricted/Reserve:			
407 Capital Projects Levy	-	-	-
413 Projects Funded by Cop	-	-	-
467 LTFM	-	-	-
Restricted:			
464 Restricted Fund Balance	-	-	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-
07 DEBT SERVICE			
Total Revenue	2,117,332	2,117,332	-
Total Expenditures	2,281,212	2,281,212	-
Nonspendable:			
460 Nonspendable Fund	-	-	-
Restricted/Reserve:			
425 Bond Refundings	5,538,221	5,538,221	-
451 QZAB Payments	-	-	-
Restricted:			
464 Restricted Fund Balance	515,984	515,985	(1)
Unassigned:			
463 Unassigned Fund Balance	-	-	-
08 TRUST			
Total Revenue	9,627	9,627	-
Total Expenditures	42,685	42,685	-
422 Net Assets	323,040	323,040	-
20 INTERNAL SERVICE			
Total Revenue	-	-	-
Total Expenditures	-	-	-
422 Net Assets	-	-	-
25 OPEB Revocable Turst Fund			
Total Revenue	-	-	-
Total Expenditures	-	-	-
422 Net Assets	-	-	-
			-
45 OPEB Irrevocable Turst Fund			
Total Revenue	-	-	-
Total Expenditures	-	-	-
422 Net Assets	-	-	-
47 OPEB Debt Service Fund			
Total Revenue	-	-	-
Total Expenditures	-	-	-
Nonspendable:			
460 Nonspendable Fund	-	-	-
Restricted:			
			-
464 Restricted Fund Balance	-	-	-
Unassigned:			
463 Unassigned Fund Balance	-	-	-