

INDEPENDENT SCHOOL DISTRICT NO. 659

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2017

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INDEPENDENT SCHOOL DISTRICT NO. 659
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INTRODUCTORY SECTION

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
BOARD OF EDUCATION AND ADMINISTRATION
YEAR ENDED JUNE 30, 2017**

BOARD OF EDUCATION

Julie Pritchard	Chair
Ellen Iverson	Vice Chair
Noel Stratmoen	Clerk
Rob Hardy	Treasurer
Margaret Colangelo	Director
Amy Goerwitz	Director
Jeff Quinnell	Director

ADMINISTRATION

Dr. Matthew Hillmann	Superintendent
Val Mertesdorf	Director of Finance

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 659
Northfield, 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. 659, 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.

Auditors' 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 659 as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows, and the respective budgetary comparisons for the General Fund, Food Service Fund, and Community Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Independent School District No. 659 as of and for the year ended June 30, 2016, and we expressed unmodified opinions on those audited financial statements in our report dated November 21, 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 Benefit Plan, the Schedule of the District's Proportionate Share of the Net Pension Liability, and the Schedule of District Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by 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 Independent School District No. 659's basic financial statements. The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund, the Schedule of Changes in Fund Equities, and the Uniform Financial Accounting and Reporting Standards Compliance Table, as required by Minnesota Department of Education 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, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, is also presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – Debt Service Fund, the Schedule of Changes in Fund Equities, the Uniform Financial Accounting and Reporting Standards Compliance Table, and Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2017 on our consideration of Independent School District No. 659'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Independent School District No. 659's 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 Independent School District No. 659's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Rochester, Minnesota
November 21, 2017

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REQUIRED SUPPLEMENTARY INFORMATION

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**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 359
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

This section of Independent School District No. 659'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 follows this section.

FINANCIAL HIGHLIGHTS

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

- The net position of governmental activities decreased by \$9,026,960, or 82%, to \$1,933,598. The decrease is primarily related to the net pension liability required by GASB Statement No. 68. The liability is the school district's actuarial prorated portion of unfunded liability for both the Teacher's Retirement Association (TRA) and the Public Employee's Retirement Association (PERA).
- The District's governmental funds reported a combined fund balance of \$20,947,149, a net increase of \$566,833 in comparison with the prior year. Approximately 60.6% of this total is unassigned.
- Total General Fund revenues and other financing sources were \$54,348,401 and total General Fund expenditures were \$53,858,787 for the fiscal year ended June 30, 2017. Total revenues and other financing sources and expenditures for all governmental funds combined were \$65,776,231 and \$65,209,398 respectively.
- The General Fund Unassigned fund balance increased by \$749,694 to \$12,696,685 or 23.6% of general fund expenditures. The District's long-range financial plan calls for a continued buildup of the fund balance over the next several years with the increased operating referendum. This will enable to the District to maintain programming for as long as possible even in times when the State of Minnesota doesn't adequately fund public education. The District is in a great financial position to be able to serve the Northfield Community.
- There is approximately \$4.7 million in charges for services and special education expenditures related to the flow-thru of the Cannon Valley Special Education Cooperative. The District was the fiscal host for this program during its first year of operation.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of the following:

- Independent Auditors' Report;
- Management's Discussion and Analysis;
- Basic financial statements, including the government-wide financial statements, fund financial statements, and the notes to the financial statements;
- Required supplementary information; and
- Supplementary information

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 359
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

The basic financial statements include two kinds of statements that present different views of the District:

- **Government-Wide Financial Statements** – The government-wide financial statements, including the Statement of Net Position and Statement of Activities, are designed to provide short-term and long-term information about the District's overall financial status, using accounting methods similar to those used by private sector companies.
- **Fund Financial Statements** – The fund financial statements focus on individual parts of the District, reporting the District's operation in more detail than the government-wide financial statements. The District maintains three groups of fund financial statements:

Governmental Funds Statements – Governmental funds statements review how basic services such as regular and special education were financed in the short-term as well as what remains for future spending.

Proprietary Funds Statements – Proprietary funds statements offer short-term and long-term financial information about the activities the District operates like a business.

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

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

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

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 359
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

GOVERNMENT-WIDE STATEMENTS (CONTINUED)

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

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes.

The District maintains three 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 fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- **Proprietary Funds** – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements.
 - The District uses proprietary funds to report activities that provide supplies and services for the District's other programs and activities. The District currently has one proprietary fund; an internal service fund for health and dental insurance benefits.
- **Fiduciary Funds** – *Fiduciary funds* – The District is the trustee, or *fiduciary*, for assets that belong to others, such as the scholarship funds. 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 district-wide financial statements because the District cannot use these assets to finance its operations.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 359
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's combined net position from Governmental activities was \$1,933,598 on June 30, 2017. (See Table A-1) This represents a decrease in net position of 82%.

**Table A-1
The District's Net Position**

	Governmental Activities as of June 30,		Percentage Change
	2017	2016	
Current and Other Assets	\$ 44,167,221	\$ 41,997,278	5.17 %
Capital Assets	59,437,637	60,077,707	(1.07)
Total Assets	<u>103,604,858</u>	<u>102,074,985</u>	1.50
Deferred Outflows of Resources	65,716,267	5,730,896	1,046.70
Current Liabilities	7,345,302	6,967,864	5.42
Long-Term Liabilities	143,583,112	71,426,142	101.02
Total Liabilities	<u>150,928,414</u>	<u>78,394,006</u>	92.53
Deferred Inflows of Resources	<u>16,459,113</u>	<u>18,451,317</u>	(10.80)
Net Position:			
Net Investment in Capital Assets	24,792,279	22,138,097	11.99
Restricted	3,484,936	3,542,033	(1.61)
Unrestricted	(26,343,617)	(14,719,572)	78.97
Total Net Position	<u>\$ 1,933,598</u>	<u>\$ 10,960,558</u>	(82.36)

The largest portion of the District's net position reflect its investment in capital assets (e.g. land, buildings and furniture and equipment) less any related debt used to acquire those assets that is still outstanding. The restricted category of the District's net position represents those resources that are restricted as to how they may be used, such as state mandated reserves, capital assets acquisition and debt service payments.

You will note that our unrestricted net position became further negative from \$14,719,572 in 2015-16 to \$26,343,617 in 2016-17. The negative nature of the unrestricted net position is due to the adoption of GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions* beginning with the 2014-15 school year. The District had to record a proportionate share of the state pension plan's unfunded net pension liability. This standard does not change how we budget or fund the state pension plans. It is transferring the unfunded net pension liability from the Minnesota Teacher's Retirement Association and the Minnesota Public Employee's Retirement Association financial statements to all members of the pension plan.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 359
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Total expenses surpassed revenues, decreasing net position \$9,026,961 over the prior year.

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

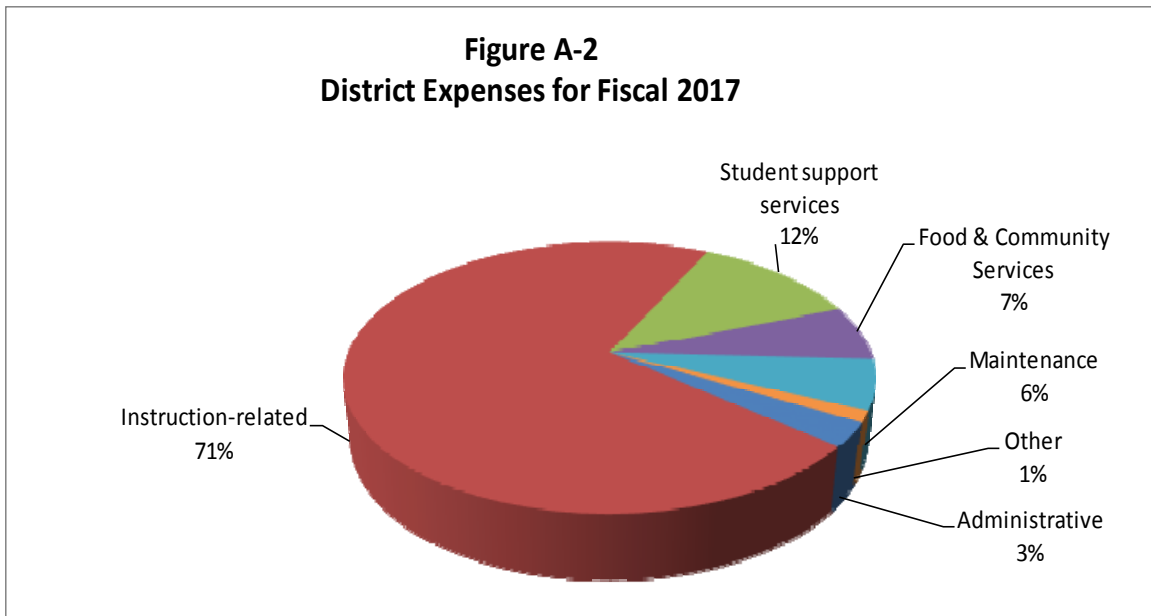
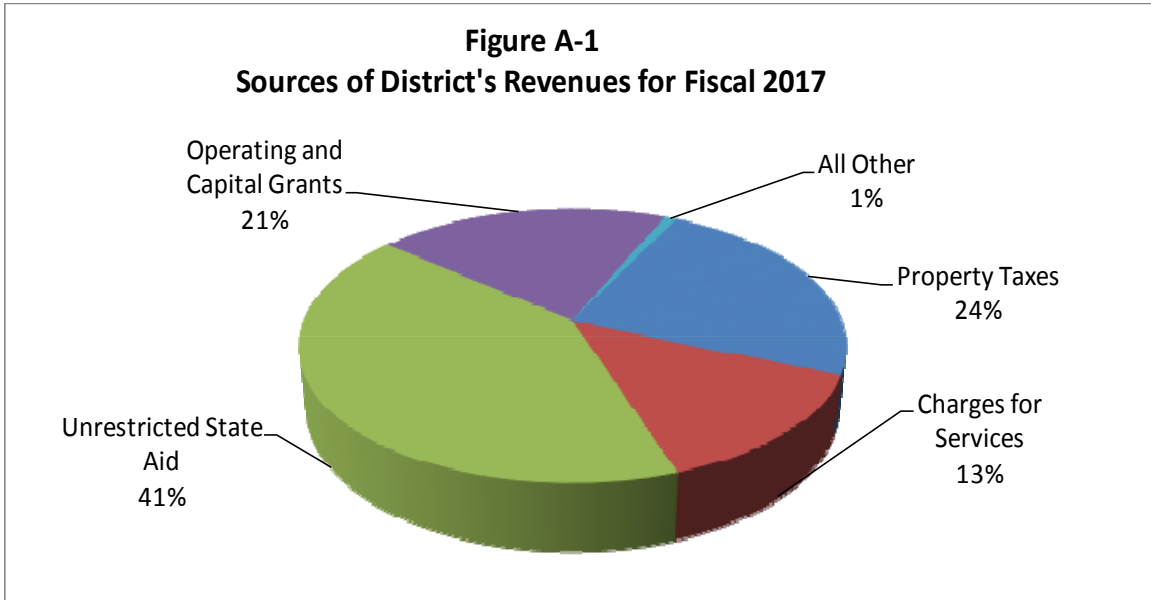
	Governmental Activities for the Fiscal Year Ended June 30,		Percentage Change
	2017	2016	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 8,879,394	\$ 3,895,242	127.95 %
Operating Grants and Contributions	12,946,180	10,676,349	21.26
Capital Grants and Contributions	600,099	572,972	4.73
<u>General Revenues</u>			
Property Taxes	15,549,757	15,399,682	0.97
Unrestricted State Aid	27,052,927	27,342,958	(1.06)
Investment Earnings	138,555	63,735	117.39
Other	437,921	259,610	68.68
Total Revenues	<u>65,604,833</u>	<u>58,210,548</u>	12.70
Expenses			
Administration	2,164,164	1,730,307	25.07
District Support Services	1,026,668	1,208,765	(15.06)
Regular Instruction	35,047,429	26,149,580	34.03
Vocational Education Instruction	348,560	287,828	21.10
Special Education Instruction	17,806,090	9,620,471	85.09
Instructional Support Services	3,901,828	1,467,610	165.86
Pupil Support Services	3,989,028	3,485,194	14.46
Sites and Buildings	4,422,362	4,648,628	(4.87)
Fiscal and Other Fixed Cost Programs	142,235	139,490	1.97
Food Service	2,098,282	1,979,087	6.02
Community Service	2,848,045	2,459,065	15.82
Interest and Fiscal Charges on Long-Term Liabilities	837,102	920,860	(9.10)
Total Expenses	<u>74,631,793</u>	<u>54,096,885</u>	37.96
Change in Net Position	(9,026,960)	4,113,663	
Beginning Net Position	10,960,558	6,846,895	
Ending Net Position	<u>\$ 1,933,598</u>	<u>\$ 10,960,558</u>	

Changes in net position. The District's total revenues were \$65,604,833 for the year ended June 30, 2017. Property taxes and state formula aid accounted for 64.9% of total revenue for the year. (See Figure A-1). Another 34% came from program revenues. Investment earnings and other general revenues amounted to 1%.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 359
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The total cost of all programs and services was \$74,631,794. The District's total expenses are predominantly related to educating and supporting students (81.9%). (See Figure A-2.) The administrative activities of the District accounted for 3% of total expenses.



**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 359
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

- The cost of all governmental activities this year was \$74,631,793, which is \$20,534,909 or 38% more than the prior year.
- Some of the expense was paid by the patrons of the District's programs (\$8,879,394).
- The federal and state governments subsidized certain programs with grants and contributions (\$13,546,279).
- Local property taxes financed \$15,549,757, state aid based on the statewide education aid formula funded \$27,052,927, and investment earnings and other general revenues provided \$576,476 in revenue.

**Table A-3
Program Expenses and Net Cost of Services**

	<u>Total Cost of Services</u>		<u>Percentage Change</u>	<u>Net Cost of Services</u>		<u>Percentage Change</u>
	<u>2017</u>	<u>2016</u>		<u>2017</u>	<u>2016</u>	
Administration	\$ 2,164,164	\$ 1,730,307	25.07%	\$ 2,113,492	\$ 1,726,552	22.41%
District Support Services	1,026,668	1,208,765	-15.06%	999,467	1,178,463	-15.19%
Regular Instruction	35,047,429	26,149,580	34.03%	30,353,563	22,051,507	37.65%
Vocational Education Instruction	348,560	287,828	21.10%	328,183	283,175	15.89%
Special Education Instruction	17,806,090	9,620,471	85.09%	6,465,106	3,610,163	79.08%
Instructional Support Services	3,901,828	1,467,610	165.86%	3,127,985	1,460,189	114.22%
Pupil Support Services	3,989,028	3,485,194	14.46%	3,712,435	3,250,745	14.20%
Sites and Buildings	4,422,362	4,648,628	-4.87%	3,755,525	4,206,375	-10.72%
Fiscal and Other Fixed Cost Programs	142,235	139,490	1.97%	142,235	139,490	1.97%
Food Service	2,098,282	1,979,087	6.02%	(107,857)	(175,326)	-38.48%
Community Service	2,848,045	2,459,065	15.82%	478,884	300,129	59.56%
Interest and Fiscal Charges on Long-Term Liabilities	837,102	920,860	-9.10%	837,102	920,860	-9.10%
	<u>\$ 74,631,793</u>	<u>\$ 54,096,885</u>	37.96%	<u>\$ 52,206,120</u>	<u>\$ 38,952,322</u>	34.03%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds, reported a combined fund balance of \$20,947,149, which is an increase of \$566,833 from the prior year ending fund balance of \$20,380,316.

Revenues and other financing sources for the District's governmental funds were \$65,776,231 while total expenditures were \$65,209,398, resulting in revenues exceeding expenditures by \$566,833.

GENERAL FUND

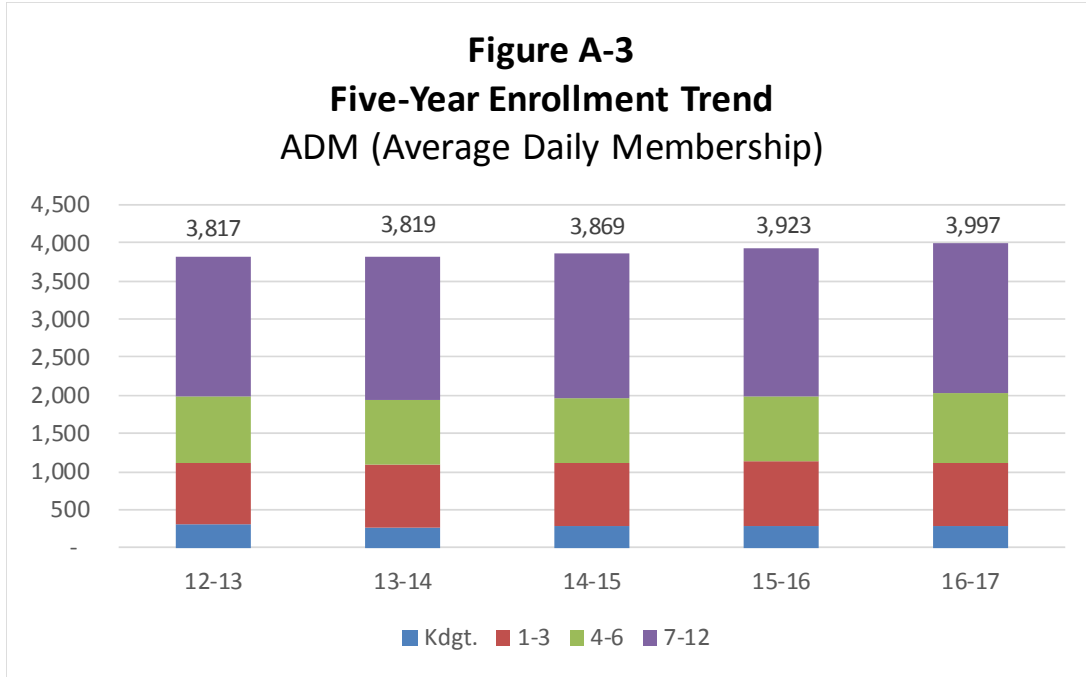
The General Fund includes the primary operations of the District in providing educational services to students from pre-kindergarten through grade 12 including pupil transportation activities and capital outlay projects.

Funding for Minnesota school districts is largely driven by enrollment. Over the last five years, the District's enrollment has remained fairly stable in the number of students. Beginning with the 2015-16 school year, the District has seen increased enrollment. Based on past historical trends and using a traditional cohort survival technique, the District anticipates that the total number of students will increase slightly or over the next few years.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 359
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

GENERAL FUND (CONTINUED)

The following graph shows that the number of students has been stable over the last few years.



The following schedule presents a summary of General Fund Revenues.

**Table A-4
General Fund Revenues**

	Year Ended		Change	
	June 30, 2017	June 30, 2016	Increase (Decrease)	Percent Change
Local Sources:				
Property Taxes	\$ 10,445,511	\$ 9,743,437	\$ 702,074	7.2 %
Earnings on Investments	102,682	22,772	79,910	350.9
Other	6,409,795	1,558,501	4,851,294	311.3
State Sources	36,052,015	35,469,498	582,517	1.6
Federal Sources	1,338,398	1,290,511	47,887	3.7
Total General Fund Revenue	<u>\$ 54,348,401</u>	<u>\$ 48,084,719</u>	<u>\$ 6,263,682</u>	13.0

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 359
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

GENERAL FUND (CONTINUED)

Total General Fund Revenue increased by \$6,263,682 or 13.0% from the previous year. This increase was primarily from the increase in our property tax levy as well as the flow-thru revenue generated by the Cannon Valley Special Education Cooperative. Basic general education revenue is determined by multiple state formulas, largely enrollment driven, and consists of an equalized mix of property tax and state aid revenue.

The following schedule presents a summary of General Fund expenditures.

**Table A-5
General Fund Expenditures**

	<u>Year Ended</u>		<u>Amount of Increase (Decrease)</u>	<u>Percent Increase (Decrease)</u>
	<u>June 30, 2017</u>	<u>June 30, 2016</u>		
Salaries	\$ 31,003,171	\$ 26,883,222	\$ 4,119,949	15.3%
Employee Benefits	11,367,865	10,318,375	1,049,490	10.2%
Purchased Services	7,629,977	6,761,624	868,353	12.8%
Supplies and Materials	1,793,666	1,581,595	212,071	13.4%
Capital Expenditures	1,664,997	576,831	1,088,166	188.6%
Other Expenditures	399,111	311,802	87,309	28.0%
Total Expenditures	<u>\$ 53,858,787</u>	<u>\$ 46,433,449</u>	<u>\$ 7,425,338</u>	16.0%

Total General Fund expenditures, capital expenditures included increased \$7,425,338 or 16.0% due to normal cost inflationary measures, specific Board approved programs including the one-year fiscal host relationship with the Cannon Valley Special Education Cooperative and District contract negotiation. The District has been diligent in controlling expenditures in anticipation of little or no funding increases from the State. The District continues to look for cost reductions and other containment measures in all contracted services arrangements currently in place.

In 2016-2017, General Fund revenues and other financing sources were more than expenditures by \$489,614 or 0.9% of total expenditures. After deducting statutory restrictions, the unassigned fund balance increased from \$11,946,991 at June 30, 2016 to \$12,696,685 at June 30, 2017, an increase of \$749,694. The unassigned fund balance represents 23.6% of general fund expenditures which is higher than the Board designated goal of 16%, but in line with our goal to increase fund balance to maintain programming during times of financial inadequacy from the State of Minnesota.

General Fund Budgetary Highlights

The District is required to adopt an operating budget prior to the beginning of its fiscal year (July 1), referred to as the preliminary budget. Over the course of the year, the District chose to revise the preliminary budget to account for changes in estimates that were used in planning the preliminary budget.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 359
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

GENERAL FUND (CONTINUED)

General Fund Budgetary Highlights (Continued)

The District's final budget for the General Fund anticipated that revenues and other financing sources would exceed expenditures and other financing uses by \$136,173. The actual results show revenues being larger than expenditures by \$489,614.

- Actual revenues and other financing sources were \$1,128,009 more than expected. This was primarily due to a conservative special education revenue estimate and additional general education revenue due to increased enrollment.
- Actual expenditures and other financing uses were \$774,568 more than expected. This was primarily due to increased enrollment in health insurance, additional capital projects, and the entry we are required to book for GASB 68 related to the pension expense.

**Table A-6
General Fund Budget to Actual**

	<u>Final Budget</u>	<u>Actual</u>	<u>Over (Under) Final Budget</u>	<u>Percent Over (Under)</u>
Revenue and Other Financing Sources	\$ 53,220,392	\$ 54,348,401	\$ 1,128,009	2.1%
Expenditures and Other Financing Uses	53,084,219	53,858,787	774,568	1.4%
	<u>\$ 136,173</u>	<u>\$ 489,614</u>	<u>\$ 353,441</u>	

FOOD SERVICE FUND

The Food Service Fund accounts for the activities related to providing nutrition services to the K-12 academic program. The fund operates on the principle of revenues exceeding expenditures on day-to-day operations so that the excess can be used to systematically replace and upgrade kitchen equipment around the district. By operating in this manner, the Student Nutrition Services program is self-contained and does not pull resources away from direct K-12 instruction. The District served 410,916 lunches and 100,925 breakfasts to students, in addition to a la carte sales during the 2016-17 school year.

The fund balance increased by \$113,634 to \$766,415 during 2016-2017. This was primarily due to an increase in participation and cost containment measures on expenditures.

Food Service Fund Revenues for 2016-17 totaled \$2,211,916. This was an increase of \$49,667 or approximately 2.3% from 2015-16.

Food Service Fund Expenditures for 2016-17 totaled \$2,098,282. This was an increase of \$137,676 or 7.0% from 2015-2016.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 359
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

COMMUNITY SERVICE FUND

The Community Service Fund accounts for the activities related to providing lifelong learning, recreation, and community involvement. They provide programming for all ages. The fund is self-sustaining and helps support many District programs and initiatives.

Community Service Fund Revenues and other financing sources for 2016-2017 totaled \$2,761,311. This was an increase of \$203,014 or 7.9% from 2015-2016.

Community Service Fund Expenditures for 2016-2017 totaled \$2,660,004. This was an increase of \$197,513 or 8.0% over 2015-2016.

The fund balance has increased from \$530,924 on June 30, 2016 to \$632,231 on June 30, 2017. The majority of the fund balance is reserved for specific purposes based on state requirements.

CAPITAL PROJECTS FUND

The Capital Projects Fund accounts for revenues and expenditures related to the school district's long-term capital and facility projects that are funded by the sale of bonds or capital loans. The Capital Project Fund includes activity related to our 2017A Long Term Facility Maintenance Bond to replace the roof at Bridgewater Elementary.

Capital Project Fund Revenues and Other Financing Sources totaled \$1,407,117. This was an increase of \$1,407,117 or 100% from 2015-16.

Capital Project Fund Expenditures and Other Financing Uses totaled \$1,317,981. This was an increase of \$1,317,981 or 100% from 2015-16.

The fund balance is \$89,136 which will be spent in 2017-18 to finish the roof replacement listed above.

DEBT SERVICE FUND

The Debt Service Fund exists to service the principal and interest payments on long-term debt issued by the district to construct school facilities or acquire school equipment. Annual levies will provide revenue at a rate of 105% of pending debt service payments for a fiscal year. This rate is specified in statute to ensure that principal and interest payments can be made as scheduled even if there are late property tax payments or delinquencies that may arise.

The Debt Service Fund Balance decreased by \$226,858 in 2016-2017.

The Minnesota Department of Education monitors fund balances in the Debt Service Fund and limits the amount of funds that can be carried forward. If the fund balance gets too high, future levy authority will be reduced in order to reduce the debt service fund balance to a reasonable level. The June 30, 2017, fund balance of \$1,400,142 plus future levies that include an additional 5% levy to cover late or delinquent property tax payments will provide adequate cash flow for timely payment of principal and interest.

The District's current general obligation bond rating from Standard and Poor's is AA+.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 359
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

At the end of fiscal year 2017, the District had invested \$100,507,502 in a broad range of capital assets, including school buildings; land, computer and audio-visual equipment, and other equipment for various instructional programs (see Table A-7). Total accumulated depreciation as of June 30, 2017 was \$41,069,865. The current year depreciation expense for Governmental Activities totaled \$2,725,278. More detailed information about capital assets can be found in Note 4 to the financial statements.

**Table A-7
Capital Assets**

	<u>2017</u>	<u>2016</u>	<u>Percentage Change</u>
Land	\$ 968,609	\$ 968,609	-
Construction in Progress	1,280,894	-	N/A
Land Improvements	3,994,256	3,759,659	6.2
Buildings and Improvements	89,435,276	89,296,146	0.2
Equipment	4,828,467	4,419,880	9.2
Less: Accumulated Depreciation	(41,069,865)	(38,366,587)	7.0
Total District Capital Assets	<u>\$ 59,437,637</u>	<u>\$ 60,077,707</u>	(1.1)

Long-Term Liabilities:

For the fiscal year ended June 30, 2017, the District had \$43,333,550 in long-term liabilities outstanding, including \$8,601,468 for health benefits, severance and compensated absences. This is an increase of 9.9% from the prior year (see Table A-8). More detailed information about the District's long-term liabilities is presented in Note 5 of the financial statements.

**Table A-8
The District's Long-Term Liabilities**

	<u>2017</u>	<u>2016</u>	<u>Percentage Change</u>
General Obligation Bonds	\$ 33,000,000	\$ 35,940,000	(8.2)%
Net Bond Premium and Discount	847,975	952,537	(11.0)
Certificates of Participation Payable	884,107	979,177	(9.7)
Other Postemployment Benefits Payable	8,194,733	7,455,011	9.9
Severance Payable	249,754	208,852	19.6
Compensated Absences Payable	156,981	164,419	(4.5)
Total Long-Term Liabilities	<u>\$ 43,333,550</u>	<u>\$ 45,699,996</u>	(5.2)
Long-Term Liabilities:			
Due Within One Year	\$ 5,001,854	\$ 4,729,252	
Due in More Than One Year	38,331,696	40,970,744	
Total	<u>\$ 43,333,550</u>	<u>\$ 45,699,996</u>	

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 359
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

OTHER SELECTED INFORMATION

The government-wide financial statements now recognize liabilities for severance pay, compensated absences, and retiree health benefits for retired employees totaling \$8,601,468. This liability does include an amount for future health benefit costs to employees who have not retired as of June 30, 2017. The District continues to assign funds as available to meet future obligations. A total of \$4,000,000 has been segregated from the Unassigned Fund Balance over the last several years to begin to address this long-term liability.

Under the pay-as-you-go method, the recent annual cost of severance, compensated absences, and retiree health benefits for retired employees remains consistently at approximately 2.0% of the General Fund expenditures. The costs are budgeted and funded out of current revenues of the General Fund.

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 please visit our website at www.northfieldschools.org or contact the Finance Department, Independent School District No. 659, 1400 Division Street South, Northfield, Minnesota 55057.

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BASIC FINANCIAL STATEMENTS

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**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF NET POSITION
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	Governmental Activities	
	2017	2016
ASSETS		
Cash and Investments	\$ 25,018,581	\$ 28,309,869
Receivables:		
Property Taxes	7,702,221	7,668,032
Other Governments	11,077,157	5,469,600
Other	121,376	48,465
Prepaid Items	197,863	452,876
Inventories	50,023	48,436
Capital Assets:		
Land and Construction in Progress	2,249,503	968,609
Other Capital Assets, Net of Depreciation	57,188,134	59,109,098
Total Assets	103,604,858	102,074,985
DEFERRED OUTFLOWS OF RESOURCES		
Pension Related	65,716,267	5,730,896
Total Deferred Outflows	65,716,267	5,730,896
LIABILITIES		
Salaries Payable	965,025	911,351
Accounts Payable	601,294	540,718
Accrued Interest	382,593	418,258
Due to Other Governmental Units	182,627	174,298
Unearned Revenue	211,909	193,987
Long-Term Liabilities:		
Portion Due Within One Year	5,001,854	4,729,252
Portion Due in More Than One Year	38,331,696	40,970,744
Net Pension Liability	105,251,416	30,455,398
Total Liabilities	150,928,414	78,394,006
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year	15,189,462	15,169,046
Pension Related	1,269,651	3,282,271
Total Deferred Inflows of Resources	16,459,113	18,451,317
NET POSITION		
Net Investment in Capital Assets	24,792,279	22,138,097
Restricted for:		
Operating Capital Purposes	467,688	569,700
State-Mandated Reserves	528,920	437,514
Food Service	766,415	652,781
Community Service	642,736	544,354
Capital Projects - Building Construction	2,412	-
Debt Service	1,076,765	1,337,684
Unrestricted	(26,343,617)	(14,719,572)
Total Net Position	\$ 1,933,598	\$ 10,960,558

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 659
 STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2017
 (WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

2017			
Functions	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Governmental Activities			
Administration	2,164,164	\$ 4,355	\$ 46,317
District Support Services	1,026,668	-	26,472
Regular Instruction	35,047,429	578,168	4,025,066
Vocational Education Instruction	348,560	-	20,377
Special Education Instruction	17,806,090	5,279,695	6,061,289
Instructional Support Services	3,901,828	1,760	586,401
Pupil Support Services	3,989,028	2,245	274,348
Sites and Buildings	4,422,362	69,162	274,619
Fiscal and Other Fixed Cost Programs	142,235	-	-
Food Service	2,098,282	1,223,601	982,538
Community Service	2,848,045	1,720,408	648,753
Interest and Fiscal Charges on Long-Term Liabilities	837,102	-	-
Total School District	\$ 74,631,793	\$ 8,879,394	\$ 12,946,180

General Revenues

- Property Taxes Levied for:
 - General Purposes
 - Community Service
 - Debt Service
- State Aid Not Restricted to Specific Purposes
- Earnings on Investments
- Miscellaneous
- Total General Revenues

Change in Net Position

Net Position - Beginning

Net Position - Ending

See accompanying Notes to Financial Statements.

	2017	2016
	Net (Expense) Revenue and Change in Net Position	Net (Expense) Revenue and Change in Net Position
Capital Grants and Contributions	Total Governmental Activities	Total Governmental Activities
\$ -	\$ (2,113,492)	\$ (1,726,552)
729	(999,467)	(1,178,463)
90,632	(30,353,563)	(22,051,507)
-	(328,183)	(283,175)
-	(6,465,106)	(3,610,163)
185,682	(3,127,985)	(1,460,189)
-	(3,712,435)	(3,250,745)
323,056	(3,755,525)	(4,206,375)
-	(142,235)	(139,490)
-	107,857	175,326
-	(478,884)	(300,129)
-	(837,102)	(920,860)
<u>\$ 600,099</u>	<u>(52,206,120)</u>	<u>(38,952,322)</u>

10,444,483	9,685,043
402,101	403,900
4,703,173	5,310,739
27,052,927	27,342,958
138,555	63,735
437,921	259,610
<u>43,179,160</u>	<u>43,065,985</u>
(9,026,960)	4,113,663
<u>10,960,558</u>	<u>6,846,895</u>
<u>\$ 1,933,598</u>	<u>\$ 10,960,558</u>

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	Major		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 13,035,859	\$ 801,872	\$ 922,830
Receivables:			
Current Property Taxes	4,918,836	-	195,488
Delinquent Property Taxes	110,314	-	4,606
Accounts Receivable	109,847	1,689	9,583
Due from Other Minnesota School Districts	5,042,468	-	4,943
Due from Minnesota Department of Education	4,718,115	-	39,393
Due from Federal through Minnesota Department of Education	1,186,584	7,686	-
Due from Federal Government Received Directly	20,475	-	-
Due from Other Governmental Units	25,617	-	-
Inventory	31,524	18,499	-
Prepays	195,533	972	1,358
Total Assets	<u>\$ 29,395,172</u>	<u>\$ 830,718</u>	<u>\$ 1,178,201</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
Liabilities:			
Salaries and Payroll Deductions Payable	\$ 902,123	\$ 2,222	\$ 60,680
Accounts and Contracts Payable	228,226	6,799	30,554
Due to Other Governmental Units	163,744	-	18,883
Unearned Revenue	127,285	55,282	29,342
Total Liabilities	<u>1,421,378</u>	<u>64,303</u>	<u>139,459</u>
Deferred Inflows of Resources:			
Unavailable Revenue - Property Taxes Levied for Subsequent Year	9,825,082	-	401,905
Unavailable Revenue - Delinquent Property Taxes	89,487	-	4,606
Total Deferred Inflows of Resources	<u>9,914,569</u>	<u>-</u>	<u>406,511</u>
Fund Balance:			
Nonspendable:			
Inventory	31,524	18,499	-
Prepays	195,533	972	1,358
Restricted for:			
Deferred Maintenance	-	-	-
Health and Safety	(80,201)	-	-
Operating Capital	467,688	-	-
Community Education	-	-	360,192
Early Childhood and Family Education	-	-	106,074
Teacher Development and Evaluation	85,989	-	-
School Readiness	-	-	170,506
Long-Term Facilities Maintenance	442,931	-	-
Restricted for Other Purposes	-	746,944	-
Assigned for:			
Tobacco Settlement	19,076	-	-
Special Education	200,000	-	-
Severance - Insurance Premiums	4,000,000	-	-
Carry-Over Funds	-	-	-
Unassigned	12,696,685	-	(5,899)
Total Fund Balance	<u>18,059,225</u>	<u>766,415</u>	<u>632,231</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 29,395,172</u>	<u>\$ 830,718</u>	<u>\$ 1,178,201</u>

See accompanying Notes to Financial Statements.

Funds		Total Governmental	
Capital Projects	Debt Service	Funds	
		2017	2016
\$ 153,181	\$ 3,916,980	\$ 18,830,722	\$ 23,573,411
-	2,413,761	7,528,085	7,499,031
-	59,216	174,136	169,001
-	-	121,119	48,043
-	-	5,047,411	561,894
-	31,876	4,789,384	4,232,413
-	-	1,194,270	617,521
-	-	20,475	7,877
-	-	25,617	49,895
-	-	50,023	48,436
-	-	197,863	452,876
<u>\$ 153,181</u>	<u>\$ 6,421,833</u>	<u>\$ 37,979,105</u>	<u>\$ 37,260,398</u>
\$ -	\$ -	\$ 965,025	\$ 911,351
64,045	-	329,624	275,331
-	-	182,627	174,298
-	-	211,909	193,987
<u>64,045</u>	<u>-</u>	<u>1,689,185</u>	<u>1,554,967</u>
-	4,962,475	15,189,462	15,169,046
-	59,216	153,309	156,069
<u>-</u>	<u>5,021,691</u>	<u>15,342,771</u>	<u>15,325,115</u>
-	-	50,023	48,436
-	-	197,863	452,876
-	-	-	346,798
-	-	(80,201)	(110,827)
-	-	467,688	569,700
-	-	360,192	403,843
-	-	106,074	63,625
-	-	85,989	90,716
-	-	170,506	71,225
-	-	442,931	-
89,136	1,400,142	2,236,222	2,261,571
-	-	19,076	19,734
-	-	200,000	200,000
-	-	4,000,000	4,000,000
-	-	-	24,552
-	-	12,690,786	11,938,067
<u>89,136</u>	<u>1,400,142</u>	<u>20,947,149</u>	<u>20,380,316</u>
<u>\$ 153,181</u>	<u>\$ 6,421,833</u>	<u>\$ 37,979,105</u>	<u>\$ 37,260,398</u>

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**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	2017	2016
Total Fund Balance for Governmental Funds	\$ 20,947,149	\$ 20,380,316
Total net position reported for governmental activities in the statement of net position is different because:		
Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:		
Land	968,609	968,609
Construction in Progress	1,280,894	-
Land Improvements, Net of Accumulated Depreciation	1,689,531	1,587,515
Buildings and Improvements, Net of Accumulated Depreciation	53,877,767	56,019,276
Equipment, Net of Accumulated Depreciation	1,620,836	1,502,307
Some of the District's property taxes will be collected after year-end, but are not available soon enough to pay for the current period's expenditures and, therefore, are reported as unearned revenue in the funds.	153,309	156,069
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditures when due.	(382,593)	(418,258)
The District's Net Pension Liability and related deferred inflows and outflows are recorded only on the Statement of Net Position. Balances at year-end are:		
Net Pension Liability	(105,251,416)	(30,455,398)
Deferred Outflows of Resources - Pensions	65,716,267	5,730,896
Deferred Inflows of Resources - Pensions	(1,269,651)	(3,282,271)
Long-term liabilities that pertain to governmental funds, including bonds payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long-term - are reported in the statement of net position. Balances at year-end are:		
Bonds Payable	(33,000,000)	(35,940,000)
Unamortized Premiums	(906,818)	(1,020,433)
Unamortized Discounts	58,843	67,896
Certificates of Participation Payable	(884,107)	(979,177)
Other Postemployment Benefits Payable	(8,194,733)	(7,455,011)
Severance and Health Benefits Payable	(249,754)	(208,852)
Compensated Absences Payable	(156,981)	(164,419)
Internal service funds are used by management to charge the costs of health and dental insurance services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. Internal service fund net position at year-end are:	5,916,446	4,471,493
Total Net Position of Governmental Activities	\$ 1,933,598	\$ 10,960,558

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	<u>General</u>	<u>Food Service</u>	<u>Major Community Service</u>
REVENUES			
Local Sources:			
Property Taxes	\$ 10,445,511	\$ -	\$ 402,003
Earnings and Investments	102,682	4,895	4,643
Other	6,409,795	1,227,670	2,030,927
State Sources	36,052,015	113,835	323,738
Federal Sources	1,338,398	865,516	-
Total Revenues	<u>54,348,401</u>	<u>2,211,916</u>	<u>2,761,311</u>
EXPENDITURES			
Current:			
Administration	1,719,657	-	-
District Support Services	1,043,317	-	-
Elementary and Secondary Regular Instruction	24,250,228	-	-
Vocational Education Instruction	268,810	-	-
Special Education Instruction	13,982,207	-	-
Instructional Support Services	2,909,737	-	-
Pupil Support Services	3,626,196	-	-
Sites and Buildings	4,108,643	-	-
Fiscal and Other Fixed Cost Programs	142,235	-	-
Food Service	-	2,087,815	-
Community Service	-	-	2,653,074
Capital Outlay	1,664,997	10,467	6,930
Debt Service:			
Principal	95,070	-	-
Interest and Fiscal Charges	47,690	-	-
Total Expenditures	<u>53,858,787</u>	<u>2,098,282</u>	<u>2,660,004</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	489,614	113,634	101,307
OTHER FINANCING SOURCES (USES)			
Sale of Equipment	-	-	-
Insurance Recovery	-	-	-
Energy Rebate	-	-	-
Sale of Bonds	-	-	-
Bond Premium	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	489,614	113,634	101,307
FUND BALANCES			
Beginning of Year	17,569,611	652,781	530,924
End of Year	<u>\$ 18,059,225</u>	<u>\$ 766,415</u>	<u>\$ 632,231</u>

See accompanying Notes to Financial Statements.

Capital Projects	Funds	Total Governmental Funds	
	Debt Service	2017	2016
\$ -	\$ 4,705,003	\$ 15,552,517	\$ 15,507,879
2,412	23,921	138,553	43,862
-	-	9,668,392	4,633,063
-	318,562	36,808,150	35,927,772
-	-	2,203,914	2,136,957
<u>2,412</u>	<u>5,047,486</u>	<u>64,371,526</u>	<u>58,249,533</u>
-	-	1,719,657	1,756,789
-	-	1,043,317	1,194,644
-	-	24,250,228	23,417,435
-	-	268,810	290,157
-	-	13,982,207	9,592,822
-	-	2,909,737	1,422,376
-	-	3,626,196	3,496,242
-	-	4,108,643	4,403,903
-	-	142,235	139,490
-	-	2,087,815	1,959,099
-	-	2,653,074	2,440,496
1,317,981	-	3,000,375	600,333
-	4,265,000	4,360,070	4,505,498
-	1,009,344	1,057,034	1,167,651
<u>1,317,981</u>	<u>5,274,344</u>	<u>65,209,398</u>	<u>56,386,935</u>
(1,315,569)	(226,858)	(837,872)	1,862,598
-	-	-	2,680
-	-	-	25,639
-	-	-	23,700
1,325,000	-	1,325,000	-
79,705	-	79,705	-
<u>1,404,705</u>	<u>-</u>	<u>1,404,705</u>	<u>52,019</u>
89,136	(226,858)	566,833	1,914,617
-	1,627,000	20,380,316	18,465,699
<u>\$ 89,136</u>	<u>\$ 1,400,142</u>	<u>\$ 20,947,149</u>	<u>\$ 20,380,316</u>

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	2017	2016
Net Change in Fund Balance - Total Governmental Funds	\$ 566,833	\$ 1,914,617
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlays exceeded depreciation in the current period is:		
Capital Outlays	2,085,208	293,471
Gain (Loss) on Disposal of Capital Assets	-	(9,329)
Proceeds from the Sales of Capital Assets	-	(2,680)
Depreciation Expense	(2,725,278)	(2,722,193)
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 unearned in the governmental funds.		
	(2,760)	(108,197)
Pension expenses in the governmental funds are measured by current year employer contributions. Pension expenditures on the statement of activities are measured by the change in the net pension liability and the related deferred inflows and outflows of resources.		
	(12,798,027)	(36,537)
In the statement of activities, certain operating expenses - other post employment benefits, severance benefits, and compensated absences - are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (amounts actually paid).		
	(773,186)	(772,584)
The governmental funds report bond proceeds as financing sources, while repayment of bond principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of general obligation bonds and related items is as follows:		
General Obligation Bond Proceeds	(1,325,000)	-
Bond Premium or Discount	(79,705)	-
Repayment of Bond Principal	4,265,000	4,415,000
Change in Accrued Interest - General Obligation Bonds	35,665	43,864
Repayment of Certificates of Participation Payable	95,070	90,498
Amortization of Bond Premium	193,320	211,979
Amortization of Bond Discount	(9,053)	(9,052)
Internal service funds are used by the District to charge the costs of employee health and dental benefits to individual funds. The net revenue of the internal service funds is reported with governmental activities.		
	1,444,953	804,806
Total	\$ (9,026,960)	\$ 4,113,663

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Property Taxes	\$ 9,584,275	\$ 10,374,684	\$ 10,445,511	\$ 70,827
Earnings and Investments	5,000	105,000	102,682	(2,318)
Other	3,646,699	6,305,097	6,409,795	104,698
State Sources	34,692,980	35,175,247	36,052,015	876,768
Federal Sources	1,260,364	1,260,364	1,338,398	78,034
Total Revenues	<u>49,189,318</u>	<u>53,220,392</u>	<u>54,348,401</u>	<u>1,128,009</u>
EXPENDITURES				
Current:				
Administration	1,778,712	1,716,734	1,719,657	2,923
District Support Services	1,103,266	1,158,061	1,043,317	(114,744)
Elementary and Secondary Regular Instruction	24,117,944	23,582,387	24,250,228	667,841
Vocational Education Instruction	283,100	288,990	268,810	(20,180)
Special Education Instruction	11,673,044	13,965,316	13,982,207	16,891
Instructional Support Services	2,933,795	2,925,332	2,909,737	(15,595)
Pupil Support Services	3,588,342	3,582,460	3,626,196	43,736
Sites and Buildings	3,557,411	3,755,444	4,108,643	353,199
Fiscal and Other Fixed Cost Programs	145,000	145,000	142,235	(2,765)
Capital Outlay	1,546,735	1,821,735	1,664,997	(156,738)
Debt Service:				
Principal	86,146	86,146	95,070	8,924
Interest and Fiscal Charges	56,614	56,614	47,690	(8,924)
Total Expenditures	<u>50,870,109</u>	<u>53,084,219</u>	<u>53,858,787</u>	<u>774,568</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (1,680,791)</u>	<u>\$ 136,173</u>	489,614	<u>\$ 353,441</u>
FUND BALANCE				
Beginning of Year			<u>17,569,611</u>	
End of Year			<u>\$ 18,059,225</u>	

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Earnings and Investments	\$ -	\$ 4,000	\$ 4,895	\$ 895
Other - Primarily Meal Sales	1,130,235	1,224,720	1,227,670	2,950
State Sources	102,000	112,292	113,835	1,543
Federal Sources	791,000	832,000	865,516	33,516
Total Revenues	<u>2,023,235</u>	<u>2,173,012</u>	<u>2,211,916</u>	<u>38,904</u>
EXPENDITURES				
Current:				
Food Service	2,069,104	2,055,965	2,087,815	31,850
Capital Outlay	30,500	16,000	10,467	(5,533)
Total Expenditures	<u>2,099,604</u>	<u>2,071,965</u>	<u>2,098,282</u>	<u>26,317</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (76,369)</u>	<u>\$ 101,047</u>	<u>113,634</u>	<u>\$ 12,587</u>
FUND BALANCE				
Beginning of Year			652,781	
End of Year			<u>\$ 766,415</u>	

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Property Taxes	\$ 407,505	\$ 407,505	\$ 402,003	\$ (5,502)
Earnings and Investments	200	4,000	4,643	643
Other - Primarily Tuition and Fees	1,737,791	1,830,348	2,030,927	200,579
State Sources	<u>294,252</u>	<u>294,252</u>	<u>323,738</u>	<u>29,486</u>
Total Revenues	<u>2,439,748</u>	<u>2,536,105</u>	<u>2,761,311</u>	<u>225,206</u>
EXPENDITURES				
Current:				
Community Service	2,394,745	2,447,286	2,653,074	205,788
Capital Outlay	<u>12,412</u>	<u>12,850</u>	<u>6,930</u>	<u>(5,920)</u>
Total Expenditures	<u>2,407,157</u>	<u>2,460,136</u>	<u>2,660,004</u>	<u>199,868</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ 32,591</u>	<u>\$ 75,969</u>	101,307	<u>\$ 25,338</u>
FUND BALANCE				
Beginning of Year			<u>530,924</u>	
End of Year			<u>\$ 632,231</u>	

See accompanying Notes to Financial Statements.

NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)

	Governmental Activities - Internal Service Funds	
	2017	2016
ASSETS		
Cash and Investments	\$ 6,187,859	\$ 4,736,458
Accounts Receivable	257	422
Total Assets	6,188,116	4,736,880
LIABILITIES		
Accounts Payable	271,670	265,387
Total Liabilities	271,670	265,387
NET POSITION		
Unrestricted	\$ 5,916,446	\$ 4,471,493

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	Governmental Activities - Internal Service Funds	
	2017	2016
OPERATING REVENUES		
Charges for Services:		
Health Insurance Premiums	\$ 6,969,825	\$ 6,241,211
Dental Insurance Premiums	591,107	474,805
Total Operating Revenues	7,560,932	6,716,016
OPERATING EXPENSES		
Health Insurance Claims	4,725,278	4,524,874
Dental Insurance Claims	502,065	456,279
General Administration Fees	929,119	949,930
Total Operating Expenses	6,156,462	5,931,083
Operating Income	1,404,470	784,933
NONOPERATING INCOME		
Earnings on Investments	40,483	19,873
Change in Net Position	1,444,953	804,806
Net Position - Beginning	4,471,493	3,666,687
Net Position - Ending	\$ 5,916,446	\$ 4,471,493

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

	Governmental Activities - Internal Service Funds	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Interfund Services Provided	\$ 7,561,097	\$ 6,716,041
Payments for Health and Dental Insurance Claims	(5,221,060)	(5,059,379)
Payments for Administrative Fees	(929,119)	(949,930)
Net Cash Provided by Operating Activities	1,410,918	706,732
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Received	40,483	19,873
Net Cash Provided by Investing Activities	40,483	19,873
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,451,401	726,605
Cash and Cash Equivalents - Beginning	4,736,458	4,009,853
CASH AND CASH EQUIVALENTS - ENDING	\$ 6,187,859	\$ 4,736,458
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating Income	\$ 1,404,470	\$ 784,933
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Decrease in Accounts Receivable	165	25
Increase (Decrease) in Accounts Payable	6,283	(78,226)
Total Adjustments	6,448	(78,201)
Net Cash Provided by Operating Activities	\$ 1,410,918	\$ 706,732

See accompanying Notes to Financial Statements.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017**

	Private-Purpose Trust
ASSETS	
Cash and Investments	\$ 164,255
Total Assets	164,255
 NET POSITION	
Held In Trust	\$ 164,255

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2017**

	Private-Purpose Trust
ADDITIONS	
Gifts and Donations	\$ 70,988
Earnings on Investments	966
Total Additions	71,954
 DEDUCTIONS	
Scholarships Awarded	55,875
Total Deductions	55,875
Change in Net Position	16,079
Net Position - Beginning of Year	148,176
Net Position - End of Year	\$ 164,255

See accompanying Notes to Financial Statements.

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**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 659 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. The GASB pronouncements are recognized as Accounting Principles Generally Accepted in the United States of America for state and local governments.

B. Financial Reporting Entity

Independent School District No. 659 (the District) 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, account groups, 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. Based on these criteria, there are no organizations considered to be component units of the District.

Student Activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of 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 not elected 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 statement of Fiduciary Net Position at the Fund Financial Statement level.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 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 purposes for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of 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, proprietary funds, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The fiduciary funds are presented in the fiduciary fund financial statements by type (trust and agency). Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the District, these funds are not incorporated into the Government-wide statements.

The Internal Service Fund is presented in the proprietary fund financial statements. Because the principal user of the internal services is the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental column when presented in the government-wide financial statements. The cost of these services is reported in the appropriate functional activity.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's internal service fund is charges to customers for service. Operating expenses for the internal service fund include the cost of services. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 are proprietary 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. 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 fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. 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 availability period 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.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

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 is 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.

Food Service Special Revenue Fund – The Food Service Fund is used to account for food service revenues and expenditures. Revenues for the Food Service Fund come from user fees, and reimbursements from the Federal and State governments.

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 for the Community Service Special Revenue Fund are composed of user fees, local levy dollars, and State credits.

Capital Projects Fund – Accounts for financial resources from the bonds issued for the addition/renovation of District buildings

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.

Proprietary Funds

Internal Service Funds – The Internal Service Fund accounts for the financing of a self-insured health and dental plan provided for the District's employees on a cost reimbursement basis.

Fiduciary Funds

Private-Purpose Trust Fund – The Private-Purpose Trust Fund is used to report resources that are to be used for scholarships to support students that continue their education.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. 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, and Debt Service Funds. 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 budgeted amounts must be approved by the School Board.

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.

F. Cash and Investments

Cash of the individual funds is combined for investment purposes. Investments consist primarily of certificates of deposit, and money market funds. Investments with an original maturity of less than one year are recorded at amortized cost, which approximates fair value. Investments with an original maturity of more than one year are recorded at fair value based on quoted market prices. Interest earned as a result of these investments and the combined deposit account is distributed to the appropriate funds based on average cash and investment balances of each fund.

G. Cash and Cash Equivalents

For purposes of reporting cash flows, the District considers all demand accounts, savings accounts, certificates of deposits, and money market funds, to be cash and cash equivalents while all deposits in the Minnesota Municipal Money Market Fund Trust (MN Trust), Minnesota School District Liquid Asset Fund (MSDLAF), and government bonds regardless of maturities are considered investments.

H. Receivables

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 current property taxes receivable.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Inventories

Inventories are recorded using the consumption method of accounting and consist of fuel, food and other supplies on hand at June 30, 2017, 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 cost, as determined by the Department of Agriculture.

J. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as an expense or 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. The County spreads all levies over taxable property. Such taxes become a lien on January 1. Taxes are due on May 15 and October 15. The county generally remits taxes to the District at periodic intervals as they are collected. A portion of property taxes levied is paid through various state tax credits which are included in revenue from state sources in the financial statements.

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

The majority of District revenue in the General (and to a lesser extent the Community Service Special Revenue Fund) 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."

In accordance with State law, the current tax shift consists of an amount equal to 31% of the District's 2000 Pay 2001 operating referendum levy which is frozen at \$374,466. Starting in fiscal year 2011, the shift was expanded to include all other general and community service fund levies. State aids are then reduced by this expanded shift amount, making this portion of the tax shift revenue neutral to school districts. Certain other portions of the District's 2016 pay 2017 levy, normally revenue for the 2017-18 fiscal year, are also advance recognized at June 30, 2017, as required by state statute to match revenue with the same fiscal year as the related expenditures.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Property Taxes (Continued)

Taxes that 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 has been provided as such amounts are not expected to be material. 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 \$5,000 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 statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the District, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 to 50 years for land improvements and buildings, and 5 to 15 years for equipment and furnishings.

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

The District does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

M. Deferred Outflows of Resources

In addition to assets, the financial statements will sometimes report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow or resources (expense) until that time. The District has one type of item that qualifies as this reporting element, pension related.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Long-Term Liabilities

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 amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as an expense in the period they are incurred.

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

O. Accrued Employee Benefits

Compensated Absences

The District has employee and union contracts with several different employee groups. Employee benefits under the contracts are different, but generally include provisions for sick leave, vacation leave, and termination benefits. The District accounts for the employee benefits as follows:

Vacation leave vests and may be carried forward but must be used by the end of the following contract year. A liability of \$156,981 is included in long-term debt for earned but unpaid vacation.

Sick Pay

Sick leave does not vest and is accounted for as an expenditure when paid, except as discussed below.

Severance

Severance pay is available for certain eligible employees. The maximum benefit is generally based on accumulated unused sick leave. The total amounts cannot exceed certain contract limits.

Other Postemployment Benefits Payable

Under the provisions of the various employee and union contracts the District provides Health and Dental Care coverage until age 65 if certain age and minimum years of service requirements are met. The amount to be incurred is limited as specified by contract. All premiums are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB 45, at June 30, 2017.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Pensions

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

Q. Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow or resources (revenue) until that time. The District has three types of deferred inflows. Two types occur related to revenue recognition. The first occurs because property tax receivables are recorded in the current year, but the revenue will be recorded in the subsequent year. The second occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's year-end) under the modified accrual basis of accounting. The third type of deferred inflow is pension related.

R. Unearned Revenue

Unearned revenues are those in which resources are received by the District before it has a legal claim to them. The District has reported unearned revenues for Food and Community Service accounts, grants, and 2017-2018 school year deposits.

S. Fund Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned. Nonspendable portions of fund balance relate to prepaids and inventories. Restricted funds are constrained by outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. The District currently doesn't report any committed fund balances. The Board of Education passed a resolution authorizing the Director of Finance the ability to assign fund balances and their intended uses. Unassigned fund balances are considered the remaining amounts, usually in the General Fund only.

In accordance with the District's fund balance policy, 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 fund balance is available, it is the District's policy to use committed first, then assigned and finally unassigned fund balance.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters and workers compensation. The District purchases commercial insurance coverage for such risks. There has been no significant reduction in insurance coverage from the previous year in any of the District's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The District self-insures for health and dental insurance offered to its employees. The District is covered by a specific stop-loss policies for health claims in excess of \$100,000 and dental claims in excess of \$1,500.

U. Self-Insurance Claims

This liability represents an estimate of health and dental claims incurred but not reported as of June 30, 2017. These claims are included in accounts payable in the Statement of Net Position.

V. Net Position

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

W. Summarized Comparative Information

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. 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.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 53,084,219	\$ 53,858,787	\$ 774,568
Special Revenue Funds:			
Food Service Fund	2,071,965	2,098,282	26,317
Community Service Fund	2,460,136	2,660,004	199,868

These excess expenditures were funded with higher than anticipated revenues and existing fund balances.

NOTE 3 DEPOSITS AND INVESTMENTS

A. Deposits

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits will not be returned in full. The District does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

The District maintains a cash and investment pool that is available for use by all funds. Each fund type’s portion of this pool is displayed on the combined balance sheet as “Cash and Investments.” In accordance with Minnesota Statutes, the District maintains deposits at financial institutions which are authorized by the District’s Board.

Minnesota Statutes require that all 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 corporate surety bonds.

The District’s deposits in banks at June 30, 2017 were entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota statutes.

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 and receives the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less
- General obligations rated “A” or better; revenue obligations rated “AA” or better
- General obligations of the Minnesota Housing Finance Agency rated “A” or better

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

- 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 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.

At June 30, 2017, the District's investment balances were as follows:

	<u>Net Asset Value</u>
MN Trust Limited Term Duration Series	\$ 5,999,400
	<u>Amortized Cost</u>
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)	\$ 4,653,100
MN Trust Investment Shares Portfolio	12,992,250
MN Trust Term Series	500,000
Total Investments at Amortized Cost	<u>\$ 18,145,350</u>
Total District Investments	<u>\$ 24,144,750</u>

The Minnesota Municipal Money Market Fund Trust (MN Trust) is a common law trust organized in accordance with the Minnesota Joint Powers Act, which invests only in investment instruments allowable under Minnesota statutes as described on the previous page. Its Investment Shares Portfolio and Term Series investments are valued at amortized cost, which approximates fair value. The amortized cost method of valuation values a security at its cost on the date of purchase and thereafter assumes a constant amortization to maturity of any discount or premium, regardless of the impact of fluctuating interest rates on the market value of instruments.

MSDLAF is an external investment pool not registered with the Securities Exchange Commission (SEC).

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments (Continued)

Interest Rate Risk.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District's investment policies do not limit the maturities of investments. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer-term investments and by timing cash flows from maturities to meet cash requirements for ongoing operations.

Custodial Credit Risk.

For an investment, custodial risk is the risk that, in the event of failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The District's investment policy requires insurance of all balances held with each investment account. As of June 30, 2017, the investment balances were fully covered by insurance for each brokerage firm.

Credit Risk.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment policies do not limit the amount that the District may invest in any one issuer. The following chart summarizes year-end ratings for the District's investments:

<u>Investment</u>	<u>Rated by</u>	<u>Credit Rating</u>
MSDLAF+	S&P	AAAm
MN Trust Investment Shares Portfolio	S&P	AAAm
MN Trust Term Series		Not rated
MN Trust Limited Term Duration Series		Not rated

Concentration of Credit Risk.

The District's investment policies place no limit on the amount the District may invest in any one issuer. The District had no investments at June 30, 2017 which individually comprised more than 5% of total investments

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Balance Sheet Presentation

The deposits and investments are presented in the basic financial statements as follows:

Deposits	\$	1,037,136
Cash on Hand		950
Minnesota School District Liquid Asset Fund Plus (MSDLAF+)		4,653,100
MN Trust		19,491,650
Total Cash and Investments	\$	25,182,836
Cash and Investments - Statement of Net Position	\$	25,018,581
Cash and Investments - Statement of Fiduciary Net Position		164,255
Total Cash and Investments	\$	25,182,836

D. Fair Value Measurement

The District uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures.

The District follows an accounting standard that defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs used to measure fair value, and requires expanded disclosures about fair value measurements. In accordance with this standard, the District has categorized its investments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Financial assets and liabilities recorded on the combined statements of financial position are categorized based on the inputs to the valuation techniques as follows:

Level 1 – Financial assets and liabilities are valued using inputs that are unadjusted quoted prices in active markets accessible at the measurement date of identical financial assets and liabilities.

Level 2 – Financial assets and liabilities are valued based on quoted prices for similar assets, or inputs that are observable, either directly or indirectly for substantially the full term through corroboration with observable market data.

Level 3 – Financial assets and liabilities are valued using pricing inputs which are unobservable for the asset, inputs that reflect the reporting entity's own assumptions about the assumptions market participants and would use in pricing the asset.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

D. Fair Value Measurement (Continued)

Assets measured at fair value on a recurring basis:

Investment	Level 1	Level 2	Level 3	Total
None Noted	\$ -	\$ -	\$ -	\$ -
Investments Measured at Net Asset Value				5,999,400
Investments Measured at Amortized Cost				18,145,350
				<u>\$ 24,144,750</u>

The District reports the following investment in the Pool at the NAV per share, the fair value established by the Pool.

Investment	Net Asset Value	Unfunded Commitments
MN Trust Limited Term Duration Series	\$ 5,999,400	\$ -

The MN Trust Limited Term Duration Series maintains a quarterly redemption frequency requirement with a 30-day redemption notice.

NOTE 4 CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Land	\$ 968,609	\$ -	\$ -	\$ 968,609
Construction in Progress	-	1,280,894	-	1,280,894
Total Capital Assets, Not Being Depreciated	968,609	1,280,894	-	2,249,503
Capital Assets, Being Depreciated				
Land Improvements	3,759,659	234,597	-	3,994,256
Buildings and Improvements	89,296,146	139,130	-	89,435,276
Equipment	4,419,880	430,587	(22,000)	4,828,467
Total Capital Assets, Being Depreciated	97,475,685	804,314	(22,000)	98,257,999
Accumulated Depreciation for:				
Land Improvements	(2,172,144)	(132,581)	-	(2,304,725)
Buildings and Improvements	(33,276,870)	(2,280,639)	-	(35,557,509)
Equipment	(2,917,573)	(312,058)	22,000	(3,207,631)
Total Accumulated Depreciation	(38,366,587)	(2,725,278)	22,000	(41,069,865)
Total Capital Assets, Being Depreciated, Net	59,109,098	(1,920,964)	-	57,188,134
Governmental Activities Capital Assets, Net	<u>\$ 60,077,707</u>	<u>\$ (640,070)</u>	<u>\$ -</u>	<u>\$ 59,437,637</u>

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged to functions of the District as follows:

Governmental Activities	
Administration	\$ 4,477
District Support Services	33,711
Regular Instruction	2,548,646
Special Education Instruction	1,255
Instructional Support Services	5,844
Pupil Support Services	16,350
Sites and Buildings	94,373
Food Service	16,870
Community Service	3,752
Total Depreciation Expense, Governmental Activities	<u>\$ 2,725,278</u>

NOTE 5 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

The District has issued general obligation school building bonds to finance the construction of capital facilities or refinance previous bond issues. Assets of the Debt Service Fund, together with scheduled future tax levies, are dedicated for the retirement of these bonds. These levies are subject to reduction if fund balance amounts exceed limitations imposed by Minnesota law.

Issue Date	Net Interest Rate	Series Number	Original Issue	Maturities	Principal Outstanding	
					Due Within One Year	Total
2/16/2010	2.0 - 4.0%	2010A	\$ 22,615,000	2/1/2022	\$ 3,160,000	\$ 14,095,000
12/7/2011	2.0 - 2.375%	2011A	9,750,000	2/1/2024	555,000	8,530,000
12/19/2012	1.5 - 2.0%	2012A	9,825,000	2/1/2025	765,000	7,815,000
5/13/2014	2.0 - 3.0%	2014A	1,525,000	2/1/2025	145,000	1,235,000
3/23/2017	3.0%	2017A	1,325,000	2/1/2027	120,000	1,325,000
Total General Obligation Bonds					4,745,000	33,000,000
Bond Premiums					-	906,818
Bond Discounts					-	(58,843)
Certificates of Participation Payable					99,873	884,107
Other Postemployment Benefits Payable					-	8,194,733
Severance and Health Benefits Payable					-	249,754
Compensated Absences Payable					156,981	156,981
					<u>\$ 5,001,854</u>	<u>\$ 43,333,550</u>

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

B. Minimum Debt Payments

Minimum annual principal and interest payments necessary to retire long-term debt, not including certificate of participation, compensated absences payable and severance and health benefits payable are as follows:

<u>Year Ending June 30,</u>	General Obligation Bonds Payable	
	Principal	Interest
2018	\$ 4,745,000	\$ 931,827
2019	4,915,000	813,694
2020	5,105,000	652,994
2021	5,320,000	481,294
2022	3,405,000	302,144
2023-2027	9,510,000	407,438
Total	\$ 33,000,000	\$ 3,589,391

C. Description of Long-Term Liabilities

General Obligation Bonds

On February 16, 2010, the District issued \$22,615,000 of General Obligation School Building Refunding Bonds, Series 2010A. The proceeds of the issue were used to refund the outstanding principal and interest of the District's General Obligation School Building Bonds of 2001A on August 1, 2011.

On December 7, 2011, the District issued \$9,750,000 of General Obligation Refunding Bonds, Series 2011A to refund the portion of General Obligation School Building Refunding Bonds, Series 2003A totaling \$9,350,000, which were scheduled to mature in 2016 through 2024.

On December 19, 2012, the District issued \$9,825,000 of General Obligation Alternative Facility Refunding Bonds, Series 2012A to refund the portion of General Obligation Alternative Facilities Refunding Bonds, Series 2004A and 2005A totaling \$9,950,000, which were scheduled to mature in 2015 through 2025. The Series 2012A bonds were issued at a premium of \$386,172.

On May 13, 2014, the District issued \$1,525,000 of General Obligation Capital Facilities Bonds, Series 2014A. The proceeds of this issue were used to finance certain capital improvements to school facilities.

On March 23, 2017, the District issued \$1,325,000 of General Obligation Facilities Maintenance Bonds, Series 2017A. The proceeds of this issue were used to finance the roof replacement project at Bridgewater Elementary School.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

C. Description of Long-Term Liabilities (Continued)

Compensated Absences Payable

The amount of the estimated obligation at June 30, 2017 is \$156,981. The District's General Fund finances compensated absences on a pay-as-you-go basis.

Severance Payable

Severance pay is available for certain eligible employees. The maximum benefit is generally based on accumulated unused sick leave, and years of service. The amount of the estimated obligation at June 30, 2017 is \$249,754. The District's General Fund finances severance benefits on a pay-as-you-go basis.

Certificate of Participation

On December 1, 2009, the District raised funds through the issuance of a loan payable. The maximum amount that could be drawn on the loan was \$1,495,000 and was used to finance capital improvements made to an elementary school. The loan was structured as a lease purchase agreement. Repayment of the principal is made through rental payments.

The following is a schedule of the future minimum lease payments under the capital lease together with the present value of the net minimum lease payments as of June 30, 2017. The total cost of assets associated with the capital leases is \$2,686,518. The related accumulated depreciation of the assets at June 30, 2017 is \$698,495.

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 142,759
2019	142,760
2020	142,760
2021	142,760
2022	142,760
2023-2025	356,901
Total Minimum Lease Payments	1,070,700
Less Amounts Representing Interest	186,593
Present Value of Net Minimum Lease Payments	\$ 884,107

D. Changes in Long-Term Liabilities

	<u>June 30,</u> <u>2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30,</u> <u>2017</u>
General Obligation Bonds	\$ 35,940,000	\$ 1,325,000	\$ 4,265,000	\$ 33,000,000
Bond Premiums	1,020,433	79,705	193,320	906,818
Bond Discount	(67,896)	-	(9,053)	(58,843)
Certificates of Participation Payable	979,177	-	95,070	884,107
Other Postemployment Benefits Payable	7,455,011	1,959,648	1,219,926	8,194,733
Severance Payable	208,852	40,902	-	249,754
Compensated Absences Payable	164,419	156,981	164,419	156,981
Total	\$ 45,699,996	\$ 3,562,236	\$ 5,928,682	\$ 43,333,550

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 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. The following is a summary of the restricted fund balances for the governmental funds:

A. Deferred Maintenance

The fund balance restriction represents accumulated resources available to provide maintenance on buildings with funding available for that purpose.

B. Health and Safety

The fund balance restriction represents available resources to be used for Health & Safety projects in accordance with an approved Health & Safety plan.

C. Operating Capital

The fund balance restriction represents available resources in the General Fund to be used to purchase equipment and facilities.

D. Teacher Development and Evaluation

The fund balance restriction represents available resources to be expended for teacher development and evaluation programs.

E. Long Term Facilities Maintenance (LTFM)

The fund balance restriction represents accumulated resources available to be used for LTFM projects in accordance with the District's ten-year plan.

F. Community Education Programs

The fund balance restriction represents accumulated resources available to provide general community education programming.

G. Early Childhood and Family Education Programs

The fund balance restriction represents accumulated resources available to provide services for early childhood family education programming.

H. School Readiness

The fund balance restriction represents accumulated resources available to provide school readiness programming in accordance with funding made available for that purpose.

I. Restricted for Other Purposes

The fund balance restriction represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS

A. Plan Description

The District participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA) and Teachers Retirement Fund (TRA). PERA and TRA's defined benefit pension plans are established and administered in accordance with *Minnesota Statutes*. PERA and TRA's defined benefit pension plans are tax-qualified plans under Section 401(a) of the Internal Revenue Code.

1. General Employees Retirement Plan (GERF)

PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 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). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

2. Teachers Retirement Fund (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 and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials.

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

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided

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

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

TRA: Postretirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0%. After the TRA funded ratio exceeds 90% for two consecutive years, the annual postretirement benefit will increase to 2.5%.

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

1. GERS Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first ten years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first ten years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. 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 Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

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

Tier I Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First Ten Years of Service	2.2% per Year
	All Years After	2.7% per Year
Coordinated	First Ten Years if Service Years Are Up to July 1, 2006	1.2% per Year
	First Ten Years if Service Years Are July 1, 2006 or After	1.4% per Year
	All Other Years of Service if Service Years Are Up to July 1, 2006	1.7% per Year
	All Other Years of Service if Service Years Are July 1, 2006 or After	1.9% per Year

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% per year early retirement reduction factor for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

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

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier II Benefits (Continued)

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

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

C. Contributions

1. GERF Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature. Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in calendar year 2016. In fiscal year ending June 30, 2017, the District was required to contribute 11.78% of pay for Basic Plan members and 7.50% for Coordinated Plan members. The District's contributions to the GERF for the plan's fiscal year ended June 30, 2017, were \$635,996. The District's contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

Per *Minnesota Statutes*, Chapter 354 sets the contribution rates for employees and employers. Rates for each fiscal year were:

	2017		2016	
	Employee	Employer	Employee	Employer
Basic	11.0%	11.5%	11.0%	11.5%
Coordinate	7.5%	7.5%	7.5%	7.5%

The District's contributions to TRA for the plan's fiscal year ended June 30, 2017, were \$1,791,417. The District's contributions were equal to the required contributions for each year as set by state statute.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs

1. GERF Pension Costs

At June 30, 2017, the District reported a liability of \$9,507,939 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 fiscal year 2016. The State of Minnesota is considered a nonemployer 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 was \$124,147. 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. The District's proportionate share was 0.1171% at the end of the measurement period and 0.1188% for the beginning of the period.

For the year ended June 30, 2017, the District recognized pension expense of \$1,188,246 for its proportionate share of GERF's pension expense. In addition, the District recognized an additional \$7,026 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota's contribution of \$6 million to the General Employees Plan.

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:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 28,140	\$ 772,379
Changes in Actuarial Assumptions	2,050,632	-
Net Difference Between Projected and Actual		
Earnings on Plan Investments	1,061,496	-
Changes in Proportion and Differences Between		
District Contributions and Proportionate		
Share of Contributions	13,526	70,563
District Contributions Subsequent to the		
Measurement Date	635,996	-
Total	<u>\$ 3,789,790</u>	<u>\$ 842,942</u>

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. GERF Pension Costs (Continued)

Of the resources related to pensions resulting from District contributions to GERP subsequent to the measurement date, \$635,996 is reported as deferred outflows of resources and 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 GERP pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Pension Expense Amount</u>
2018	\$ 644,943
2019	427,833
2020	894,635
2021	343,441

2. TRA Pension Costs

At June 30, 2017, the District reported a liability of \$95,743,477 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 total system contributions including direct aid from the State of Minnesota, City of Minneapolis, and Minneapolis School District. The District's proportionate share was 0.4014% at the end of the measurement period and 0.3928% for the beginning of the period.

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

<u>Description</u>	<u>Amount</u>
District's Proportionate Share of the TRA Net Pension Liability	\$ 95,743,477
State's Proportionate Share of the Net Pension Liability Associated with the District	9,610,363

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

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

For the year ended June 30, 2017, the District recognized pension expense of \$14,045,383. It also recognized \$142,848 as pension expense for the support provided by direct aid.

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 937,847	\$ 2,669
Changes in Actuarial Assumptions	54,596,577	-
Net Difference Between Projected and Actual		
Earnings on Plan Investments	4,141,926	-
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions	458,710	424,040
District Contributions Subsequent to the Measurement Date	1,791,417	-
Total	<u>\$ 61,926,477</u>	<u>\$ 426,709</u>

Of the resources related to pensions resulting from District contributions to TRA subsequent to the measurement date, \$1,791,417 is reported as deferred outflows and 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 will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2018	\$ 11,774,699
2019	11,774,699
2020	13,156,383
2021	12,300,753
2022	10,701,817

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

3. Aggregate Pension Costs

At June 30, 2017, the District reported the following aggregate amounts related to pensions for all plans to which it contributes:

	TRA	PERA	Total
Net Pension Liability	\$ 95,743,477	\$ 9,507,939	\$ 105,251,416
Deferred Outflows of Resources	61,926,477	3,789,790	65,716,267
Deferred Inflows of Resources	426,709	842,942	1,269,651
Pension Expense	14,188,231	1,195,272	15,383,503

E. Actuarial Assumptions

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

Assumptions	GERF	TRA
Inflation	2.50% per Year	2.75%
Active Member Payroll Growth	3.25% per Year	3.50%, Based on Years of Service
Investment Rate of Return	7.50%	8.00%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP-2014 tables for males or females, as appropriate, with slight adjustments.

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

The following changes in actuarial assumptions for GERF occurred in 2016:

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

The long-term expected rate of return on pension plan investments is 7.5% for GERF and 8.0% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return 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.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

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 Equity	45 %	5.50%
International Equity	15	6.00%
Bonds	18	1.45%
Alternative Assets	20	6.40%
Cash	2	0.50%
Totals	<u>100 %</u>	

F. Discount Rate

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

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

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

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 one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease	Current Discount Rate	1% Increase
<u>GERF Discount Rate</u>	6.50%	7.50%	8.50%
District's Proportionate Share of the GERF Net Pension Liability	\$ 13,504,091	\$ 9,507,939	\$ 6,156,833
<u>TRA Discount Rate</u>	3.66%	4.66%	5.66%
District's Proportionate Share of the TRA Net Pension Liability	\$ 123,341,530	\$ 95,743,477	\$ 73,265,764

H. Pension Plan Fiduciary Net Position

Detailed information about GERF's fiduciary's net position is available in a separately issued PERA financial report. That report may be obtained on the Internet at www.mnpera.org; by writing to PERA at 60 Empire Drive #200, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-7460 or 1-800-652-9026.

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; by writing to TRA at 60 Empire Drive #400, St. Paul, Minnesota, 55103-2088; or by calling (651) 296-2409 or 1-800-652-9026.

NOTE 8 DEFINED CONTRIBUTION BENEFIT PLAN

The District has a retirement plan qualifying under the Internal Revenue Code 403(b) for the benefit of employees hired on or after July 1, 2002. For qualifying employees the District's annual and maximum contribution is based on the number of years an individual has taught at the District with a maximum career contribution of \$25,000.

The District contribution for the years ended June 30, 2017, 2016, and 2015 were approximately \$295,600, \$268,918, and \$256,384, respectively. The related employee contributions were \$894,595, \$850,342, and \$810,302, for the years ended June 30, 2017, 2016, and 2015, respectively.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN

A. Plan Description

The District operates a single-employer retiree benefit plan (“the Plan”) that provides health and dental insurance to eligible employees and their spouses through the District’s self-insured health insurance plan. There are 613 active participants and 60 retired participants. Benefit and eligibility provisions are established through negotiations between the District and various unions representing District employees and are renegotiated each two-year bargaining period. The Plan does not issue a publicly available financial report.

B. Funding Policy

Contribution requirements are also negotiated between the District and union representatives. The District contributes up to 80% of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2017, the District contributed \$854,157 to the plan.

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 normal cost each year and amortize any un-funded actuarial liabilities over a period not to exceed 30 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 changes in the District’s net OPEB obligation.

Annual Required Contribution	\$ 1,735,998
Interest on Net OPEB Obligation	223,650
Adjustment to Annual Required Contribution	<u>(374,769)</u>
Annual OPEB Cost (Expense)	1,584,879
Contributions Made	<u>(845,157)</u>
Increase (Decrease) in Net OPEB Obligation	739,722
Net OPEB Obligation (Assets) - Beginning of Year	<u>7,455,011</u>
Net OPEB Obligation (Assets) - End of Year	<u><u>\$ 8,194,733</u></u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2017	\$ 1,584,879	53.33%	\$ 8,194,733
6/30/2016	1,570,937	48.70%	7,455,011
6/30/2015	1,569,250	38.70%	6,648,506

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 9 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

D. Funded Status and Funding Progress

As of July 1, 2016, the most recent actuarial valuation date, the District's unfunded actuarial accrued liability (UAAL) was \$14,788,888. The annual payroll for active employees covered by the plan in the actuarial valuation was \$29,957,276 for a ratio of UAAL to covered payroll of 49.40%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents 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 effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 3.0% investment rate of return (net of administrative expenses), 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 initial healthcare trend rate was 6.75%, reduced by decrements to an ultimate rate of 5% after seven years. The UAAL is being amortized as a level percentage of projected payrolls on a closed basis. The remaining amortization period at June 30, 2017 doesn't exceed 30 years.

NOTE 10 FLEXIBLE BENEFIT PLAN

The District has a flexible benefit plan that is classified as a "cafeteria plan" under Section 125 of the Internal Revenue Code. All employee groups of the District are eligible if and when the collective bargaining agreement or contract with their group allows eligibility. Eligible employees can elect to participate by contributing pre-tax dollars withheld from payroll checks to the plan for health care and dependent care benefits.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 FLEXIBLE BENEFIT PLAN (CONTINUED)

Before the beginning of the plan year, which is from January 1 to December 31, each participant designates a total amount of pre-tax dollars to be contributed to the plan during the year. At June 30, the District is contingently liable for claims against the total amount of participants' annual contributions for the health care portion of the plan, whether or not such contributions have been made.

Payments of health insurance premiums are made by the District directly to the designated insurance companies. These payments are made on a monthly basis and are accounted for in the General, Food Service, and Community Service Funds.

Payments for amounts withheld for medical reimbursement and dependent care are made to participating employees upon submitting a request for reimbursement of eligible expenses.

All plan property and income attributable to that property is solely the property of the District, subject to the claims of the District's general creditors. Participants' rights under the plan are equal to those of general creditors of the District in an amount equal to eligible health care and dependent care expenses incurred by the participants. The District believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 11 SELF-INSURED HEALTH AND DENTAL PLAN

The District has elected to self-insure their employee dental insurance program and their health insurance program. The District established an internal service fund to account for contributions from other funds for health and dental insurance. Contributions during the year were based on claims history. The amounts charged to expenses include administrative fees, claims paid, and accruals for claims incurred but not paid at year-end. The District recorded total expenses of \$6,156,462 for the year ended June 30, 2017.

The liability for unpaid claims is included in the Internal Service Fund as accounts payable.

	<u>2017</u>	<u>2016</u>
Beginning Liability - July 1	\$ 265,387	\$ 343,613
Incurred Claims	5,227,343	4,981,154
Claims Payments	<u>5,221,060</u>	<u>5,059,380</u>
Ending Liability - June 30	<u>\$ 271,670</u>	<u>\$ 265,387</u>

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 12 COMMITMENTS AND CONTINGENCIES

Federal and State Programs

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. 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.

Operating Leases

The District has commitments under operating leases for facilities and equipment. Some of these operating leases are covered by the levy.

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 620,758
2019	583,408
2020	300,134
2021	163,959
Total Minimum Lease Payments	<u>\$ 1,668,259</u>

The District had \$760,272 of expenditures related to these leases during the year ended June 30, 2017.

NOTE 13 JOINTLY GOVERNED ORGANIZATIONS

The Cannon Valley Special Education Cooperative (CVSEC) was established by a joint powers agreements pursuant to Minnesota Statutes section 471.59. The purpose of the agreement was to optimize resources and increase efficiencies by creating a special education cooperative to serve children with low incidence disabilities. CVSEC is comprised of four member districts. Each member district shares in the costs of providing all off-site special education programs.

The District served as the fiscal host for CVSEC for the fiscal year ending June 30, 2017. Effective July 1, 2017, the District will no longer serve as the fiscal host.

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REQUIRED SUPPLEMENTARY INFORMATION

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**NORTHFIELD PUBLIC SCHOOLS
 INDEPENDENT SCHOOL DISTRICT NO. 659
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
 JUNE 30, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Other Postemployment Benefits Payable				Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
		Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Fund Ratio (a/b)			
7/1/2016	\$ -	\$ 14,788,888	\$ 14,788,888	0.0%	\$ 29,957,276	49.4%	
7/1/2014	-	13,993,036	13,993,036	0.0	23,198,976	60.3	
7/1/2012	-	12,886,686	12,886,686	0.0	23,129,627	55.7	

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST THREE FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Measurement Date	June 30, 2016	June 30, 2015	June 30, 2014
PERA			
District's Proportion of the Net Pension Liability	0.1171%	0.1188%	0.1183%
District's Proportionate Share of the Net Pension Liability	\$ 9,507,939	\$ 6,156,833	\$ 5,567,224
State's Proportionate Share of the Net Pension Liability Associated with District	124,147	-	-
Total	<u>\$ 9,632,086</u>	<u>\$ 6,156,833</u>	<u>\$ 5,567,224</u>
District's Covered Payroll	\$ 7,264,732	\$ 6,969,875	\$ 6,211,247
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	132.59%	88.33%	89.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.90%	78.20%	78.70%
TRA			
District's Proportion of the Net Pension Liability	0.4014%	0.3928%	0.4172%
District's Proportionate Share of the Net Pension Liability	\$ 95,743,477	\$ 24,298,565	\$ 19,224,276
State's Proportionate Share of the Net Pension Liability Associated with District	9,610,363	2,980,581	1,333,077
Total	<u>\$ 105,353,840</u>	<u>\$ 27,279,146</u>	<u>\$ 20,557,353</u>
District's Covered Payroll	\$ 20,803,603	\$ 19,836,024	\$ 18,972,883
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	460.23%	122.50%	101.33%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	44.88%	76.80%	81.50%

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF DISTRICT CONTRIBUTIONS
LAST FOUR FISCAL YEARS**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
PERA				
Statutorily Required Contribution	\$ 635,996	\$ 544,855	\$ 514,948	\$ 450,316
Contributions in Relation to the Statutorily Required Contribution	(635,996)	(544,855)	(514,948)	(450,316)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 8,479,931	\$ 7,264,732	\$ 6,969,875	\$ 6,211,247
Contributions as a Percentage of Covered-Employee Payroll	7.50%	7.50%	7.39%	7.25%
TRA				
Statutorily Required Contribution	\$ 1,791,417	\$ 1,560,272	\$ 1,487,706	\$ 1,328,100
Contributions in Relation to the Statutorily Required Contribution	(1,791,417)	(1,560,272)	(1,487,706)	(1,328,100)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 23,885,558	\$ 20,803,603	\$ 19,836,024	\$ 18,972,883
Contributions as a Percentage of Covered-Employee Payroll	7.50%	7.50%	7.50%	7.00%

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SUPPLEMENTARY INFORMATION

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**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL
DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Property Taxes	\$ 4,765,914	\$ 4,765,914	\$ 4,705,003	\$ (60,911)
Earnings and Investments	8,000	8,000	23,921	15,921
State Sources	<u>52,000</u>	<u>52,000</u>	318,562	266,562
Total Revenues	<u>4,825,914</u>	<u>4,825,914</u>	5,047,486	<u>221,572</u>
EXPENDITURES				
Debt Service:				
Bond Principal	4,265,000	4,265,000	4,265,000	-
Bond Interest	1,003,819	1,003,819	1,003,819	-
Paying Agent Fees and Other	<u>6,000</u>	<u>6,000</u>	<u>5,525</u>	<u>(475)</u>
Total Expenditures	<u>5,274,819</u>	<u>5,274,819</u>	<u>5,274,344</u>	<u>(475)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (448,905)</u>	<u>\$ (448,905)</u>	(226,858)	<u>\$ 222,047</u>
FUND BALANCE				
Beginning of Year			<u>1,627,000</u>	
End of Year			<u>\$ 1,400,142</u>	

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
SCHEDULE OF CHANGES IN FUND EQUITIES
YEAR ENDED JUNE 30, 2017**

	Fund Equities June 30, 2016	Revenues	Expenditures	Transfers	Total
GOVERNMENTAL FUNDS					
General Fund					
Nonspendable	\$ 481,947	\$ -	\$ -	\$ (254,890)	\$ 227,057
Restricted for Staff Development	-	532,996	578,656	45,660	-
Restricted for Deferred Maintenance	346,798	-	-	(346,798)	-
Restricted for Health and Safety	(110,827)	30,626	-	-	(80,201)
Restricted for Capital Project Levy	-	750,000	750,000	-	-
Restricted for Operating Capital	569,700	1,153,721	1,255,733	-	467,688
Restricted for Learning and Development	-	858,569	858,569	-	-
Restricted for Area Learning Center	-	652,453	971,401	318,948	-
Restricted for Gifted and Talented	-	57,104	57,104	-	-
Restricted for Teacher Development and Evaluation	90,716	-	4,727	-	85,989
Restricted for Basic Skills	-	1,115,479	1,477,980	362,501	-
Restricted for Career and Tech. Programs	-	25,193	102,896	77,703	-
Restricted for Safe Schools	-	161,488	161,488	-	-
Restricted for LTFM	-	797,884	701,751	346,798	442,931
Restricted for Medical Assistance	-	274,419	274,419	-	-
Assigned for Severance	4,000,000	-	-	-	4,000,000
Assigned for Special Education	200,000	-	-	-	200,000
Assigned for Tobacco Settlement	19,734	-	-	(658)	19,076
Assigned for Carry-Over Funds	24,552	208,694	234,868	1,622	-
Unassigned	11,946,991	47,729,775	46,429,195	(550,886)	12,696,685
Total General Fund	17,569,611	54,348,401	53,858,787	-	18,059,225
Food Service Fund					
Nonspendable	18,210	-	-	1,261	19,471
Restricted for Other Purposes	634,571	2,211,916	2,098,282	(1,261)	746,944
Total Food Service Fund	652,781	2,211,916	2,098,282	-	766,415
Community Service Fund					
Nonspendable	1,155	-	-	203	1,358
Restricted for Community Education	403,843	2,132,949	2,176,600	-	360,192
Restricted for E.C.F.E.	63,625	253,862	211,413	-	106,074
Restricted for School Readiness	71,225	334,255	234,974	-	170,506
Unassigned	(8,924)	40,245	37,017	(203)	(5,899)
Total Community Service Fund	530,924	2,761,311	2,660,004	-	632,231
Capital Projects Fund					
Restricted for Other Purposes	-	1,407,117	1,317,981	-	89,136
Total Capital Projects Fund	-	1,407,117	1,317,981	-	89,136
Debt Service Fund					
Restricted for Other Purposes	1,627,000	5,047,486	5,274,344	-	1,400,142
Total Debt Service Fund	1,627,000	5,047,486	5,274,344	-	1,400,142
TOTAL GOVERNMENTAL FUNDS	20,380,316	65,776,231	65,209,398	-	20,947,149
FIDUCIARY FUNDS					
Trust Fund					
Unassigned	148,176	71,954	55,875	-	164,255
Total Trust Fund	148,176	71,954	55,875	-	164,255
TOTAL FIDUCIARY FUNDS	148,176	71,954	55,875	-	164,255
PROPRIETARY FUNDS					
Internal Service Fund					
Unassigned	4,471,493	7,601,415	6,156,462	-	5,916,446
Total Internal Service Fund	4,471,493	7,601,415	6,156,462	-	5,916,446
TOTAL PROPRIETARY FUNDS	4,471,493	7,601,415	6,156,462	-	5,916,446
GRAND TOTAL	\$ 24,999,985	\$ 73,449,600	\$ 71,421,735	\$ -	\$ 27,027,850

SINGLE AUDIT AND OTHER REQUIRED REPORTS

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**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

Grantor/Program	CFDA Number	Agency or Pass-Through Number	Federal Expenditures
U.S. Department of Agriculture			
Pass-Through Minnesota Department of Education			
Non-Cash Assistance (Commodities):			
National School Lunch Program	# 10.555	1-0659-000	\$ 121,305
Cash Assistance:			
Commodity Cash Rebate Program	# 10.555	1-0659-000	33,684
National School Lunch Program	# 10.555	1-0659-000	556,894
After School Snack	# 10.555	1-0659-000	4,251
Subtotal CFDA No. 10.555			<u>716,134</u>
School Breakfast Program	# 10.553	1-0659-000	122,303
Summer Program	# 10.559	1-0659-000	27,079
Total U.S. Department of Agriculture			<u>865,516</u>
U.S. Department of Education			
Pass-Through Minnesota Department of Education			
Title I, Part A - Grants to Local Educational Agencies	84.010	1-0659-000	284,383
Title II, Part A - Improving Teacher Quality State Grants	84.367	1-0659-000	115,857
Title III, Part A - English Language Acquisition Grants	84.365	1-0659-000	29,944
Title IV, Part B - Twenty-First Century Community Learning Centers	84.287	1-0659-000	87,320
Special Education - Preschool Incentive	& 84.173	1-0659-000	11,254
Special Education - Grants for Infants and Families	84.181	1-0659-000	18,368
Special Education - Grants to States	& 84.027	1-0659-000	746,918
Multi-Tiered Systems of Support	84.027A	**	16,106
Subtotal CFDA No. 84.027			<u>763,024</u>
Total Pass-Through Minnesota Department of Education			1,310,150
Pass-Through Independent School District #917			
Carl Perkins Vocational Education Basic Grants to States	84.048	1-0917-000	7,773
Total Independent School District #917			<u>7,773</u>
Total U.S. Department of Education			1,317,923
U.S. Department of Health and Human Services			
Project Aware Grant	93.243	**	20,475
Total U.S. Department of Health and Human Services			<u>20,475</u>
Total Federal Awards Expended			<u>\$ 2,203,914</u>
&	Special Education Cluster = \$758,171		
#	Child Nutrition Cluster = \$865,516		
**	Not available		

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2017**

NOTE 1 GENERAL

The accompanying Schedule of Expenditures of Federal Awards presents the expenditures of all federal financial assistance programs of Independent School District No. 659. The reporting entity is defined in Note 1 to the financial statements. All federal financial assistance received directly from federal agencies as well as federal financial assistance passed through other government agencies is included on the schedule.

NOTE 2 BASIS OF ACCOUNTING

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note 1 to the District's financial statements. Such expenditures are recognized following the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District did not elect to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

INDEPENDENT AUDITORS' 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

Board of Education
Independent School District No. 659
Northfield, 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. 659, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Independent School District No. 659's basic financial statements, and have issued our report thereon dated November 21, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 659'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 Independent School District No. 659's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 659's internal control.

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

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Independent School District No. 659'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*.

Purpose of this Report

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



CliftonLarsonAllen LLP

Rochester, Minnesota
November 21, 2017

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

Board of Education
Independent School District No. 659
Northfield, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 659's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Independent School District No. 659's major federal programs for the year ended June 30, 2017. Independent School District No. 659's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Independent School District No. 659's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Independent School District No. 659'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 Independent School District No. 659's compliance.

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 659 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001. Our opinion on each major federal program is not modified with respect to these matters.

Independent School District No. 659's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Independent School District No. 659's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Independent School District No. 659's 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 Independent School District No. 659'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 Independent School District No. 659'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 have not been identified. We identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2017-001 that we consider to be a significant deficiency.

Board of Education
Independent School District No. 659

Independent School District No. 659's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. Independent School District No. 659'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 result of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Rochester, Minnesota
November 21, 2017

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE


Board of Education
Independent School District No. 659
Northfield, 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 respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Independent School District No. 659, as of June 30, 2017, and the related notes to the financial statements and have issued our report thereon dated November 21, 2017.

The *Minnesota Legal Compliance Audit Guide for School Districts*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, covers 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. Our study included all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that Independent School District No. 659 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. 659's noncompliance with the above-referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for School Districts* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this communication is not suitable for any other purpose.


CliftonLarsonAllen LLP

Rochester, Minnesota
November 21, 2017

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**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

PART I: SUMMARY OF THE INDEPENDENT AUDITORS' RESULTS:

FINANCIAL STATEMENTS

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? _____ yes x none reported
3. Noncompliance material to financial statements noted? _____ yes x no

FEDERAL AWARDS

1. Internal control over major federal programs:
- Material weakness(es) identified? _____ yes x no
 - Significant deficiency(ies) identified that are not considered to be material weakness(es)? x yes _____ none reported
2. Type of auditors' report issued on compliance for major federal programs: Unmodified
3. Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? _____ yes x no

Identification of Major Federal Programs

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555, 10.556, & 10.559 84.027 & 84.173	Child Nutrition Special Education

- Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000
- Auditee qualified as low-risk auditee? _____ yes x no

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

PART II: FINDINGS RELATED TO THE BASIC FINANCIAL STATEMENTS

None

PART III: FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

2017-001

**Special Education Cluster – CFDA 84.027 and 84.173
All Grant Years
U.S. Department of Education
Pass through Minnesota Department of Education
Internal Control Over Time and Effort Reporting**

Criteria: 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* requires compliance with the provisions of time and effort reporting. The District should have internal controls designed to ensure compliance with those provisions.

Condition: The District's time and effort documentation was not completed and reviewed in a timely manner.

Questioned Costs: None

Context: One of the two employees selected for testing did not have time and effort documentation completed and reviewed in a timely manner. There were no errors noted in the documentation for the employee selected for testing.

Effect: The potential exists that a more than consequential noncompliance may have existed and not been detected or corrected in a timely manner.

Cause: The District's internal control procedures, although properly designed, were not followed.

Recommendation: We recommend the District follows the existing internal control procedures in place.

Part IV: FINDINGS AND QUESTIONED COSTS – MINNESOTA LEGAL COMPLIANCE

None

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
UNIFORM FINANCIAL ACCOUNTING AND REPORTING
STANDARDS COMPLIANCE TABLE
YEAR ENDED JUNE 30, 2017**

	AUDIT	UFARS	DIFFERENCE		AUDIT	UFARS	DIFFERENCE
01 GENERAL FUND				06 BUILDING CONSTRUCTION			
Total Revenue	\$ 54,348,401	\$ 54,348,397	\$ 4	Total Revenue	\$ 2,412	\$ 2,413	\$ (1)
Total Expenditures	53,858,787	53,858,785	2	Total Expenditures	1,317,981	1,317,981	-
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	227,057	227,057	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted/Reserved:</i>				<i>Restricted/Reserved:</i>			
403 Staff Development	-	-	-	407 Capital Projects Levy	-	-	-
406 Health and Safety	(80,201)	(80,201)	-	413 Projects Funded by COP	-	-	-
407 Capital Project Levy	-	-	-	467 LTFM	-	-	-
408 Cooperative Programs	-	-	-	<i>Restricted:</i>			
413 Projects Funded by COP	-	-	-	464 Restricted Fund Balance	89,136	89,136	-
414 Operating Debt	-	-	-	<i>Unassigned:</i>			
416 Levy Reduction	-	-	-	463 Unassigned Fund Balance	-	-	-
417 Taconite Building Maintenance	-	-	-				
424 Operating Capital	467,688	467,688	-	07 DEBT SERVICE			
426 \$25 Taconite	-	-	-	Total Revenue	5,047,486	5,047,486	-
427 Disabled Accessibility	-	-	-	Total Expenditures	5,274,344	5,274,344	-
428 Learning and Development	-	-	-	<i>Nonspendable:</i>			
434 Area Learning Center	-	-	-	460 Nonspendable Fund Balance	-	-	-
435 Contracted Alternative Programs	-	-	-	<i>Restricted/Reserved:</i>			
436 State Approved Alternative Programs	-	-	-	425 Bond Refunding	-	-	-
438 Gifted and Talented	-	-	-	451 QZAB and QSCB Payments	-	-	-
440 Teacher Development and Evaluations	85,989	85,989	-	<i>Restricted:</i>			
441 Basic Skills Programs	-	-	-	464 Restricted Fund Balance	1,400,142	1,400,142	-
445 Career and Technical Programs	-	-	-	<i>Unassigned:</i>			
448 Achievement and Integration	-	-	-	463 Unassigned Fund Balance	-	-	-
449 Safe Schools Crime Levy	-	-	-				
450 Pre-Kindergarten	-	-	-	08 TRUST			
451 QZAB Payments	-	-	-	Total Revenue	71,954	71,955	(1)
452 OPEB Liability Not Held in Trust	-	-	-	Total Expenditures	55,875	55,875	-
453 Unfunded Severance & Retirement Levy	-	-	-	<i>Net Position:</i>			
467 LTFM	442,931	442,931	-	422 Net Position	164,255	164,255	-
472 Medical Assistance	-	-	-				
<i>Restricted:</i>				20 INTERNAL SERVICE			
464 Restricted Fund Balance	-	-	-	Total Revenue	7,601,415	7,601,416	(1)
<i>Committed:</i>				Total Expenditures	6,156,462	6,156,462	-
418 Committed for Separation	-	-	-	<i>Net Position:</i>			
461 Committed Fund Balance	-	-	-	422 Net Position	5,916,446	5,916,447	(1)
<i>Assigned:</i>							
462 Assigned Fund Balance	4,219,076	4,219,076	-	25 OPEB REVOCABLE TRUST			
<i>Unassigned:</i>				Total Revenue	-	-	-
422 Unassigned Fund Balance	12,696,685	12,696,684	1	Total Expenditures	-	-	-
				<i>Net Position:</i>			
02 FOOD SERVICE				422 Net Position	-	-	-
Total Revenue	2,211,916	2,211,916	-				
Total Expenditures	2,098,282	2,098,280	2	45 OPEB IRREVOCABLE TRUST			
<i>Nonspendable:</i>				Total Revenue	-	-	-
460 Nonspendable Fund Balance	19,471	19,471	-	Total Expenditures	-	-	-
<i>Restricted/Reserved:</i>				<i>Net Position:</i>			
452 OPEB Liability Not Held in Trust	-	-	-	422 Net Position	-	-	-
<i>Restricted:</i>							
464 Restricted Fund Balance	746,944	746,945	(1)	47 OPEB DEBT SERVICE			
<i>Unassigned:</i>				Total Revenue	-	-	-
463 Unassigned Fund Balance	-	-	-	Total Expenditures	-	-	-
				<i>Nonspendable:</i>			
04 COMMUNITY SERVICE				460 Nonspendable Fund Balance	-	-	-
Total Revenue	2,761,311	2,761,301	10	<i>Restricted:</i>			
Total Expenditures	2,660,004	2,659,996	8	425 Bond Refunding	-	-	-
<i>Nonspendable:</i>				464 Restricted Fund Balance	-	-	-
460 Nonspendable Fund Balance	1,358	1,358	-	<i>Unassigned:</i>			
<i>Restricted/Reserved:</i>				463 Unassigned Fund Balance	-	-	-
426 \$25 Taconite	-	-	-				
431 Community Education	360,192	360,191	1				
432 E.C.F.E.	106,074	106,074	-				
440 Teacher Development and Evaluations	-	-	-				
444 School Readiness	170,506	170,506	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liability Not Held in Trust	-	-	-				
<i>Restricted:</i>							
464 Restricted Fund Balance	-	-	-				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	(5,899)	(5,899)	-				

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STUDENT ACTIVITY FUNDS

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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 659
Northfield, Minnesota

Report on the Financial Statement

We have audited the statement of cash receipts and disbursements of the Student Activity Funds of Independent School District No. 659 as of June 30, 2017, and the related note to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the regulatory basis of accounting described in the notes to the financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in the note to the financial statements, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statements are prepared by the Independent School District No. 659 in accordance with the financial reporting provisions of the accounting practices prescribed or permitted by the Minnesota Department of Education, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statements of the variances between the regulatory basis of accounting described in the note to the financial statements and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles


In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District No. 659 as of June 30, 2017, or changes in financial position for the year then ended.

Basis for Qualified Opinion on Regulatory Basis of Accounting

We were unable to audit cash receipts because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records. We were unable to obtain sufficient appropriate audit evidence about the completeness of cash receipts by other auditing procedures.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effect of the matter discussed in the Basis for Qualified Opinion on Regulatory Basis paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the cash balances of the Student Activity Funds Independent School District No. 659 as of June 30, 2017, and the receipts and disbursements for the year then ended in accordance with the basis of accounting described in the note to the financial statements.



CliftonLarsonAllen LLP

Rochester, Minnesota
November 21, 2017

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2017**

Funds	Balance 6/30/16	Receipts and Transfer In	Disbursements and Transfers Out	Balance 6/30/17
Middle School/Elementary				
MS Musical	\$ 4,380	\$ 2,729	\$ 2,285	\$ 4,824
MS Yearbook	13,424	2,471	2,021	13,874
MS Student Council	5,021	7,257	7,579	4,699
GP Student Council	667	471	457	681
Sibley Student Council	1,330	4,863	5,058	1,135
BW Student Council	2,800	1,278	786	3,292
MS Talent Show	1,863	-	-	1,863
Nfld Fastpitch Softball	545	-	-	545
Greenvale Activity	391	-	-	391
ALC Candle Shop	611	5,113	5,008	716
Total Middle School/Elementary Funds	31,032	24,182	23,194	32,020
High School				
Alpine Ski Team	3,476	3,643	3,061	4,058
Baseball	379	6,262	4,466	2,175
Basketball, Boys	646	378	1,023	1
Basketball, Girls	4,072	6,613	8,417	2,268
Bowling	1,372	4,099	2,656	2,815
Cheer Team	2,133	3,573	3,530	2,176
Cross Country	1,972	8,067	9,474	565
Dance Team	6,281	13,846	17,916	2,211
Football	1,046	427	1,047	426
Golf, Boys	2,041	3,467	2,476	3,032
Golf, Girls	519	3,220	1,825	1,914
Gymnastics	121	2,979	1,035	2,065
Hockey, Boys	438	-	-	438
Hockey, Girls	2,013	870	320	2,563
Lacrosse, Boys	-	551	551	-
Lacrosse, Girls	119	3	-	122
Nordic Skiing	890	2,760	3,305	345
Soccer, Boys	39	282	282	39
Soccer, Girls	3	-	-	3
Softball	12,891	9,869	9,376	13,384
Swimming, Boys	568	14,674	12,953	2,289
Swimming, Girls	7,101	10,801	11,789	6,113
Tennis, Boys	1,173	125	495	803
Tennis, Girls	415	1,015	855	575
Track, Boys	2,106	900	858	2,148
Track, Girls	264	-	-	264
Volleyball	218	6,007	5,156	1,069
Weight Lifting	4,931	5,875	9,473	1,333
Wrestling	5,739	5,027	8,200	2,566

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS (CONTINUED)
STUDENT ACTIVITY ACCOUNTS
YEAR ENDED JUNE 30, 2017**

Funds	Balance 6/30/16	Receipts and Transfer In	Disbursements and Transfers Out	Balance 6/30/17
High School (continued)				
Applied Science Class	\$ 3,566	\$ 3,365	\$ 4,037	\$ 2,894
Art Club	3,022	2,097	3,936	1,183
Band	12,288	18,566	16,731	14,123
Chess Club	152	50	-	202
Costa Rica Trip Fund	11,902	468	1,012	11,358
DECA	2,748	7,999	8,290	2,457
Drama Club	4,702	5,475	6,527	3,650
Drama/Rock & Roll	5,780	5,985	6,089	5,676
Environmental Club	4	-	-	4
Interest/Bank Charges	467	454	179	742
International Club	192	-	-	192
Jazz Band	1,364	1,602	1,577	1,389
Junior Class	15,112	16,435	19,543	12,004
Leadership Class	2,523	-	-	2,523
Math Team	707	-	-	707
National Honor Society	512	95	362	245
NHS Film Society	996	-	-	996
Norhian	13,858	-	11,065	2,793
Orchestra	17,839	19,521	25,581	11,779
Poinsettia Sales	14,391	20,299	14,267	20,423
R.A.L.I.E.	2,730	2,518	5,301	(53)
Robotics Club	4,004	12,810	14,306	2,508
Senior Class	22,414	17,976	15,324	25,066
Share	3,146	2,608	2,279	3,475
Ski Club	25,932	-	4,865	21,067
Speech	8,774	7,397	7,111	9,060
Student Council	14,595	4,715	6,188	13,122
Vocal Music	22,490	102,288	102,649	22,129
World History AP	699	-	-	699
Total High School Funds	279,875	368,056	397,758	250,173
Total Student Activity Funds	\$ 310,907	\$ 392,238	\$ 420,952	\$ 282,193

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STUDENT ACTIVITY FUNDS
NOTE TO STUDENT ACTIVITY FUND FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2017**

NOTE 1 BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

The accounts of the Student Activity Fund are maintained, and the accompanying financial statements have been prepared, on the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education. Consequently, receipts are recognized when received rather than when earned, and disbursements are recognized when paid rather than when the obligations are incurred, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Student Activity bank deposits are covered by deposit insurance or were properly collateralized.

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH THE
MANUAL FOR ACTIVITY FUND ACCOUNTING**

Board of Education
Independent School District No. 659
Northfield, Minnesota

Report on Compliance

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of cash receipts and disbursements of the Student Activity Funds of as of Independent School District No. 659 and for the year ended June 30, 2017, and the related note to the financial statements, which collectively comprises the basic financial statements, and have issued our report thereon dated November 21, 2017. We expressed an adverse opinion on U.S. generally accepted accounting principles because the financial statements are prepared on a basis of accounting that demonstrates compliance with the regulatory basis of accounting prescribed or permitted by the Minnesota Department of Education, which differs from accounting principles generally accepted in the United States of America. In addition, our report on the regulatory basis of accounting is qualified because the District has not established procedures to provide assurance that all cash collections are recorded in the accounting records.

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

In connection with our audit, nothing came to our attention that caused us to believe that the District failed to comply with the provisions of the *Manual for Activity Fund Accounting*, except as described in the Schedule of Findings as item 2017-002. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above-referenced provisions.

The District's written response to the legal compliance finding identified in our audit is described in the Schedule of Findings. The District's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Manual for Activity Fund Accounting* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Rochester, Minnesota
November 21, 2017

**NORTHFIELD PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 659
STUDENT ACTIVITY FUNDS
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2017**

2017-002 INAPPROPRIATE STUDENT ACTIVITY DISBURSEMENT

Condition: The *Manual for Activity Fund Accounting* (MAFA) contains guidelines for proper student activity fund disbursements. Noted on disbursement selected for testing related to a donation to an individual. Donations to individuals are listed as an inappropriate student activity fund disbursement.

Recommendation: The District reviews the *Manual for Activity Fund Accounting* guidelines for appropriate disbursements.