

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859**

**FINANCIAL STATEMENTS AND REQUIRED
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2017

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INDEPENDENT SCHOOL DISTRICT NO. 2859
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INDEPENDENT SCHOOL DISTRICT NO. 2859
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INTRODUCTORY SECTION

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
BOARD OF EDUCATION AND ADMINISTRATION
JUNE 30, 2017**

BOARD OF EDUCATION

<u>NAME</u>	<u>TERM ON BOARD EXPIRES</u>	<u>BOARD POSITION</u>
Clark Christianson	December 31, 2018	Chairperson
Jamie Alsleben	December 31, 2020	Vice Chairperson
Kevin Kuester	December 31, 2020	Treasurer
Anne Twiss	December 31, 2018	Clerk
Donna VonBerge	December 31, 2020	Director
Jason Lindeman	December 31, 2018	Director

ADMINISTRATION

Christopher Sonju	Superintendent of Schools
Michelle Sander	Business Manager

District Office:	Independent School District No. 2859 Glencoe-Silver Lake Public Schools 1621 E. 16 th Street Glencoe, MN 55336 (320) 864-2491
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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Education
Independent School District No. 2859
Glencoe, 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. 2859 (the District), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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. 2859 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. 2859 as of and for the year ended June 30, 2016, and we expressed unmodified opinions on those audited financial statements in our report dated September 22, 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 the District's 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.

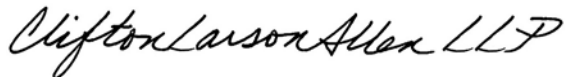
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Independent School District No. 2859's basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table, as required by Minnesota Department of Education, is presented for purposes of additional analysis and is 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 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 October 2, 2017 on our consideration of Independent School District No. 2859'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. 2859'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. 2859's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Austin, Minnesota
October 2, 2017

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REQUIRED SUPPLEMENTARY INFORMATION

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

This section of Glencoe-Silver Lake Public Schools – Independent School District No. 2859's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

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

- The District has been able to maintain a positive fund balance in all funds.
- Enrollment increased by 1.31% from 2016. Total ADM's were 1,580.
- The Net Position of the District decreased by 287.0% due to an increase in the net pension liability.
- The fund balance in the General Fund decreased to \$5,189,086 compared to \$5,372,258 at June 30, 2016.
- The ending fund balance within the General Fund is still above the fund balance policy set by the board.
- Restricted accounts having fund balances at June 30, 2017 included Staff Development, Safe Schools, Teacher Evaluation, and Operating Capital.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

District-Wide Statements

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

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

OVERVIEW OF THE FINANCIAL STATEMENTS (CONTINUED)

District-Wide Statements (Continued)

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.

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

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

Fund Financial Statements

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

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

The District has 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.
- *Internal Service funds* - The District uses internal service funds to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund to accumulate resources for the future payment of other post-employment benefits.
- *Fiduciary Funds* – The District is a 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 for only their intended purposes and by those to whom the assets belong. All 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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's *combined* Net Position was (\$2,963,334). This was a 287.0% decrease from the prior year. (See Table A-1.)

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

	Governmental Activities as of June 30,		Percentage Change
	2017	2016	
Current and Other Assets	\$ 19,774,393	\$ 34,898,919	(43.34)%
Capital Assets	24,933,561	9,352,325	166.60
Total Assets	44,707,954	44,251,244	1.03
Deferred Outflows of Resources	21,561,795	1,875,722	1049.52
Current Liabilities	5,310,906	3,812,744	39.29
Long-Term Liabilities	59,813,147	35,646,772	67.79
Total Liabilities	65,124,053	39,459,516	65.04
Deferred Inflows of Resources	4,109,030	5,080,538	(19.12)
Net Position:			
Net Investment in Capital Assets	5,901,300	5,720,462	3.16
Restricted	1,502,780	1,491,668	0.74
Unrestricted	(10,367,414)	(5,625,218)	84.30
Total Net Position	\$ (2,963,334)	\$ 1,586,912	(286.74)

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

Changes in Net Position

The District's total revenues were \$21,958,656 for the year ended June 30, 2017. Property taxes and state formula aid accounted for 70% of total revenues for the year. The remaining 30% came from other general revenues combined with investment earnings and program revenues.

**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	\$ 1,357,527	\$ 1,261,643	7.60 %
Operating Grants and Contributions	4,592,786	5,050,614	(9.06)
Capital Grants and Contributions	272,827	184,409	47.95
<u>General Revenues</u>			
Property Taxes	3,692,404	1,931,398	91.18
Unrestricted State Aid	11,701,697	10,683,851	9.53
Investment Earnings	197,415	188,397	4.79
Other	144,000	27,503	423.58
Total Revenues	21,958,656	19,327,815	13.61
Expenses			
Administration	1,133,081	843,843	34.28
District Support Services	450,585	501,946	(10.23)
Regular Instruction	11,940,689	8,344,393	43.10
Vocational Education Instruction	410,163	326,900	25.47
Special Education Instruction	3,817,725	3,041,968	25.50
Instructional Support Services	868,489	765,887	13.40
Pupil Support Services	2,096,186	1,760,439	19.07
Sites and Buildings	2,923,942	1,845,622	58.43
Fiscal and Other Fixed Cost Programs	78,720	66,438	18.49
Food Service	938,153	946,306	(0.86)
Community Service	911,365	823,967	10.61
Interest and Fiscal Charges on Long-Term Liabilities	939,804	834,612	12.60
Total Expenses	26,508,902	20,102,321	31.87
Change in Net Position	(4,550,246)	(774,506)	
Beginning Net Position	1,586,912	2,361,418	
Ending Net Position	<u>\$ (2,963,334)</u>	<u>\$ 1,586,912</u>	

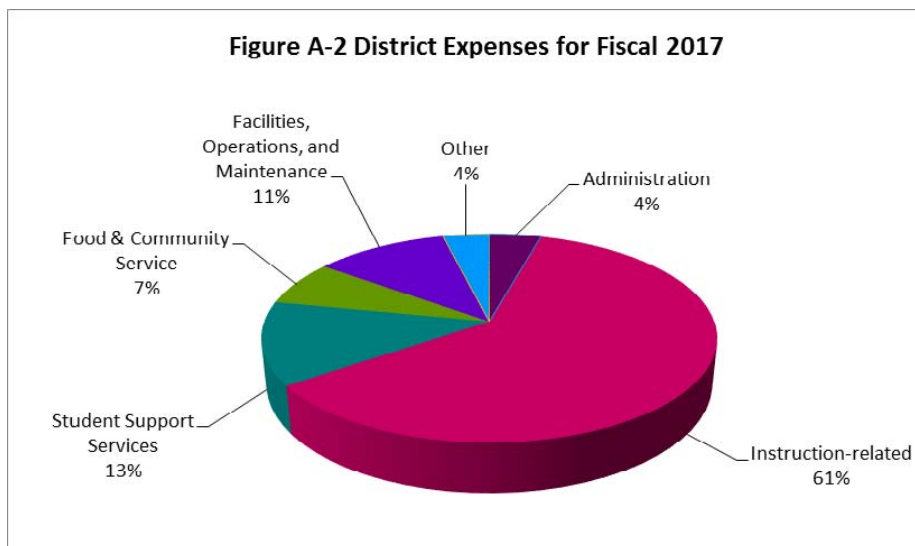
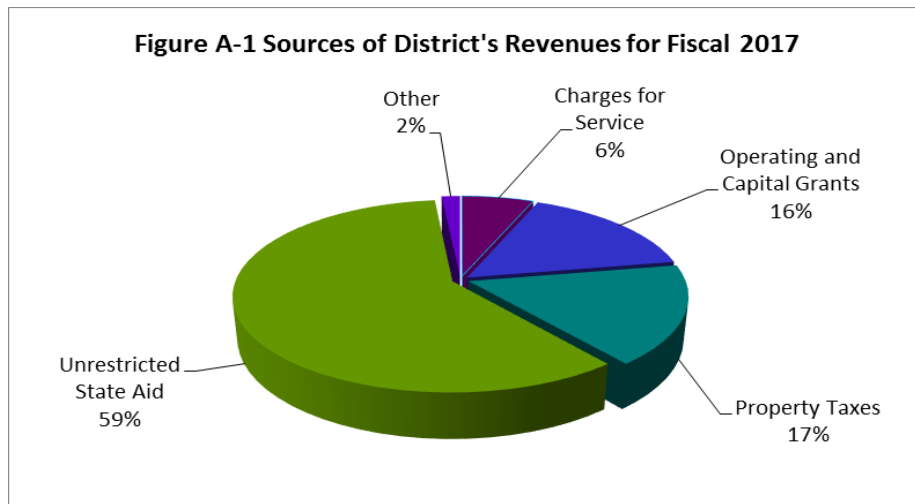
Total expenses surpassed revenues by \$4,550,246 mainly due to the increase in the net pension liability.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

The cost of all *governmental* activities this year was \$26,508,902. The District's expenses are predominantly related to educating and caring for students.

- Some of the cost was paid by the users of the District's programs \$(1,357,527).
- The federal and state governments subsidized certain programs with grants and contributions of \$4,865,613.
- Most of the District's costs \$15,394,101, however, were paid for by District taxpayers and the taxpayers of our state.
- This portion of governmental activities was paid for with \$3,692,404 in property taxes and \$11,701,697 in state aid based on the statewide education aid formula. In addition, the District earned additional revenues of \$341,415 related to investment earnings and other general revenues.



**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (CONTINUED)

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

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2017	2016		2017	2016	
Administration	\$ 1,133,081	\$ 843,843	34.28 %	\$ 1,125,763	\$ 843,452	33.47 %
District Support Services	450,585	501,946	(10.23)	450,585	501,946	(10.23)
Regular Instruction	11,940,689	8,344,393	0.43	9,920,142	6,165,906	60.89
Vocational Education Instruction	410,163	326,900	25.47	399,003	131,719	202.92
Special Education Instruction	3,817,725	3,041,968	25.50	1,867,106	977,993	90.91
Instructional Support Services	868,489	765,887	13.40	658,220	562,262	17.07
Pupil Support Services	2,096,186	1,760,439	19.07	1,956,633	1,617,485	20.97
Sites and Buildings	2,923,942	1,845,622	58.43	2,768,052	1,809,206	53.00
Fiscal and Other Fixed Cost Programs	78,720	66,438	18.49	78,720	66,438	18.49
Food Service	938,153	946,306	(0.86)	(78,423)	(45,098)	73.89
Community Service	911,365	823,967	10.61	200,157	139,734	43.24
Interest and Fiscal Charges on Long-Term Liabilities	939,804	834,612	12.60	939,804	834,612	12.60
Total	<u>\$ 26,508,902</u>	<u>\$ 20,102,321</u>	31.87	<u>\$ 20,285,762</u>	<u>\$ 13,605,655</u>	49.10

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 \$11,268,144, which is less than last year's ending fund balance of \$27,712,242 due to the spend down of bond proceeds.

GENERAL FUND

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

Table A-4 and Figure A-3 show the average daily membership for the last five years.

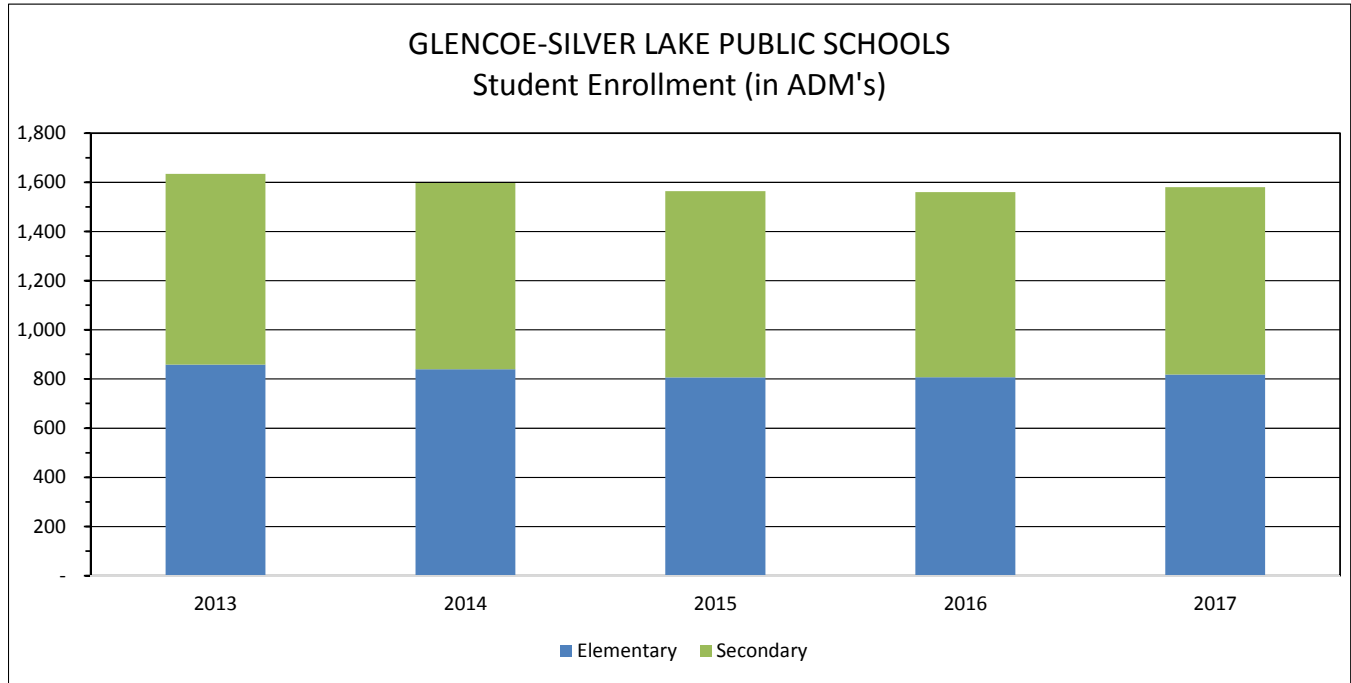
**Table A-4
Five-Year Enrollment Trend
Average Daily Membership (ADM)**

	2013	2014	2015	2016	2017
Elementary	859	840	806	808	818
Secondary	775	757	758	752	763
Total Students for Aid	1,634	1,597	1,564	1,560	1,580
Percent Change	-1.63%	-2.26%	-2.07%	-0.26%	1.31%

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

GENERAL FUND (CONTINUED)

**Figure A-3
Five-Year Enrollment**



The following schedule presents a summary of General Fund revenues.

**Table A-5
General Fund Revenues**

	Year Ended		Change	
	June 30, 2017	June 30, 2016	Increase (Decrease)	Percent Change
Local Sources:				
Property Taxes	\$ 2,213,000	\$ 1,784,045	\$ 428,955	24.0 %
Earnings on Investments	51,060	21,626	29,434	136.1
Other	542,051	532,698	9,353	1.8
State Sources	14,541,224	14,252,313	288,911	2.0
Federal Sources	674,322	735,337	(61,015)	(8.3)
Total General Fund Revenue	<u>\$ 18,021,657</u>	<u>\$ 17,326,019</u>	<u>\$ 695,638</u>	4.0

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

GENERAL FUND (CONTINUED)

Revenues from state and federal sources totaled \$15,215,546 a net increase of \$227,896. Total General Fund revenues increased by \$695,638, or 4.0%, from the previous year. Property tax revenue increased by \$428,955 or 24.0% from the prior year. Basic general education revenue is determined by a state per student funding formula and consists of an equalized mix of property tax and state aid revenue. Other state-authorized revenue includes excess levy referendum and equity aid revenue. Therefore, the mix of property tax and state aid can change significantly from year to year without any net change in revenues.

The \$288,911 increase in state sources for fiscal 2017 is attributable to an increase in general education aid.

Federal funds decreased by \$61,015 which is related mainly to the summer migrant program and special education services.

The following Table A-6 represents a summary of General Fund expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2017	June 30, 2016		
Salaries	\$ 9,489,359	\$ 9,167,442	\$ 321,917	3.5 %
Employee Benefits	2,770,155	2,900,696	(130,541)	(4.5)
Purchased Services	4,201,452	3,598,866	602,586	16.7
Supplies and Materials	880,871	639,321	241,550	37.8
Capital Expenditures	531,770	412,352	119,418	29.0
Debt Service Expenditures	201,187	201,187	-	-
Other Expenditures	130,035	144,519	(14,484)	(10.0)
Total General Fund Expenditures	<u>\$ 18,204,829</u>	<u>\$ 17,064,383</u>	<u>\$ 1,140,446</u>	6.7

Total General Fund expenditures increased by \$1,140,466 or 6.7% from the previous year.

Salaries and benefits fall in line with the contract settlements and the additional staff that were hired.

The increase in purchased services falls in line with projects related to the building project and to the new funding source of Long Term Facilities Maintenance. The other significant change was do some restructuring of codes in the UFARS system. A number of technology codes that were in the past coded to a capital expenditure code were now changed to a purchase service or a supply code. The total fund balance of the General Fund decreased to \$5,189,086 at June 30, 2017 compared to \$5,372,258 at June 30, 2016, a total decrease of \$183,172.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

GENERAL FUND (CONTINUED)

The School Board and administration have worked extremely hard in monitoring the budget and controlling the spending of the school district. The fund balance policy is reviewed annually by the Business Manager, Superintendent and School Board. The fund balance policy clarifies to ensure the financial strength and stability of the District. The Board will endeavor to maintain a minimum of 20% of the District's General Fund operating budget, excluding those accounts associated within the restricted category, in the combined total of the General Fund committed, assigned and unassigned fund balances.

The June 30, 2017 ending unassigned General Fund balance which includes Fund 01 and Fund 10 is \$4,241,987 and is at 23% of annual General Fund expenditures.

General Fund Budgetary Highlights

When budget changes are adopted by the Board they fall into one of the following categories:

- Adjusting for changes in pupil enrollment including revenue and potential staff additions.
- Adjustments for utility consumptions and costs or building repairs or maintenance.
- Implementing budgets for specially funded projects (Health and Safety), and projects which include both federal and state grants.
- Special education.
- Legislative changes.

During fiscal year 2017, General Fund revenues were over budgeted level by \$583,926. One of the biggest factors in this variance has to do with the Fund 10 revenues, activities account, that are crosswalked and included in the total General Fund revenues, but no budget amounts are assigned to the activities accounts. Investment earnings were higher than anticipated along with an increase in state aid for direct TRA received. The expenditures were higher than budget by \$28,733 or 0.20%.

OTHER MAJOR FUNDS

Food Service Fund

The Food Service Fund experienced an increase of \$80,526 leaving the fund balance at \$254,003. The 2016-2017 school year was the eight year that the food service program was outsourced to Compass Group, Inc. through its Chartwell's Food Service Division. The 2016-2017 school year was the third year of a three contract with Chartwell's. The District saw a slight increase in meals served from previous years along with the increase in student enrollment. The District was required to go through the bid process to negotiate a new food service contract. This process was completed in April and the new contract was again awarded to Chartwell's. Only two bids for the contract were received.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

OTHER MAJOR FUNDS (CONTINUED)

Food Service Fund (Continued)

Chartwell's has worked extremely well with the District to increase our food service offerings as well as provide a healthy menu that meets the dietary requirements and stay within the budget. The District continues to offer a free breakfast program to all K-12 students. The District also offered an after school snack program at the high school which seemed to be extremely successful serving an average of 60 students per day. The District also qualified for a summer food service program based on the high percentage of free and reduced students. The program ran for six weeks to coincide with the summer school program. Due to the construction project, the food was prepared and served at the Lakeside Elementary and the Helen Baker School served as a satellite serving area.

Community Service

The Community Service Fund fund balance increased from \$149,274 at June 30, 2016 to \$252,363 at June 30, 2017. From the standpoint of maintaining current operating expenditures within the range of annual revenues, the Community Service Fund continues to operate on a sound financial basis. The Community Service Fund consists of Community Education, School Readiness, Early Childhood Family Education, Pre-School Screening and Non-Public Education. All of these programs are providing a service to varying levels of the community.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2017, the District had invested \$34,955,741 in a broad range of capital assets, including school buildings, athletic facilities, vehicles; computer and audio-visual equipment (see Table A-7). Total depreciation expense for the year was \$501,330. The major increase was due the addition of the construction in progress related to the building project.

**Table A-7
Capital Assets**

	2017	2016	Percentage Change
Land	\$ 130,000	\$ 130,000	-
Construction in Progress	17,766,841	1,834,326	868.6
Land Improvements	1,140,892	1,140,892	-
Buildings and Improvements	11,784,156	11,784,156	-
Equipment	4,133,852	3,983,801	3.8
Less: Accumulated Depreciation	(10,022,180)	(9,520,850)	5.3
Total District Capital Assets	<u>\$ 24,933,561</u>	<u>\$ 9,352,325</u>	166.6

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

CAPITAL ASSET AND DEBT ADMINISTRATION (CONTINUED)

Long-Term Liabilities

At year-end, the District had \$23,265,000 in general obligation bonds, \$938,455 in lease purchase and \$42,478 in capital leases, as shown in Table A-8. The District also had \$315,080 in severance benefits payable at June 30, 2017. (More detailed information about the District's long-term liabilities is presented in Note 4 to the financial statements.)

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

	2017	2016	Percentage Change
General Obligation Bonds	\$ 23,265,000	\$ 23,695,000	(1.8)%
Net Bond Premium and Discount	598,187	619,551	(3.4)
Capital Leases Payable	42,478	67,508	(37.1)
Lease Purchase Payable	938,455	1,066,650	(12.0)
Notes Payable	22,850	32,768	(30.3)
Compensated Absences Payable	315,080	283,331	11.2
Total Long-Term Liabilities	<u>\$ 25,182,050</u>	<u>\$ 25,764,808</u>	(2.3)
Long-Term Liabilities:			
Due Within One Year	\$ 610,237	\$ 593,177	
Due in More Than One Year	24,571,813	25,171,631	
Total	<u>\$ 25,182,050</u>	<u>\$ 25,764,808</u>	

The majority of the change in the long-term liabilities is related to the issuance of general obligation bonds for the construction of a new building.

FACTORS BEARING ON THE DISTRICT'S FUTURE

- With the completion of the 2017 Legislative Session, district's across the state will see some changes in the general education funding formula. The current formula allowance per pupil unit is at \$6,067. For the FY18 school year the formula increase by 2% - \$121 increase to \$6,188 and another 2% increase of FY19 - \$124 – increase to \$6,312.00. These increases are also linked to other revenues that are linked to the formula allowance. Compensatory, sparsity aid, nonpublic transportation and ECFE.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- Some of the other key points of the budget bill that affect GSL include:
 - Compensatory funding – A percentage of total compensatory revenue must be used and reserved for extended time activities. For FY18 – 1.7% must be set aside. FY 19 – 3.5% and for FY20 and later – 3.5% + the percentage change in the formula allowance from FY19.
 - Freezes the Pathway II funding at the 2017 levels. Established priority for children who have a parent under age 21 and who is pursuing a high school diploma, children that are in foster care or protective services and any child that is homeless.
 - The ECFE funding increase that is linked to the general education formula allowance increases the allowance from \$139.54 to \$142.32 for FY18 and \$145.18 for FY19.
 - Lead in drinking water. Effective July 1, 2018, districts will be required to test all drinking water for lead. Requires districts to make the results public and to notify parents that the information is available. Water must be tested every five years.
 - Allows districts to enter into a one-year contract with a food service management company with the option of up to three years for renewal. (Currently, districts were only allowed to renew the contract for up to two years.)
 - School Building Bond Agriculture Credit – Agriculture classified land will receive a 40% credit on the property that is attributable to a school district's bonded debt for taxes payable beginning in 2018.
 - E- Learning Days – This allows districts up to five days of E-Learning due to inclement weather. The District must develop a plan after consulting with the teachers union. The plan must include accommodations for students without internet at home and devices for those without. And, there must be an accessible option for those with disabilities. Teachers must be available both online and by telephone.

Long-Term Facilities Maintenance Revenue (LTFMR) was enacted into law effective in FY2017, beginning with the 2015 Pay 2016 Levy cycle. The LTFMR rolls the current deferred maintenance, health and safety and alternative facilities revenues into the new long-term facilities maintenance revenue program which is equalized with state aid. The new LTFMR equals the sum of:

1. \$193/APU for FY17, \$292 for FY18, and \$380 for FY 19 and later and
2. The lesser of one or the ratio of the District's average building age to 35 years' plus
3. The approved cost/debt service for indoor air quality, fire alarm and suppression, and asbestos abatement projects with a cost per site of \$100,000 or more. (Includes existing debt service for large health and safety projects issued under old law.)

The 25 large districts continue to be eligible for revenue based on approved project costs, without a state-imposed per pupil limit. Districts may choose to issue bonds for the program, levy on a pay as you go basis, or a combination of the two.

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

For purposes of calculating equalization aid, the ANTC is reduced by 50% of the value of Class 2a Agricultural land. The aid/levy mix for the equalized portion is calculated using an equalizing factor of 123% of the state average ANTC/PU, calculated using the 50% exclusion for Ag land. For GSL the 2016 Adjusted Net Tax Capacity is \$13,853,320 but the Ag Modified ANTC for Long Term Facility Maintenance Revenue is \$10,549,015. For the Pay 2018 levy, the total equalized LTFMR is \$678,756.00. To determine the aid/levy ratio, the 2015-2016 adjusted pupil units of 1,710.30 is divided by the 2016 Ag Modified ANTC of 10,549,015 which equals \$6,167.93 divided by the equalizing factor of \$9,493.66. The levy portion is 65% and state aid is 35%. \$237,775.44 will be the state aid on the \$678,756.00 and \$440,981 will be local levy. \$250,000 of the \$928,756 total LTFMR is unequalized, so it becomes 100% local levy.

The end result is that districts are receiving additional levy authority that is equalized for state aid so that additional funding is available for facility projects.

Allowed uses of the Revenue include:

1. Deferred capital expenditures and maintenance projects.
2. Accessibility of school facilities.
3. Health and safety projects.

In other words, long-term facilities maintenance revenue may be used for exactly the same purposes as the old revenue categories it replaces: health and safety, deferred maintenance and alternative facilities. The revenue may not be used for new construction or remodeling, lease purchase agreements, energy-efficiency projects, or violence prevention or emergency communication devices.

To continue to qualify for the new LTFMR, the School Board had to approve a ten-year plan and submit the plan to MDE by July 31; the plan has to be updated yearly during the summer levy process. Health and Safety and Deferred Maintenance levy authority adjustments will be made over the next two years.

- Ongoing changes from the 2013 Legislative Session that were effective for FY17 and will continue for FY18 are:
 - Effective with FY15, pupil weights for Pre-Kindergarten is .550, K through grade 6 will be at 1.0 and weights for grades 7-12 will be 1.2. Formula rates needed to be increased to offset the reduction in weighted student counts. Marginal cost pupil units were eliminated and replaced with the new declining enrollment revenue.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- A major overhaul was established in the 2014 Session regarding Operating Referendum Revenue's:
 - Converted from \$/Resident Marginal Cost Pupil Unit to \$/Adjusted Pupil Unit – APU.
 - Alternative attendance adjustment was eliminated/rolled into allowance per APU.
 - Allowance/APU was adjusted so that total revenue prior to caps is the same as under old law.
 - School Boards are allowed to convert up to \$300/APU from voter approved to Board approved if Board action is taken before September 30th of prior year so that is part of the proposed property tax statements.
- Location Equity Revenue (LER) effective in FY 2015 (Pay 2014 levy). Districts with any land area in the seven county metro area qualifies for \$424/APU. Or, districts that are not in the seven county metro area but have greater than 2,000 adjusted ADM in the 3rd prior FY qualify for \$212 of location equity levy. The 2014 Legislation changed the Location Equity Revenue to Local Optional Revenue (LOR). All districts in the state now qualify for the full \$424 effective with the Pay 2015 levy, or revenue for the 2015-2016 fiscal year and beyond.
 - The LER or LOR is deducted from operating referendum revenue. There is no action required by the School Board if you accept the full amount of the location equity revenue. GSL qualified for the full \$424 with the Pay 2014 levy because of having property in Carver County which is part of the 7 county metro area. Districts may choose to levy for a lesser amount than the \$424.
 - The District completed the Pay 2017 levy process which is revenue for the 2017-2018 school year or FY 2018. Because of the new building bond debt, the final levy authority was for a total of \$3,550,864.
 - The preliminary proposed Pay 2018 levy authority is showing a 6.53% increase. Total market values are showing a decline of 4.1042%. Total referendum market values show an increase of 4.2954%.
 - The current funding of state aid IDEAS payments remains stable at 90/10%. The change back to the 90/10 was implemented in October of 2013 based on the financial status of the state budget. Law dictates that any state unrestricted fund balance as of June 30, 2013 must be directed first to school districts to pay back the borrowing that occurred from the State of Minnesota from school districts by reducing the payment percentage and to reduce the percentage of early levy recognition (tax shift).
 - The Literacy Incentive Aid was a new aid category in FY 2013. GSL received \$89,455 in FY 2013, \$97,673 in FY 2014, \$91,210 in FY2015, \$86,694 in FY2016, and \$82,813 in FY2017. The literacy incentive aid is calculated by using third grade enrollment to calculate proficiency aid and fourth grade enrollment to calculate growth aid. These dollars are not reserved or designated.
 - Effective in FY2014, the reserve account limits and aid and levy penalties for Community Education, Early Childhood Family Education, and School Readiness have been repealed.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- Minnesota school districts are paid based on pupil units served, a decline or increase in enrollment results in variable revenue that is received for operations. The District enrollment for 2016-2017 ended at 1,580 Adjusted Pupil Units compared to 1,560 in 2015-2016. Preliminary enrollment for the 2017-2018 school year show a slight increase of 20 students to 1,600.
- The Administration and School Board continue to work on plans for improving the school facilities. In December of 2012, the School Board approved to move forward with building a 5,000 square foot Early Childhood Learning Center as an addition to the Lincoln Junior High Building. The Review and Comment Plan was submitted to the Minnesota Department of Education and final approval was received in June of 2013. The building houses the Early Childhood Special Education, (ECSE), the Early Childhood Family Education (ECFE) and the School Readiness (SR) programs. Along with office space, Director's office, Speech teacher office and a large motor room that could also be utilized as a classroom. Remodeling of the main level Lincoln restrooms and old kitchen area were included in the project plans. Total project costs are \$1,966,909. The Board moved forward with a 10-year lease levy option for \$1,375,000 that will be spread to the taxpayers over the 10-year period. The additional cost of the project was paid by district funds. The project was completed in January of 2014 and students and staff began using the facility at that time.
- After two failed building referendums in 2011, the School Board voted to hold a special election on May 12th, 2015 asking the voters to approve a building bond referendum for \$24,190,000. The ballot question was to authorize the District to issue bonds to provide funds to relocate grades K-2 to the existing Lincoln building, repurpose current program space, construction of new space between the current Lincoln and High school buildings and to complete window upgrades at the Lakeside building. The election was successful with 1,534 yes votes and 908 no votes. The election was successful in the Brownston, Glencoe, Plato and Silver Lake precincts and failed in the New Auburn precinct. The District is working with ARY Architects to design the project.
 - The District sold the bonds on July 13, 2015 with a closing date of August 13, 2015, in the amount of \$23,695,000 with a bond obligation of 29.5 years. \$24,111,934 was wired to Security Bank on behalf of the District and was invested in a guaranteed money market investment account at .77% earnings. Ehlers and Associates was the financial institute that handled the sale of the bonds. All transactions related to the building project will be accounted for in Fund 06, Building Construction Fund to be in compliance with state, federal and UFARS accounting procedures. All arbitrage reporting will be handled with The PFM Group, Minneapolis. An agreement has been established with PFM to complete the reporting requirements and meet the required deadlines for reporting.
 - At the September 14, 2015 School Board meeting, the Board moved forward with hiring Donlar Construction to act as the Construction Manager to work in collaboration with ARY Architects in overseeing the bidding and construction process.
 - At the September 14, 2015 School Board meeting, the Board also held a public hearing and approved a motion to move forward with the sale of the Helen Baker Building.
 - At the close of FY17, June 30, \$16,620,063.85 was expended towards this project for FY17. \$134,610.77 was received in the money market interest account for FY17.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- The November 2011 election results showed that the renewal of the operating referendum for \$727 per pupil unit was passed by the voters. There were 2,163 yes votes and 1,212 no votes. The passage of this operating referendum is for a period of seven years. The renewal of the referendum was essential to maintain the current level of funding that the District currently has. The successful election shows a positive statement of support from the taxpayers. With the new legislative changes from the 2013 legislative session, the impact to the votes could change dramatically when putting the question to the ballot when the referendum expires in 2020. Which would indicate an election would be held in 2019. The current operating referendum was for \$727 per pupil unit. When all the conversions are completed due to the legislative changes, the new amount of the referendum is \$900.88. The location equity revenue allowance of \$424 is then subtracted from the \$900.88, so the new referendum amount is \$476.88. If the Board moves forward with converting the \$300 of voter approved to board approved referendum, the amount of the referendum available is \$176.88 without seeking an election. At this point, there is no way to determine what the Board needs will be in 2019 or what additional legislative changes will be made that would affect referendum funding.
- Because of the positive fund balance in both unassigned General Fund and operating capital, a number of building and grounds projects have been completed. The facility committee has been active in addressing the deferred maintenance, health and safety and operating capital plans and outlining the projects to be completed. Having a positive fund balance again has proven to be a very positive reinforcement for the District, the staff and the community. Facility upgrades will continue to take place as long as the projects stay within our budget means. A number of technology upgrades have also been taking place. Computer labs have been upgraded along with additional interactive boards in more classrooms. Technology upgrades will continue to happen as 21st Century Learning continues to focus more and more towards up to date technology capabilities. Along with the construction of the new facility, a number of high school improvements will be made in conjunction with the project.
- During the summer of 2012, the field house gym floors in gym 1 and gym 2 were completely replaced with a wood performance floor at a cost of \$120,000. The field house was also completely re-painted. The Board also approved the replacement of windows and doors on the Lincoln building and the north entrance doors and windows to the high school. The cost of this project was \$520,000.
- During the summer of 2013, additional projects were completed. In addition to the new Early Childhood Learning Center and remodeling that was started, an extension to the garage east of the high school was completed along with new cement and asphalt. A new track surface was installed at the Athletic Complex for \$124,900. Additional playing fields were added west of the Athletic Complex stadium at a cost of \$70,000. Integration of iPad's has taken place for grades 3-6 and all certified staff received iPad's in August of 2013. A tablet device was added for the 7th and 8th graders in the fall of 2014.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- During the summer of 2014, a new tennis court complex was developed in the north athletic complex. The old 8 courts were demolished and 12 new courts were put in place at a cost of \$693,000. Along with the construction of the courts, lights were installed on the front three courts at a cost of \$61,000. This portion of the project will be funded through the Panther Association over a five-year period. The District pursued a \$50,000 lease lighting agreement with the local Glencoe Light and Power similar to the agreement that had been worked out with the football field lights. The football field light lease was paid in full in August of 2014. The football field lights were re-lamped during the summer of 2014 as part of the original warranty. A partial repair and replacement was made to the Field House roof along with new asphalt surfacing in the Lincoln parking lot.
- During the summer of 2015, the District started the replacement of the hallway hall tile at the high school. This project is part of the deferred maintenance schedule and will be phased in over a two or three-year plan. The first phase was \$25,346. During the summer of 2016, another section of hallway tile was completed for \$50,670. During the summer of 2017, another section of hallway tile was completed for \$49,501.74. Also completed in 2015 was a special education room remodel in the Lakeside Elementary building for \$48,115. This was funded using federal special education funds. Cement work at the Lakeside site was also completed at a cost of \$11,364. Tuck-pointing was completed at the high school for \$27,770 and \$24,800 was spent in tuck-pointing at the Lakeside building in 2016. The high school gym and hallways were painted in 2016 for a cost of \$9,840. The District spent \$48,470 in painting upgrades during the summer of 2017 in the Lincoln Elementary and at the High School. The District also spent \$44,000 to remodel a special education bathroom for the new Lincoln Elementary in the summer of 2017. The District continues to maintain a fund balance in the operating capital fund while addressing the needs of the District and the building sites.
- Part of the building project included window and door replacement on the Lakeside building. As part of that project, the District decided to move forward with the doors and the windows at the high school in conjunction with the Lakeside project to get better pricing and to get the high school project completed to match the new construction. The total cost of this project is \$511,600. \$260,000 will be paid out of the construction account with the remainder of the amount coming out of LTFMR and Operating Capital.
- The building construction project got underway in May of 2016. The project was divided into three separate bid packages. Bid package #1 was the civil package containing the ground and utility work, bid package #2 was the majority of the construction and bid package #3 was the boiler room equipment. At this time, there are approximately 25 contractors involved with the project. The School Board has approved all contractors. The District continues to work with ARY Architects and Donlar Construction as the construction management company. Estimated completion date is the fall of 2017. All construction activity will be tracked using Fund 06 and the debt for the project will be posted to Fund 07. The project was approximately 95% complete at the start of the 2018 school year. Continued punch list items are being completed at the close of this audit.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- As of September 15, 2017, there remain a few unsettled contracts. Still in negotiations are the Principals contracts, Community Education Director and Community Education staff. The 2017-2019 teachers union contract was ratified on September 11, 2017 by the School Board. All of these contracts expired June 30, 2016.
-
- The District continues to contract with the South West/West Central Service Cooperative – Region 4 for a number of services including finance, payroll, and student assistance (MARRS) and Special Education. The Coop also offers a Special Education Level IV Program in Cosmos that our district is able to use for a limited number of students that require additional services when we are unable to meet their needs. This poses an additional transportation cost for the District but allows us to be in compliance with state and federal regulations regarding the individual learning plans for students. With all the changes in Special Education, including the state wide tuition billing, this continues to be a difficult area to monitor in the budget. The Coop continues to be a great resource for the District to be able to be a part of to assist in all of these areas of budget and financing.

Academic Performance and State Testing

During the 2011-2012 school year, the State of Minnesota had applied to the Federal Department of Education for a waiver for the NCLB. (No Child Left Behind Act). This waiver would allow Minnesota to establish changes to the way the AYP status is calculated and how the individual districts would address their testing status. The waiver was approved by the Federal Government. Minnesota has now implemented a new accountability system to provide a better, fairer way to measure how schools are doing. It will also allow the Minnesota Department of Education to partner with school districts, teachers and parents on finding solutions for schools that are identified in needing the most help. The system is called the Multiple Measurement Rating system or MMR. The MMR moves away from the previous measurement which was based only on proficiency. The new MMR looks at proficiency, student growth, achievement gap and graduation rates. Schools earn points in each category resulting in the final MMR score. There are three ratings that will identify schools. Priority Schools, Focus Schools and Reward Schools. Priority Schools are those schools that are consistently low-performing schools. These schools will be required to work with MDE to develop a school turnaround plan. Focus Schools will need to develop a school improvement plan that directly addresses poor performances. Reward Schools will be identified on being in the top 15% of their grade classification group and will be recognizes publicly for their good work.

The MMR scores for GSL Lakeside Grades 3-6 can be seen in the following graph:

	2014	2015	2016
Proficiency (25)	24	12	0
Growth (25)	17	16	9
Achievement Gap (25)	18	16	7
Graduation Rate			
Total	74%	59%	21%

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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

The MMR Scores for GSL Lincoln Junior High are as follows:

	2014	2015	2016
Proficiency (25)	10	3	0
Growth (25)	11	5	7
Achievement Gap (25)	11	4	14
Graduation Rate Total (75)	42%	17%	9%

The MMR Scores for GSL Senior High School are as follows:

	2014	2015	2016
Proficiency (25)	25	11	3
Growth (25)	14	14	11
Achievement Gap (25)	12	16	17
Graduation Rate (25)	25	25	25
Total (100)	76%	66%	56%

- The 2015-2016 will be the last year that the MMR scores will be used.
- MCA test score results for 2016-2017 showed mixed results. Lakeside Elementary showed a slight drop in both reading and math but an increase in Science. Lincoln showed an increase in reading and math but a decrease in science. The high school scores increased in math, reading and science. MDE continues to change their testing procedures, tests and measuring tools. So most districts all saw a decrease in scores from the prior year, especially at the secondary level. Based on the test results, the District continues to work on the school academic improvement plan. Though the MCA scores were not the results the District wants, the Junior ACT test continues to surpass the state average.
- Lakeside Reading – 55.8% compared to 60% last year. State average was 60.2%.
- Lakeside Math – 60% compared to 65.5% last year. State average was 58.7%.
- Lakeside Grade 5 Science – 50.4% compared to 46.8% last year. State average was 60%.
- Lincoln – Reading – 54.1% compared to 47.8% last year. State average was 60.2%.
- Lincoln Math – 58.8% compared to 50.6% last year. State average was 58.7%.
- Lincoln Grade 8 Science – 32.6% compared to 37.9%. State average was 46.2%.
- High School Math – 45.3% compared to 36.8% last year. State average was 48.4%.
- High School Reading – 73.7% compared to 66% last year. State average was 60.5%.
- High School Science – 69.7% compared to 66.7% last year. State average was 56.3%.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
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MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

FACTORS BEARING ON THE DISTRICT'S FUTURE (CONTINUED)

- This data is included as part of the MD&A because it has become an important factor driving the academic direction of the District. Test scores can change the focus of direction of administrators and teachers in evaluating detailed student data and test scores. The number of EL (English Learners) has continued to increase over the past few years'. The poverty level, which includes the number of student's eligible free and reduced lunches, has decreased slightly over the past year. Studies show that the higher the poverty level and the number of EL learners along with our high counts in special education, makes it harder for a district to close the Achievement Gap. The District has worked with the services of a literacy specialist in the elementary to work with teachers. New math curriculum was purchased for grades K-4 with an iPad implementation at grades 3 and 4 in FY13. The iPad technology was implemented in grades 5 and 6 in FY14. Technology devices were extended to the 7th and 8th grades for FY15 and Surface tablets were added to the high school math department in FY16. Additional Surface tablets were added to the high school for the 2016-17 school year and a cart of laptops and new iPads were added to the inventory at the Lakeside building. Interactive white boards have been placed in all classrooms K-12. By utilizing technology, increased staffing and a rigorous curriculum, it is hoped to see overall improvements. Staff turnover with retiring veteran staff also has an impact to the extent of young staff needing staff development training on the District's curriculum, technology, and RTI programs to meet the needs of the students and the goals of the District. One of the goals with the new building construction is to develop a K-12 STEM (*Science, Technology, Engineering and Math*) program and to continue to expand on the high school engineering offerings. Early implementation of the STEM programs should benefit all students as they move to the next grade level. All of these areas are taken into account when budget plans, staffing, and curriculum decisions need to be made.
- The School Board did vote to approve to move forward with the full implementation of a K-12 STEM initiative in April of 2016 effective for the 2016-2017 school year. Two STEM teachers have been hired and trained to work in the elementary buildings to help train the teachers in the implementation. Additional elementary staff were trained at the 6th grade and at the Junior High Levels to move forward with the Gateway program of STEM that leads into the 9-12 Engineering programs. This is exciting curriculum advancement for our students and staff to engage students in learning. This program is continued into the 2017-2018 school year.
- Glencoe-Silver Lake Public Schools is a very stable district with strong community support. The District provides a full range of public education services for Pre-school through grade 12. Food service and transportation are provided as supporting programs. The District's community education program includes early childhood, school readiness along with adult learning opportunities. The public school also provides some shared time services for the non-public schools in the District. There is currently a K-8 Lutheran School in Glencoe and a 1-6 Catholic School in Glencoe. The Catholic school has stopped providing services to Kindergarten students. The District is also providing the food service program to the Catholic School beginning in FY16 and continuing for FY17. Meals were prepared at GSL and picked up by the Catholic School and served at their site. GSL is processing the Educational Benefit Application and reporting their meals on the CLICS site at MDE. As of June 30, 2017, the Catholic School in Glencoe did cease to operate and will no longer be providing services to students. The GSL District anticipates that the majority of the 39 students that attended that school will transfer to the public school. The Catholic School in Silver Lake was closed as of June 30, 2011.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report contact the District Office, Independent School District No. 2859, 1621 East 16th Street, Glencoe, MN 55336.

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BASIC FINANCIAL STATEMENTS

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GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF NET POSITION
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)

	Governmental Activities	
	2017	2016
ASSETS		
Cash and Investments	\$ 15,995,314	\$ 31,580,167
Receivables:		
Property Taxes	1,709,540	1,860,496
Other Governments	1,996,517	1,405,778
Other	43,453	26,051
Prepaid Items	6,936	6,178
Inventories	22,633	20,249
Capital Assets:		
Land and Construction in Progress	17,896,841	1,964,326
Other Capital Assets, Net of Depreciation	7,036,720	7,387,999
Total Assets	<u>44,707,954</u>	<u>44,251,244</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows - Pension Payments	21,561,795	1,875,722
LIABILITIES		
Salaries Payable	1,189,199	1,203,543
Accounts and Contracts Payable	3,106,395	1,603,497
Accrued Interest	387,401	395,753
Due to Other Governmental Units	239	206
Unearned Revenue	17,435	16,568
Long-Term Liabilities:		
Portion Due Within One Year	610,237	593,177
Portion Due in More Than One Year	24,571,813	25,171,631
Net Pension Liability	34,692,375	10,033,219
Other Postemployment Benefits	548,959	441,922
Total Liabilities	<u>65,124,053</u>	<u>39,459,516</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes Levied for Subsequent Year	3,332,087	3,516,577
Deferred Inflows - Pensions	776,943	1,563,961
Total Deferred Inflows of Resources	<u>4,109,030</u>	<u>5,080,538</u>
NET POSITION		
Net Investment in Capital Assets	5,901,300	5,720,462
Restricted for:		
General Fund Operating Capital Purposes	845,404	853,224
General Fund State-Mandated Reserves	148,284	150,599
Food Service	254,003	173,477
Community Service	255,089	152,067
Capital Projects - Building Construction	-	163,709
Debt Service	-	(1,408)
Unrestricted	(10,367,414)	(5,625,218)
Total Net Position	<u>\$ (2,963,334)</u>	<u>\$ 1,586,912</u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
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	\$ 1,133,081	\$ 385	\$ 6,933
District Support Services	450,585	-	-
Regular Instruction	11,940,689	219,442	1,678,422
Vocational Education Instruction	410,163	-	11,160
Special Education Instruction	3,817,725	109,560	1,841,059
Instructional Support Services	868,489	-	210,269
Pupil Support Services	2,096,186	-	139,553
Sites and Buildings	2,923,942	5,746	-
Fiscal and Other Fixed Cost Programs	78,720	-	-
Food Service	938,153	485,858	530,718
Community Service	911,365	536,536	174,672
Interest and Fiscal Charges on Long-Term Liabilities	939,804	-	-
Total School District	<u>\$ 26,508,902</u>	<u>\$ 1,357,527</u>	<u>\$ 4,592,786</u>

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 of Year

NET POSITION - END OF YEAR

See accompanying Notes to Basic Financial Statements.

		2016
	Net (Expense)	Net (Expense)
	Revenue and	Revenue and
	Change in	Change in
	Net Position	Net Position
Capital	Total	Total
Grants and	Governmental	Governmental
Contributions	Activities	Activities
\$ -	\$ (1,125,763)	\$ (843,452)
-	(450,585)	(501,946)
122,683	(9,920,142)	(6,165,906)
-	(399,003)	(131,719)
-	(1,867,106)	(977,993)
-	(658,220)	(562,262)
-	(1,956,633)	(1,617,485)
150,144	(2,768,052)	(1,809,206)
-	(78,720)	(66,438)
-	78,423	45,098
-	(200,157)	(139,734)
-	(939,804)	(834,612)
<u>\$ 272,827</u>	<u>(20,285,762)</u>	<u>(13,605,655)</u>

2,212,839	1,782,619
161,972	148,779
1,317,593	-
11,701,697	10,683,851
197,415	188,397
144,000	27,503
<u>15,735,516</u>	<u>12,831,149</u>
(4,550,246)	(774,506)
1,586,912	2,361,418
<u>\$ (2,963,334)</u>	<u>\$ 1,586,912</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	Major Funds		
	General	Food Service	Community Service
ASSETS			
Cash and Investments	\$ 5,344,348	\$ 254,120	\$ 314,206
Receivables:			
Current Property Taxes	922,846	-	75,345
Delinquent Property Taxes	33,900	-	2,726
Accounts and Interest Receivable	43,453	-	-
Due from Other Minnesota School Districts	-	-	9,038
Due from Minnesota Department of Education	1,653,182	-	13,563
Due from Federal through Minnesota Department of Education	305,043	10,112	-
Inventory	7,307	15,326	-
Prepays	5,691	-	1,245
Total Assets	<u>\$ 8,315,770</u>	<u>\$ 279,558</u>	<u>\$ 416,123</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE			
Liabilities:			
Salaries and Compensated Absences Payable	\$ 620,824	\$ -	\$ -
Payroll Deductions and Employer Contributions Payable	568,375	-	-
Accounts and Contracts Payable	130,971	8,120	2,748
Due to Other Governmental Units	239	-	-
Unearned Revenue	-	17,435	-
Total Liabilities	<u>1,320,409</u>	<u>25,555</u>	<u>2,748</u>
Deferred Inflows of Resources:			
Unavailable Revenue - Property Taxes Levied for Subsequent Year	1,772,375	-	158,286
Unavailable Revenue - Delinquent Property Taxes	33,900	-	2,726
Total Deferred Inflows of Resources	<u>1,806,275</u>	<u>-</u>	<u>161,012</u>
Fund Balance:			
Nonspendable:			
Inventory	7,307	15,326	-
Prepays	5,691	-	1,245
Restricted for:			
Staff Development	87,746	-	-
Health and Safety	(65,640)	-	-
Operating Capital	845,404	-	-
Community Education	-	-	168,364
Early Childhood and Family Education	-	-	22,328
Teacher Development and Evaluation	23,403	-	-
School Readiness	-	-	60,011
Safe Schools Levy	43,188	-	-
Restricted for Other Purposes	-	238,677	415
Unassigned	4,241,987	-	-
Total Fund Balance	<u>5,189,086</u>	<u>254,003</u>	<u>252,363</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 8,315,770</u>	<u>\$ 279,558</u>	<u>\$ 416,123</u>

See accompanying Notes to Basic Financial Statements.

Capital Projects	Debt Service	Total Governmental Funds	
		2017	2016
\$ 8,505,205	\$ 760,800	\$ 15,178,679	\$ 30,770,735
-	667,090	1,665,281	1,822,235
-	7,633	44,259	38,262
-	-	43,453	26,050
-	-	9,038	44,020
-	5,579	1,672,324	1,232,306
-	-	315,155	129,452
-	-	22,633	20,249
-	-	6,936	6,178
<u>\$ 8,505,205</u>	<u>\$ 1,441,102</u>	<u>\$ 18,957,758</u>	<u>\$ 34,089,487</u>
\$ -	\$ -	\$ 620,824	\$ 624,387
-	-	568,375	579,156
2,964,556	-	3,106,395	1,603,497
-	-	239	206
-	-	17,435	16,568
<u>2,964,556</u>	<u>-</u>	<u>4,313,268</u>	<u>2,823,814</u>
-	1,401,426	3,332,087	3,516,577
-	7,633	44,259	36,854
<u>-</u>	<u>1,409,059</u>	<u>3,376,346</u>	<u>3,553,431</u>
-	-	22,633	20,249
-	-	6,936	6,178
-	-	87,746	77,810
-	-	(65,640)	(85,513)
-	-	845,404	853,224
-	-	168,364	77,460
-	-	22,328	16,626
-	-	23,403	23,475
-	-	60,011	35,507
-	-	43,188	49,314
5,540,649	32,043	5,811,784	22,193,161
-	-	4,241,987	4,444,751
<u>5,540,649</u>	<u>32,043</u>	<u>11,268,144</u>	<u>27,712,242</u>
<u>\$ 8,505,205</u>	<u>\$ 1,441,102</u>	<u>\$ 18,957,758</u>	<u>\$ 34,089,487</u>

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT
OF NET POSITION – GOVERNMENTAL FUNDS
JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2016)**

	2017	2016
Total Fund Balance for Governmental Funds	\$ 11,268,144	\$ 27,712,242
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	130,000	130,000
Construction in Progress	17,766,841	1,834,326
Land Improvements, Net of Accumulated Depreciation	880,388	937,213
Buildings and Improvements, Net of Accumulated Depreciation	5,257,646	5,473,520
Equipment, Net of Accumulated Depreciation	898,686	977,266
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.		
	44,259	36,854
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditures when due.		
	(387,401)	(395,753)
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	(34,692,375)	(10,033,219)
Deferred Inflows of Resources - Pensions	(776,943)	(1,563,961)
Deferred Outflows of Resources - Pensions	21,561,795	1,875,722
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	(23,265,000)	(23,695,000)
Unamortized Premiums	(598,187)	(619,551)
Notes Payable	(22,850)	(32,768)
Capital Leases Payable	(42,478)	(67,508)
Lease Purchase Payable	(938,455)	(1,066,650)
Other Post Employment Benefits Payable	(548,959)	(441,922)
Severance Benefits Payable	(315,080)	(283,331)
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 is:		
	816,635	809,432
Total Net Position of Governmental Activities	\$ (2,963,334)	\$ 1,586,912

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCES –
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)**

			Major Funds
	General	Food Service	Community Service
REVENUES			
Local Sources:			
Property Taxes	\$ 2,213,000	\$ -	\$ 162,039
Earnings and Investments	51,060	2,103	1,811
Other	542,051	485,858	599,843
State Sources	14,541,224	65,833	168,610
Federal Sources	674,322	464,885	-
Total Revenues	18,021,657	1,018,679	932,303
EXPENDITURES			
Current:			
Administration	887,017	-	-
District Support Services	412,617	-	-
Elementary and Secondary Regular Instruction	8,021,672	-	-
Vocational Education Instruction	316,236	-	-
Special Education Instruction	3,065,368	-	-
Instructional Support Services	778,082	-	-
Pupil Support Services	1,898,891	-	-
Sites and Buildings	1,991,905	-	-
Fiscal and Other Fixed Cost Programs	100,084	-	-
Food Service	-	938,153	-
Community Service	-	-	799,335
Capital Outlay	531,770	-	28,005
Debt Service:			
Principal	161,641	-	1,502
Interest and Fiscal Charges	39,546	-	372
Total Expenditures	18,204,829	938,153	829,214
Excess (Deficiency) of Revenues			
Over (Under) Expenditures	(183,172)	80,526	103,089
OTHER FINANCING SOURCES (USES)			
Insurance Recovery	-	-	-
Sale of Bonds	-	-	-
Bond Premium	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balance	(183,172)	80,526	103,089
FUND BALANCES			
Beginning of Year	5,372,258	173,477	149,274
End of Year	\$ 5,189,086	\$ 254,003	\$ 252,363

See accompanying Notes to Basic Financial Statements.

Capital Projects	Debt Service	Total Governmental Funds	
		2017	2016
\$ -	\$ 1,309,960	\$ 3,684,999	\$ 1,932,472
134,611	627	190,212	186,282
-	-	1,627,752	1,526,108
-	55,784	14,831,451	14,481,906
-	-	1,139,207	1,200,005
134,611	1,366,371	21,473,621	19,326,773
-	-	887,017	843,857
-	-	412,617	381,779
-	-	8,021,672	7,915,457
-	-	316,236	321,757
-	-	3,065,368	3,040,741
-	-	778,082	584,344
-	-	1,898,891	1,717,991
-	-	1,991,905	1,578,480
-	-	100,084	66,438
-	-	938,153	938,686
-	-	799,335	787,482
16,620,063	-	17,179,838	2,487,296
-	430,000	593,143	155,106
-	908,238	948,156	470,165
16,620,063	1,338,238	37,930,497	21,289,579
(16,485,452)	28,133	(16,456,876)	(1,962,806)
12,778	-	12,778	-
-	-	-	23,695,000
-	-	-	630,087
-	-	-	427,994
-	-	-	(427,994)
12,778	-	12,778	24,325,087
(16,472,674)	28,133	(16,444,098)	22,362,281
22,013,323	3,910	27,712,242	5,349,961
\$ 5,540,649	\$ 32,043	\$ 11,268,144	\$ 27,712,242

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN
FUND BALANCES – GOVERNMENTAL FUNDS TO 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	\$ (16,444,098)	\$ 22,362,281
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	16,082,566	1,949,843
Depreciation Expense	(501,330)	(472,205)
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.	7,405	(1,074)
Some capital asset additions are financed through capital leases. In governmental funds, a capital lease arrangement is considered a source of financing, but in the statement of net position, the lease obligation is reported as a liability. Repayment of capital lease principal is an expenditure in the governmental funds, but repayment reduces the lease obligation in the statement of net position.		
Change in Accrued Interest - Capital Leases	1,294	1,175
Principal Payments - Capital Leases	25,030	22,688
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.	(4,186,065)	99,372
In the statement of activities, certain operating expenses - 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).	(138,786)	(181,347)
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 and Certificates of Participation Bond Proceeds	-	(23,695,000)
Bond Premium or Discount	-	(630,087)
Repayment of Bond Principal	430,000	-
Repayment of Note Payable	9,918	9,561
Repayment of Lease Purchase Payable	128,195	124,250
Change in Accrued Interest - General Obligation Bonds	5,375	(378,245)
Change in Accrued Interest - Lease Purchase Payable	1,683	1,631
Amortization of Bond Premium	21,364	10,536
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.	7,203	2,115
Total	\$ (4,550,246)	\$ (774,506)

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE –
BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Over (Under)
	Original	Final	Amounts	Final Budget
REVENUES				
Local Sources:				
Property Taxes	\$ 2,207,484	\$ 2,135,082	\$ 2,213,000	\$ 77,918
Earnings and Investments	10,000	10,000	51,060	41,060
Other	314,000	344,000	542,051	198,051
State Sources	14,435,192	14,297,424	14,541,224	243,800
Federal Sources	625,326	651,225	674,322	23,097
Total Revenues	17,592,002	17,437,731	18,021,657	583,926
EXPENDITURES				
Current:				
Administration	952,818	939,052	887,017	(52,035)
District Support Services	450,942	464,874	412,617	(52,257)
Elementary and Secondary Regular Instruction	7,862,680	7,898,622	8,021,672	123,050
Vocational Education Instruction	289,964	290,338	316,236	25,898
Special Education Instruction	3,213,629	3,345,700	3,065,368	(280,332)
Instructional Support Services	605,811	769,964	778,082	8,118
Pupil Support Services	1,949,527	1,828,273	1,898,891	70,618
Sites and Buildings	1,877,206	2,000,831	1,991,905	(8,926)
Fiscal and Other Fixed Cost Programs	95,500	127,500	100,084	(27,416)
Capital Outlay	447,000	338,000	531,770	193,770
Debt Service:				
Principal	139,245	139,245	161,641	22,396
Interest and Fiscal Charges	33,697	33,697	39,546	5,849
Total Expenditures	17,918,019	18,176,096	18,204,829	28,733
NET CHANGE IN FUND BALANCE	<u>\$ (326,017)</u>	<u>\$ (738,365)</u>	(183,172)	<u>\$ 555,193</u>
FUND BALANCE				
Beginning of Year			5,372,258	
END OF YEAR			<u>\$ 5,189,086</u>	

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE –
BUDGET AND ACTUAL – FOOD SERVICE FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Over (Under)
	Original	Final	Amounts	Final Budget
REVENUES				
Local Sources:				
Earnings and Investments	\$ -	\$ -	\$ 2,103	\$ 2,103
Other - Primarily Meal Sales	470,343	470,343	485,858	15,515
State Sources	60,991	60,991	65,833	4,842
Federal Sources	491,444	491,444	464,885	(26,559)
Total Revenues	<u>1,022,778</u>	<u>1,022,778</u>	<u>1,018,679</u>	<u>(4,099)</u>
EXPENDITURES				
Current:				
Food Service	1,014,281	1,014,281	938,153	(76,128)
Capital Outlay	<u>6,500</u>	<u>6,500</u>	-	(6,500)
Total Expenditures	<u>1,020,781</u>	<u>1,020,781</u>	<u>938,153</u>	<u>(82,628)</u>
NET CHANGE IN FUND BALANCE	<u>\$ 1,997</u>	<u>\$ 1,997</u>	80,526	<u>\$ 78,529</u>
FUND BALANCE				
Beginning of Year			173,477	
END OF YEAR			<u>\$ 254,003</u>	

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE –
BUDGET AND ACTUAL – COMMUNITY SERVICE FUND
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual	Over (Under)
	Original	Final	Amounts	Final Budget
REVENUES				
Local Sources:				
Property Taxes	\$ 166,688	\$ 159,999	\$ 162,039	\$ 2,040
Earnings and Investments	-	-	1,811	1,811
Other - Primarily Tuition and Fees	490,645	495,225	599,843	104,618
State Sources	162,626	168,710	168,610	(100)
Total Revenues	819,959	823,934	932,303	108,369
EXPENDITURES				
Current:				
Community Service	780,176	834,093	799,335	(34,758)
Capital Outlay	33,250	27,650	28,005	355
Debt Service				
Principal	-	-	1,502	1,502
Interest	-	-	372	372
Total Expenditures	813,426	861,743	829,214	(32,529)
NET CHANGE IN FUND BALANCE	<u>\$ 6,533</u>	<u>\$ (37,809)</u>	103,089	<u>\$ 140,898</u>
FUND BALANCE				
Beginning of Year			149,274	
END OF YEAR			<u>\$ 252,363</u>	

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF NET POSITION – PROPRIETARY FUND
JUNE 30, 2017**

	<u>Governmental Activities - Internal Service Funds</u>
ASSETS	
Cash and Investments	\$ <u>816,635</u>
NET POSITION	
Unrestricted	\$ <u>816,635</u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION –
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017**

	Governmental Activities - Internal Service Funds
	<hr/>
NONOPERATING INCOME (LOSS)	
Earnings on Investments	\$ 7,203
	<hr/>
CHANGE IN NET POSITION	7,203
Net Position - Beginning of Year	809,432
	<hr/>
NET POSITION - END OF YEAR	\$ 816,635
	<hr/> <hr/>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF CASH FLOWS –
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2017**

	<u>Governmental Activities - Internal Service Funds</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Received	<u>\$ 7,203</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	7,203
Cash and Cash Equivalents - Beginning	<u>809,432</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u><u>\$ 816,635</u></u>
Total Cash and Investments per Statement of Net Position	<u><u>\$ 816,635</u></u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017**

	Private-Purpose Trust
ASSETS	
Cash and Investments	\$ 929,343
	<u>929,343</u>
NET POSITION	
Restricted for Scholarships	\$ 929,343
	<u>929,343</u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2017**

	Private-Purpose Trust
ADDITIONS	
Gifts and Donations	\$ 5,500
Earnings on Investments	1,410
Total Additions	<u>6,910</u>
DEDUCTIONS	
Scholarships Awarded	<u>12,700</u>
CHANGE IN NET POSITION	(5,790)
Net Position - Beginning of Year	935,133
NET POSITION - END OF YEAR	<u><u>\$ 929,343</u></u>

See accompanying Notes to Basic Financial Statements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Independent School District No. 2859 have been prepared in conformity with accounting principles generally accepted in the United States of America 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. 2859 (the District) is an instrumentality of the State of Minnesota established to function as an educational institution. The elected Board of Education (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 require that the District's financial statements include all funds, departments, agencies, boards, commissions, and other organizations which are not legally separated from the District. In addition, the District's financial statements are to include all component units - entities for which the District is financially accountable.

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

Student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside school hours. The Board of Education 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 Board of Education 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 District-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 Fund. The Fiduciary Fund is only reported in the statement of fiduciary net position at the fund financial statement level.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC 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 purpose 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 District-wide financial statements.

Separate fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. Fiduciary funds are presented in the fiduciary fund financial statements by type: Private-Purpose Trust. Since by definition, fiduciary fund assets are being held for the benefit of a third party and cannot be used for activities or obligations of the District, these funds are excluded from the District-wide statements.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 for accumulating resources for future payments of other postemployment benefits. Operating expenses for the internal service fund include the cost of services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC 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 District-wide, proprietary fund, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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 revenues.
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.

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 each fund included in this report is as follows:

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued)

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, and health and safety 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, K-6 extended day 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 – Building Construction Fund

The Building Construction Fund is used to account for financial resources restricted, committed, or assigned to be used for the acquisition or construction of major capital facilities. The Fund was established for building construction activity authorized by specific voter-approved bond issues.

Debt Service Fund

The Debt Service Fund is used to account for and report financial resources restricted committed, or assigned to pay general long-term obligation bond principal, interest, and related costs. The regular debt service account is used for all general obligation bond debt service.

Proprietary Fund

Internal Service Fund

The Internal Service Fund accounts for financing goods or services provided by one department to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis. The District's Internal Service Fund accumulates resources for the future payment of other postemployment benefits.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds (Continued)

Fiduciary Fund

Private-Purpose Trust Fund

The Private-Purpose Trust Fund is used to account for money held by the District in the capacity of trustee or custodian, where both the principal and interest may be spent.

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 Board of Education adopts an annual budget for the following fiscal year for the General, Food Service, and Community Service Funds. The approved budget is published in summary form in the District's legal newspaper. Reported budget amounts represent the original budget as adopted by the Board of Education. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Superintendent submits to the Board of Education 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 Board of Education action. Revisions to budgeted amounts must be approved by the Board of Education.

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

F. Cash and Investments

Cash balances consist of interest bearing accounts, deposits in the Minnesota Trust Investment Shares Portfolio and negotiable certificates of deposit. Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

G. Accounts Receivable

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Inventories

Inventories are recorded using the consumption method of accounting and consist of wood shop supplies and paper in the General Fund and purchased food, supplies, and surplus commodities received from the federal government within the Food Service Fund. 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.

I. 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.

J. Property Taxes

Property tax levies are established by the Board of Education in December each year and are certified to the County for collection the following calendar year. In Minnesota, counties act as collection agents for all property taxes and are responsible for spreading all levies over taxable property. Such taxes become a lien on January 1. Taxes are generally due on May 15 and October 15 and counties generally remit taxes to Districts at periodic intervals as they are collected. A portion of property taxes levied is paid through state 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 Fund (and to a lesser extent in the District's 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 \$168,353 for the District. The tax shift also includes certain other levies that are recognized early based on statutory requirements.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. 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 reported as a deferred inflow of resources 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 Property Taxes Levied for Subsequent Year to indicate that, while they are current assets, they will not be recognized as revenue until the following year.

K. 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 \$2,500 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 District-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.

Capital assets not being depreciated include land.

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.

L. 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 of resources (expense) until that time.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

M. Long-Term Obligations

In the District-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Material 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.

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

N. 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.

O. Accrued Employee Benefits

Vacation Pay

Since vacation pay does not vest to employees, no long-term portion of vacation liabilities are recorded in the financial statements.

Sick Pay

Substantially all District employees are entitled to sick leave at various rates. For certain employees, unused sick leave enters into the calculation of severance pay upon termination.

Severance and Health Benefits

Severance consist of lump sum early retirement incentive payments. Accounting policies for severance benefits are described below.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Accrued Employee Benefits (Continued)

Severance and Health Benefits (Continued)

a. Early Retirement Incentive and Convertible Sick Leave

Certain bargaining unit members are eligible to be compensated for unused accumulated sick leave upon termination subject to certain conditions.

Full-time employees, other than teachers, who have completed at least 15 years of continuous service with the District and who are at least 55 years of age are eligible for severance pay. Eligible employees, upon early retirement, receive as severance pay, an amount representing 66% of their unused accumulation of sick leave days.

During fiscal year 2017, the District's expenditures for early retirement incentive and convertible sick leave expenditures for convertible sick leave totaled \$-0-. At June 30, 2017, the long-term portion of the convertible sick leave liability is included as part of severance payable in the long-term debt.

b. Other Postemployment Benefits Payable

Under the terms of certain collectively bargained employment contracts, including the teachers' contract, the District is required to pay \$150 per month or \$250 per month toward the premium cost of the individual health insurance for 96 months. The employee pays the difference toward the full premium for any coverage elected. All premiums are funded on a pay-as-you-go basis. This amount was actuarially determined, in accordance with GASB 45.

P. 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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. 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 the school lunch deposits.

R. 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 Finance Committee and the Business Manager the ability to assign fund balances and its 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.

The District has a minimum fund balance policy, which identifies a minimum total of committed, assigned and unassigned fund balance in the General Fund as 20% of the District's operating budgeted expenditures.

S. Statement of Cash Flows

For purposes of the statement of cash flows, the District considers demand deposit accounts and investments to be cash and cash equivalents. Cash and cash equivalents are included in cash and investments.

T. Net Position

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. 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.

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

A. Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds:

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 18,176,096	\$ 18,204,829	\$ 28,733

These overages were considered by District management to be the result of necessary expenditures critical to operations.

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 may not be returned to it. 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 applicable Minnesota Statutes, the District maintains deposits at depository banks 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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

B. Investments

The District may also invest idle funds as authorized by Minnesota Statutes as follows:

- Direct obligations or obligations guaranteed by the United States or its agencies.
- Shares of investment companies registered under the Federal Investment Company Act of 1940 and received the highest credit rating, is rated in one of the two highest rating categories by a statistical rating agency, and all of the investments have a final maturity of thirteen months or less.
- General obligations rated "A" or better; revenue obligations rated "AA" or better.
- General obligations of the Minnesota Housing Finance Agency rated "A" or better.
- Bankers' acceptances of United States banks eligible for purchase by the Federal Reserve System.
- Commercial paper issued by United States banks corporations or their Canadian subsidiaries, of highest quality category by a least two nationally recognized rating agencies, and maturing in 270 days or less.
- Guaranteed investment contracts guaranteed by United States commercial banks or domestic branches of foreign banks or United States insurance companies if similar debt obligations of the issuer or the collateral pledged by the issuer is in the top two rating categories.
- Repurchase or reverse purchase agreement 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 had the following investments:

External Investment Pools –

	Amortized Cost
MN Trust Term Series	\$ 1,000,000
MN Trust Investments Shares Portfolio	3,014,073
Total Investments at Amortized Cost	<u>\$ 4,014,073</u>

Other Investments –

	Fair Value
Negotiable Certificates of Deposit	\$ 746,314

The negotiable certificates of deposit are held by PMA Financial Network as temporary investments of the District's available cash.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC 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. 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 the maturities to meet cash requirements for ongoing operations. Information about the sensitivity of the fair values of the District's investments to market interest rate risk fluctuations is provided by the following table that shows the distribution of the District's investments by maturity:

Type	Total	Maturity Duration in Years	
		Less Than 1	1 to 2
Negotiable Certificates of Deposit	\$ 746,314	\$ 249,596	\$ 496,718
MN Trust Term Series	1,000,000	1,000,000	-
MN Trust Investments Shares Portfolio	3,014,073	3,014,073	-
Total	<u>\$ 4,760,387</u>	<u>\$ 4,263,669</u>	<u>\$ 496,718</u>

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 that 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 following chart summarizes year-end ratings for the District's investments as rated by *Moody's*.

Type	Rating
Negotiable Certificates of Deposit	NR
MN Trust Term Series	AAAM
MN Trust Investments Shares Portfolio	AAAM

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
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NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

C. Balance Sheet Presentation

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

Deposits	\$ 12,164,270
Negotiable Certificates of Deposit	746,314
MN Trust Term Series	1,000,000
MN Trust Investments Shares Portfolio	3,014,073
Total Pooled Cash and Investments	<u>\$ 16,924,657</u>
Cash and Investments - Statement of Net Position	\$ 15,995,314
Cash and Investments - Statement of Fiduciary Net Position	929,343
Total Cash and Investments	<u>\$ 16,924,657</u>

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. The inputs include those traded on an active exchange, such as the New York Stock Exchange, as well as U.S. Treasury and other U.S. government and agency mortgage-backed securities that are traded by dealers or brokers in active over-the-counter markets.

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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC 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
Negotiable Certificates of Deposit	\$ 746,314	\$ -	\$ -	\$ 746,314
	<u>\$ 746,314</u>	<u>\$ -</u>	<u>\$ -</u>	<u>746,314</u>
Investments Measured at Amortized Cost				4,014,073
Total District Investments				<u>\$ 4,760,387</u>

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	\$ 130,000	\$ -	\$ -	\$ 130,000
Construction in Progress	1,834,326	15,932,515	-	17,766,841
Total Capital Assets, Not Being Depreciated	1,964,326	15,932,515	-	17,896,841
Capital Assets, Being Depreciated				
Land Improvements	1,140,892	-	-	1,140,892
Buildings and Improvements	11,784,156	-	-	11,784,156
Equipment	3,983,801	150,051	-	4,133,852
Total Capital Assets, Being Depreciated	16,908,849	150,051	-	17,058,900
Accumulated Depreciation for:				
Land Improvements	(203,679)	(56,825)	-	(260,504)
Buildings and Improvements	(6,310,636)	(215,874)	-	(6,526,510)
Equipment	(3,006,535)	(228,631)	-	(3,235,166)
Total Accumulated Depreciation	(9,520,850)	(501,330)	-	(10,022,180)
Total Capital Assets, Being Depreciated, Net	7,387,999	(351,279)	-	7,036,720
Governmental Activities Capital Assets, Net	<u>\$ 9,352,325</u>	<u>\$ 15,581,236</u>	<u>\$ -</u>	<u>\$ 24,933,561</u>

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

Administration	\$ 13,427
Regular Instruction	350,047
Special Education Instruction	5,390
Instructional Support Services	46,156
Pupil Support Services	38,526
Sites and Buildings	29,497
Food Service	7,681
Community Service	10,606
Total Depreciation Expense, Governmental Activities	<u>\$ 501,330</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
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JUNE 30, 2017**

NOTE 5 LONG-TERM LIABILITIES

A. Components of Long-Term Liabilities

Long-term liabilities consisted of the following at June 30, 2017:

Issue Date	Net Interest Rate	Series Number	Original Issue	Maturity Date	Principal Outstanding	
					Due Within One Year	Total
8/13/2015	3.0% - 4.0%	2015A	\$ 23,695,000	2/1/2045	\$ 440,000	\$ 23,265,000
Bond Premiums					-	598,187
Notes Payable					10,356	22,850
Lease Purchase Payable					132,265	938,455
Capital Leases Payable					27,616	42,478
Severance Benefits Payable					-	315,080
Total					\$ 610,237	\$ 25,182,050

B. Future Minimum Debt Payments

Minimum annual principal and interest payments necessary to retire Lease Purchase Payable and Notes Payable are as follows:

Year Ending June 30,	G.O. Building Bonds Series 2015A		Lease Purchase Payable	
	Principal	Interest	Principal	Interest
2018	\$ 440,000	\$ 894,888	\$ 132,265	\$ 28,528
2019	455,000	881,688	136,464	24,329
2020	525,000	868,038	140,796	19,996
2021	540,000	852,288	145,266	15,526
2022	555,000	836,088	149,878	10,914
2023-2027	3,085,000	3,882,588	233,786	7,403
2028-2032	3,740,000	3,221,538	-	-
2033-2037	4,550,000	2,413,300	-	-
2038-2042	5,510,000	1,451,600	-	-
2043-2047	3,865,000	313,200	-	-
Total	\$ 23,265,000	\$ 15,615,216	\$ 938,455	\$ 106,696

Year Ending June 30,	Note Payable		Total	
	Principal	Interest	Principal	Interest
2018	\$ 10,356	\$ 694	\$ 582,621	\$ 924,110
2019	10,778	271	602,242	906,288
2020	1,716	3	667,512	888,037
2021	-	-	685,266	867,814
2022	-	-	704,878	847,002
2023-2027	-	-	3,318,786	3,889,991
2028-2032	-	-	3,740,000	3,221,538
2033-2037	-	-	4,550,000	2,413,300
2038-2042	-	-	5,510,000	1,451,600
2043-2047	-	-	3,865,000	313,200
Total	\$ 22,850	\$ 968	\$ 24,226,305	\$ 15,722,880

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

B. Future Minimum Debt Payments (Continued)

Description of Long-Term Liabilities

Lease Purchase Payable

On September 12, 2013, the District entered into a lease-purchase agreement for \$1,375,000. The debt was issued to help fund the construction of the new Early Childhood Center, along with necessary equipment and other site improvements. The District will use General Fund levy in future years to pay for the debt payments.

Note Payable

In August 2014, the District entered into a note payable agreement for \$50,000 at a 4.0% interest rate. The principal and interest is due in monthly installments through July 2019. The debt was issued to help fund new lights at the tennis courts. Assets of the General Fund will be used to retire this note payable.

Capital Leases Payable

Capital leases are utilized by the District as a means to finance the Facility projects that are too small for issuing bonds and too large for the operating capital funds to cover the costs. These projects over the years have included modifications to the field house, equipment for the field house, technology throughout the District, stadium lights, and improvements to the Helen Baker Elementary. Total cost of assets held under capital leases is \$125,295. Related accumulated depreciation of assets under capital leases at June 30, 2017 is \$62,647.

The following is a schedule of the future minimum lease payments under the capital leases together with the present value of the net minimum lease payments as of June 30, 2017:

<u>Year Ending June 30,</u>	
2018	\$ 31,218
2019	15,609
Total Minimum Lease Payments	<u>46,827</u>
Less Amounts Representing Interest	<u>(4,349)</u>
Present Value of Net Minimum Lease Payments	<u><u>\$ 42,478</u></u>

General Obligation School Building Bonds, Series 2015A

On August 13, 2015, the District issued \$23,695,000 of General Obligation School Building Bonds, Series 2015A. The proceeds of the issues will be used to finance the betterment of school facilities.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

B. Future Minimum Debt Payments (Continued)

Description of Long-Term Liabilities (Continued)

Severance Benefits Payable

Severance benefits payable consist of convertible sick leave payable to employees upon retirement. Severance benefits have been paid by the General and Special Revenue Funds. Annual payments to retire the severance benefits liability have not been determined and will depend on actual employee turnover.

C. Changes in Long-Term Liabilities

	June 30, 2016	Additions	Retirements	June 30, 2017
Bonds Payable	\$ 23,695,000	\$ -	\$ 430,000	\$ 23,265,000
Bond Premiums	619,551	-	21,364	598,187
Notes Payable	32,768	-	9,918	22,850
Lease Purchase Payable	1,066,650	-	128,195	938,455
Capital Leases Payable	67,508	-	25,030	42,478
Severance Benefits Payable	283,331	37,986	6,237	315,080
Total	<u>\$ 25,764,808</u>	<u>\$ 37,986</u>	<u>\$ 620,744</u>	<u>\$ 25,182,050</u>

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. Restricted for Staff Development

Restricted for staff development represents general education aid resources to be expended for staff development programs.

B. Restricted for Health and Safety

Restricted for health and safety represents available resources to be used only to provide for the removal of hazardous substances and other state approved life/health safety projects. Under Minnesota Statutes, a deficit in this restriction generates specific future levy authority.

C. Restricted for Operating Capital

Restricted for operating capital represents available resources to be used only for operating capital purposes, including but not limited to the purchase, lease, repair and improvement of school buildings, and the purchase or lease of computers, vehicles, textbooks, and telecommunications equipment.

D. Restricted for Community Education Programs

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

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NOTE 6 RESTRICTED FUND BALANCES (CONTINUED)

E. Restricted for Early Childhood and Family Education Programs

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

F. Restricted for Teacher Development and Evaluation

The fund balance restriction represents accumulated resources available for teacher development and evaluation uses.

G. Restricted for School Readiness

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

H. Restricted for Safe Schools – Crime Levy

The fund balance restriction represents accumulated resources available to provide for safe schools programs in accordance with funding made available for that purpose.

I. Restricted for Long Term Facilities Maintenance (LTFM)

Represents available resources to be used for LTFM capital projects in accordance with the 10 year plan.

J. Restricted for Other Purposes

Represents amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.

Other Restricted:

Restricted for Food Service	\$ 238,677
Restricted for Community Service	415
Restricted for Capital Projects	5,540,649
Restricted for Bond Payments	32,043
Total Other Restricted	<u>\$ 5,811,784</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC 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 (General Employees Plan)

All full-time and certain part-time employees of the District are covered by the General Employees Plan. General Employees Plan members belong to either the Coordinate Plan or the Basic Plan. Coordinate 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)

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

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

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%.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

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.

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. General Employees Plan 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.

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 1 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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier 1 Benefits (Continued)

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.

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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions

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

1. General Employees Plan Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.50%, respectively, of their annual covered salary in fiscal year 2017. In fiscal year 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 General Employees Plan for the plan's fiscal year ended June 30, 2017, were \$160,741. 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 \$536,997. The District's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

1. General Employees Plan Pension Costs

At June 30, 2017, the District reported a liability of \$2,825,587 for its proportionate share of the General Employees Plan's net pension liability. The District's net pension liability reflected a reduction due to the State of Minnesota's contribution of \$6 million to the fund in 2016. The State of Minnesota is considered a non-employer contributing District and the State's contribution meets the definition of a special funding situation. The state's proportionate share of the net pension liability associated with the District totaled \$36,951. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2015, through June 30, 2016, relative to the total employer contributions received from all of PERA's participating employers. At June 30, 2016, the District's proportion was 0.0348% which was a decrease of .010% from its proportion measured as of June 30, 2015.

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Plan Pension Costs (Continued)

For the year ended June 30, 2017, the District recognized pension expense of \$330,743 for its proportionate share of General Employees Plan's pension expense. In addition, the District recognized an additional \$11,018 as pension expense (and grant revenue) for its proportionate share of the State of Minnesota' contribution of \$6 million to the General Employees Fund.

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

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual		
Economic Experience	\$ 8,363	\$ 229,537
Changes in Actuarial Assumptions	609,411	-
Net Difference Between Projected and Actual		
Earnings on Plan Investments	315,457	-
Changes in Proportion and Differences Between		
District Contributions and Proportionate		
Share of Contributions	-	68,560
District Contributions Subsequent to the		
Measurement Date	160,741	-
Total	<u>\$ 1,093,972</u>	<u>\$ 298,097</u>

\$160,741 reported as deferred outflows of resources related to pensions resulting from District contributions to General Employees Plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to General Employees Plan pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2018	\$ 169,283
2019	104,762
2020	259,024
2021	102,065

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs

At June 30, 2017, the District reported a liability of \$31,866,788 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 0.1336% at the end of the measurement period and 0.1322% 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:

Description	Amount
District's Proportionate Share of the TRA Net Pension Liability	\$ 31,866,788
State's Proportionate Share of the Net Pension Liability Associated with the District	3,198,377

For the year ended June 30, 2017, the District recognized pension expense of \$4,541,716. It also recognized \$446,631 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	\$ 312,148	\$ 888
Changes in Actuarial Assumptions	18,171,656	-
Net Difference Between Projected and Actual		
Earnings on Plan Investments	1,378,578	-
Changes in Proportion and Differences Between		
District Contributions and Proportionate		
Share of Contributions	68,444	477,958
District Contributions Subsequent to the		
Measurement Date	536,997	-
Total	<u>\$ 20,467,823</u>	<u>\$ 478,846</u>

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

\$536,997 reported as deferred outflows of resources related to pensions resulting from District contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Pension Expense Amount</u>
2018	\$ 3,785,952
2019	3,785,952
2020	4,252,610
2021	4,079,823
2022	3,547,643

The District's total pension expense for all plans for the year ended June 30, 2017 was \$4,872,459.

E. Actuarial Assumptions

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

<u>Assumptions</u>	<u>General Employees Plan</u>	<u>TRA</u>
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 the General Employees Plan and RP-2000 tables for the Police and Fire Plan and Correctional Plan for males or females, as appropriate, with slight adjustments. Cost of living benefit increases for retirees are assumed to be: one percent per year for all future years for the General Employees Plan.

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions occurred in 2016:

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

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

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

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

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

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

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.

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 in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
<u>General Employees Plan Discount Rate</u>	6.50%	7.50%	8.50%
District's Proportionate Share of the General Employees Plan Net Pension Liability	\$ 4,013,171	\$ 2,825,587	\$ 1,847,341
 <u>TRA Discount Rate</u>	 3.66%	 4.66%	 5.66%
District's Proportionate Share of the TRA Net Pension Liability	\$ 41,052,388	\$ 31,866,788	\$ 24,385,416

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 DEFINED BENEFIT PENSION PLANS (CONTINUED)

H. Pension Plan Fiduciary Net Position

Detailed information about the General Employees Plan'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.

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.

I. Defined Contribution Plan

The District provides eligible employees future retirement benefits through the District's 403(b) Plan (the Plan). Employees of the District are eligible to participate in the Plan commencing on the date of their employment. Eligible employees may elect to have a percentage of their pay contributed to the Plan. Some employees are eligible to receive a District match of employee contributions up to the qualifying amounts set forth in their respective collective bargaining agreements. Contributions are invested in tax deferred annuities selected and owned by Plan participants. The District contributions for the years ended June 30, 2017, 2016 and 2015 are \$114,702, \$109,795, and \$112,855, respectively. The related employee contributions were \$192,114, \$193,002, and \$217,478, for the years ended June 30, 2017, 2016 and 2015, respectively.

NOTE 8 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 health insurance plan. There are 213 active participants and 12 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 \$150 per month or \$250 per month, with 25 years of service and 34 years of teaching, of the cost of current-year premiums for eligible retired plan members and their spouses. For fiscal year 2017, the District contributed \$68,613 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 unfunded actuarial liabilities over a period not to exceed 30 years.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 OTHER POST-EMPLOYMENT BENEFIT PLAN (CONTINUED)

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

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	\$ 184,282
Interest on Net OPEB Obligation	13,258
Adjustment to Annual Required Contribution	<u>(21,890)</u>
Annual OPEB Cost (Expense)	175,650
Contributions Made	<u>(68,613)</u>
Increase (Decrease) in Net OPEB Obligation	107,037
Net OPEB Obligation (Assets) - Beginning of Year	441,922
Net OPEB Obligation (Assets) - End of Year	<u><u>\$ 548,959</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	Employer Contribution	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation (Asset)
6/30/2017	\$ 175,650	\$ 68,613	39.06 %	\$ 548,959
6/30/2016	151,132	108,796	72.00	441,922
6/30/2015	152,030	105,121	69.10	399,586

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 \$1,485,542. The annual payroll for active employees covered by the plan in the actuarial valuation was \$9,100,029 for a ratio of UAAL to covered payroll of 16.3%.

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.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 OTHER POSTEMPLOYMENT BENEFIT PLAN (CONTINUED)

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and 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% over seven years. The UAAL is being amortized as a level dollar amount on a closed basis. The remaining amortization period at June 30, 2017 does not exceed 30 years.

NOTE 9 RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; natural disasters and workers compensation. 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. In addition, there have been no settlements in excess of the District's insurance coverage in any of the prior three years.

NOTE 10 COMMITMENTS AND CONTINGENCIES

Federal and State Receivables

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.

Outstanding Contracts

The District had construction commitments in the amount of \$5,951,357 as of the end of the year.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 JOINTLY GOVERNED ORGANIZATION

Independent School District No. 2859 is a member of the Little Crow Special Education Cooperative. The Little Crow Special Education Cooperative was established for the primary objective to provide specialized services for special education students, as defined by state law, and to provide other programs and services as approved by the Joint Powers Governing Board. The Cooperative was established by 13 separate member districts. Each member district shares in the cost of the programming, which is paid to the education district in the form of membership fees, reimbursements and other charges for services. The education district is able to recover the cost of its programs through the previously mentioned revenue sources.

REQUIRED SUPPLEMENTARY INFORMATION

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**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FUNDING PROGRESS FOR POSTEMPLOYMENT BENEFIT PLAN
JUNE 30, 2017**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Fund Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2016	\$ -	\$ 1,485,542	\$ 1,485,542	- %	\$ 9,100,029	16.3 %
7/1/2014	-	1,368,430	1,368,430	-	8,320,579	16.4
7/1/2012	-	1,496,460	1,496,460	-	8,048,236	18.6

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST THREE YEARS**

	Measurement Date June 30,		
	2016	2015	2014
PERA			
District's Proportion of the Net Pension Liability	0.0348%	0.0358%	0.0368%
District's Proportionate Share of the Net Pension Liability	\$ 2,825,587	\$ 1,855,342	\$ 1,728,680
State's Proportionate Share of the Net Pension Liability			
Associated with District	36,951	-	-
Total	<u>\$ 2,862,538</u>	<u>\$ 1,855,342</u>	<u>\$ 1,728,680</u>
District's Covered Payroll	\$ 2,102,253	\$ 2,106,400	\$ 1,933,600
District's Proportionate Share of the Net Pension Liability (Asset)			
as a Percentage of its Covered Payroll	134.41%	88.08%	89.40%
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	0.1336%	0.1322%	0.1480%
District's Proportionate Share of the Net Pension Liability	\$ 31,866,788	\$ 8,177,877	\$ 6,819,733
State's Proportionate Share of the Net Pension Liability			
Associated with District	3,198,377	1,002,989	479,724
Total	<u>\$ 35,065,165</u>	<u>\$ 9,180,866</u>	<u>\$ 7,299,457</u>
District's Covered Payroll	\$ 6,905,853	\$ 6,730,720	\$ 6,788,143
District's Proportionate Share of the Net Pension Liability (Asset)			
as a Percentage of its Covered Payroll	461.45%	121.50%	100.47%
Plan Fiduciary Net Position as a Percentage of the			
Total Pension Liability	44.90%	76.80%	81.50%

NOTE: Information is presented prospectively and an accumulation of ten years will be provided.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS
LAST FOUR YEARS**

	2017	Fiscal Year Ending June 30,		2014
		2016	2015	
PERA				
Statutorily Required Contribution	\$ 160,741	\$ 157,669	\$ 155,347	\$ 140,186
Contributions in Relation to the Statutorily Required Contribution	(160,741)	(157,669)	(155,347)	(140,186)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 2,143,213	\$ 2,102,253	\$ 2,106,400	\$ 1,933,600
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.38%	7.25%
TRA				
Statutorily Required Contribution	\$ 536,997	\$ 517,939	\$ 504,804	\$ 475,170
Contributions in Relation to the Statutorily Required Contribution	(536,997)	(517,939)	(504,804)	(475,170)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 7,159,960	\$ 6,905,853	\$ 6,730,720	\$ 6,788,143
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.00%

NOTE: Information is presented prospectively and an accumulation of ten years will be provided.

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SINGLE AUDIT AND OTHER REQUIRED REPORTS

**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. 2859
Glencoe, 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. 2859 (the District), 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. 2859's basic financial statements, and have issued our report thereon dated October 2, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Independent School District No. 2859'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. 2859's internal control. Accordingly, we do not express an opinion on the effectiveness of Independent School District No. 2859'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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control 2017-001 that we consider to be a material weakness.

Compliance and Other Matters

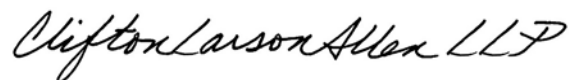
As part of obtaining reasonable assurance about whether Independent School District No. 2859's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have 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*.

Independent School District No. 2859's Response to Finding

Independent School District No. 2859's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Independent School District No. 2859's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Independent School District No. 2859'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 Independent School District No. 2859's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Austin, Minnesota
October 2, 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. 2859
Glencoe, Minnesota

Report on Compliance for Each Major Federal Program

We have audited Independent School District No. 2859'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. 2859's major federal programs for the year ended June 30, 2017. Independent School District No. 2859'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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Independent School District No. 2859'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. 2859'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. 2859's compliance.

Opinion on Each Major Federal Program

In our opinion, Independent School District No. 2859 complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

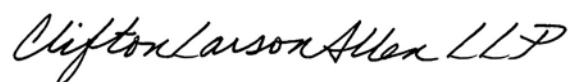
Management of Independent School District No. 2859's is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Independent School District No. 2859'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. 2859's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2017-002 and 2017-003, which we consider to be significant deficiencies.

Independent School District No. 2859's responses to the noncompliance findings identified in our audit are described in the accompanying corrective action plan. Independent School District No. 2859'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

Austin, Minnesota
October 2, 2017

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
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 Agriculture			
Non-Cash Assistance (Commodities):			
National School Lunch Program	# 10.555	1-2859-000	\$ 71,536
Total Non-Cash Assistance			\$ 71,536
Cash Assistance:			
School Breakfast Program	# 10.553	1-2859-000	68,122
National School Lunch Program	# 10.555	1-2859-000	295,236
National School Lunch Program - Commodity Cash Rebate	# 10.555	1-2859-000	9,990
After School Snack Program	# 10.555	1-2859-000	2,611
Special Milk Program for Children	# 10.556	1-2859-000	1,175
Summer Food Service Program for Children	# 10.559	1-2859-000	16,215
Total Cash Assistance			393,349
Total Child Nutrition Cluster			464,885
Total US Department of Agriculture			464,885
U.S. Department of Education			
Pass-Through Minnesota Department of Education			
Title I, Part A	84.010	S010A160023A	260,853
Title I, Part C - Migrant Education - Summer	84.011	@	123,919
Perkins Basic State Grants	84.048	@	6,933
Title II, Part A - Improving Teacher Quality	84.367	S367A160022	66,187
Title III - English Language Acq Grants	84.365	S365A160023A	11,041
Pass-Through SW/WC Service Cooperative #991			
Special Education - Grants to States	& 84.027	@	198,279
Special Education - Preschool Incentive	& 84.173	@	7,110
Total Special Education Cluster			205,389
Total US Department of Education			674,322
Total Federal Financial Assistance Expended			\$ 1,139,207
# - Child Nutrition Cluster & - Special Education Cluster @ - Unknown Agency or Pass-Through Number The total of CFDA 10.555 is \$379,373.			

See accompanying Notes to Schedule of Expenditures of Federal Awards.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
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. 2859. The reporting entity is defined in Note 1 to the financial statements. The District did not pass amounts to subrecipients.

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 Independent School District No. 2859's financial statements. The District has not elected to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

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INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Board of Education
Independent School District No. 2859
Glencoe, 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. 2859, as of June 30, 2017, and the related notes to the financial statements and have issued our report thereon dated October 2, 2017.

The *Minnesota Legal Compliance Audit Guide for School Districts* 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. 2859 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. 2859's noncompliance with the above-referenced provisions.

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



CliftonLarsonAllen LLP

Austin, Minnesota
October 2, 2017

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**GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2017**

PART I: SUMMARY OF AUDITOR'S RESULTS

Financial Statements

1. Type of auditors' report issued: Unmodified
2. Internal control over financial reporting:
 - Material weakness(es) identified? x yes 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 no
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, and 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee pursuant to Uniform Guidance?

 yes x no

**GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

PART II: FINDINGS RELATED TO THE GENERAL PURPOSE FINANCIAL STATEMENTS:

FINDING: 2017-001 ANNUAL FINANCIAL REPORTING UNDER GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (GAAP)

Condition: The District does have a control in place for the review of the drafted financial statements. However, the District does not have the expertise to ensure all disclosures required by generally accepted accounting principles are included in the annual financial statements.

Criteria: The District must be able to prevent or detect the omission of a material disclosure in the annual financial statements.

Effect: The potential exists that a material disclosure could be omitted from the financial statements and not be prevented or detected by the District's controls.

Cause: The District relies on the audit firm to prepare the annual financial statements and related footnote disclosures. However, management has reviewed and approved the annual financial statements and the related footnote disclosures.

Recommendation: The District should continue to evaluate its internal staff and expertise to determine if an internal control policy over the annual financial reporting is beneficial.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person

Michelle Sander, Business

Corrective Action Planned

A corrective action plan is in place.

Anticipated Completion Date

June 30, 2018

**GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

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

Finding Number: 2017-002 Controls Over the Reporting Process

Federal Agency: U.S. Department of Agriculture

Federal Program: Child Nutrition Cluster

CFDA Numbers: 10.553, 10.555, 10.556, and 10.559

Pass Through Agency: Minnesota Department of Agriculture

Pass Through Number: 1-2859-000

Award Periods: Year ended June 30, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria: A Sustainable Farming Association (SFA) participating in the National School Lunch Program (NSLP) is required to ensure that sufficient funds are provided to its nonprofit school food service accounts from lunches served to students not eligible for free or reduced price meals. A SFA currently charging less for a paid lunch than the difference between the Federal reimbursement rate for such a lunch and that for a free lunch is required to comply. This difference is known as "equity". There are two ways to meet this requirement: (a) by raising the prices charged for paid lunches; or (b) through contributions from other non-federal sources. As part of this requirement the District must calculate its compliance with the weighted average prices and revenue from nonprogram food requirements annually.

Condition: One of the two calculations tested was not submitted timely.

Questioned Costs: None noted.

Cause: District was not aware of any specific deadline, and completed calculation during the fiscal year.

Effect: Lack of controls to ensure the calculations are being completed timely could result in the District not being in compliance with 7 CFR sections 210.14(a), 210.14(e), or 210.14(f).

Recommendation: We recommend that the District implement controls to ensure these meal price and nonprogram revenue calculations are completed, reviewed, and submitted to the state timely.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person

Michelle Sander, Business

Corrective Action Planned

A corrective action plan is in place.

Anticipated Completion Date

June 30, 2018

**GLENCOE-SILVER LAKE SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

**PART III: FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS
(CONTINUED)**

Finding Number: 2017-003 Controls Over Eligibility
Federal Agency: U.S. Department of Agriculture
Federal Program: Child Nutrition Cluster
CFDA Numbers: 10.553, 10.555, 10.556, and 10.559
Pass Through Agency: Minnesota Department of Agriculture
Pass Through Number: 1-2859-000
Award Periods: Year ended June 30, 2017

Type of Finding: Significant Deficiency in Internal Control over Compliance

Criteria: In the case of the National School Lunch Program, children belonging to households meeting nationwide income eligibility requirements may receive meals at no charge or at reduced price. Children from households with incomes at or below 130% of the federal poverty level are eligible to receive meals or milk free under the School Nutrition Programs. Children from households with incomes above 130% but at or below 185% of the federal poverty level are eligible to receive reduced price meals. A child's eligibility for free or reduced price meals under a Child Nutrition Cluster program may be established by the submission of an annual application or statement which furnishes such information as family income and family size.

Condition: We noted that one family application had been setup as being eligible for reduced meals, but they should have been eligible for free meals.

Questioned Costs: None noted.

Cause: District personnel miscounted the number in the household on the application. They originally counted nine, but the actual household size was ten.

Effect: Lack of control to ensure proper classification of students participating in the child nutrition cluster programs, could results in improper classifications and errors in meal count reports.

Recommendation: We recommend that the District implement controls to ensure all applications are reviewed to ensure the students participating in the Child Nutrition Cluster programs are correctly classified for eligibility.

VIEWS OF RESPONSIBLE OFFICIALS AND PLANNED CORRECTIVE ACTIONS:

Contact Person
Michelle Sander, Business

Corrective Action Planned
A corrective action plan is in place.

Anticipated Completion Date
June 30, 2018

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
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	\$ 18,021,657	\$ 18,021,657	\$ -	Total Revenue	\$ 147,389	\$ 147,389	\$ -
Total Expenditures	18,204,829	18,204,829	-	Total Expenditures	16,620,063	16,620,064	(1)
<i>Nonspendable:</i>				<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	12,998	12,998	-	460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>				<i>Restricted:</i>			
403 Staff Development	87,746	87,746	-	407 Capital Projects Levy	-	-	-
406 Health and Safety	(65,640)	(65,640)	-	409 Alternative Facility Program	-	-	-
407 Capital Project Levy	-	-	-	413 Projects Funded by COP	-	-	-
408 Cooperative Programs	-	-	-	464 Restricted Fund Balance	5,540,649	5,540,648	1
413 Projects Funded by COP	-	-	-	<i>Unassigned:</i>			
414 Operating Debt	-	-	-	463 Unassigned Fund Balance	-	-	-
416 Levy Reduction	-	-	-				
417 Taconite Building Maintenance	-	-	-	07 DEBT SERVICE			
424 Operating Capital	845,404	845,405	(1)	Total Revenue	1,366,371	1,366,371	-
426 \$25 Taconite	-	-	-	Total Expenditures	1,338,238	1,338,238	-
427 Disabled Accessibility	-	-	-	<i>Nonspendable:</i>			
428 Learning and Development	-	-	-	460 Nonspendable Fund Balance	-	-	-
434 Area Learning Center	-	-	-	<i>Restricted:</i>			
435 Contracted Alternative Programs	-	-	-	425 Bond Refunding	-	-	-
436 State-Approved Alternative Programs	-	-	-	451 QZAB and QSCB Payments	-	-	-
438 Gifted and Talented	-	-	-	464 Restricted Fund Balance	32,043	32,043	-
440 Teacher Development and Evaluations	23,403	23,403	-	<i>Unassigned:</i>			
441 Basic Skills Programs	-	-	-	463 Unassigned Fund Balance	-	-	-
445 Career and Technical Programs	-	-	-				
448 Achievement and Integration	-	-	-	08 TRUST			
449 Safe Schools Crime Levy	43,188	43,188	-	Total Revenue	6,910	6,910	-
451 QZAB Payments	-	-	-	Total Expenditures	12,700	12,700	-
452 OPEB Liability Not Held in Trust	-	-	-	<i>Net Position:</i>			
453 Unfunded Severance & Retirement Levy	-	-	-	422 Net Position	929,343	929,343	-
467 LTFM	-	-	-				
464 Restricted Fund Balance	-	-	-	20 INTERNAL SERVICE			
<i>Committed:</i>				Total Revenue	7,203	7,204	(1)
418 Committed for Separation	-	-	-	Total Expenditures	-	-	-
461 Committed Fund Balance	-	-	-	<i>Net Position:</i>			
<i>Assigned:</i>				422 Net Position	816,635	816,635	-
462 Assigned Fund Balance	-	-	-				
<i>Unassigned:</i>				25 OPEB REVOCABLE TRUST			
422 Unassigned Fund Balance	4,241,987	4,241,986	1	Total Revenue	-	-	-
				Total Expenditures	-	-	-
02 FOOD SERVICE				<i>Net Position:</i>			
Total Revenue	1,018,679	1,018,680	(1)	422 Net Position	-	-	-
Total Expenditures	938,153	938,153	-				
<i>Nonspendable:</i>				45 OPEB IRREVOCABLE TRUST			
460 Nonspendable Fund Balance	15,326	15,326	-	Total Revenue	-	-	-
<i>Restricted:</i>				Total Expenditures	-	-	-
452 OPEB Liability Not Held in Trust	-	-	-	<i>Net Position:</i>			
464 Restricted Fund Balance	238,677	238,677	-	422 Net Position	-	-	-
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-	47 OPEB DEBT SERVICE			
				Total Revenue	-	-	-
04 COMMUNITY SERVICE				Total Expenditures	-	-	-
Total Revenue	932,303	932,304	(1)	<i>Nonspendable:</i>			
Total Expenditures	829,214	829,214	-	460 Nonspendable Fund Balance	-	-	-
<i>Nonspendable:</i>				<i>Restricted:</i>			
460 Nonspendable Fund Balance	1,245	1,245	-	425 Bond Refunding	-	-	-
<i>Restricted:</i>				464 Restricted Fund Balance	-	-	-
426 \$25 Taconite	-	-	-	<i>Unassigned:</i>			
431 Community Education	168,364	168,364	-	463 Unassigned Fund Balance	-	-	-
432 E.C.F.E.	22,328	22,328	-				
440 Teacher Development and Evaluations	-	-	-				
444 School Readiness	60,011	60,011	-				
447 Adult Basic Education	-	-	-				
452 OPEB Liability Not Held in Trust	-	-	-				
464 Restricted Fund Balance	415	415	-				
<i>Unassigned:</i>							
463 Unassigned Fund Balance	-	-	-				

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EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS

INDEPENDENT AUDITORS' REPORT

Board of Education, Advisors, and Students
Independent School District No. 2859
Glencoe, 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. 2859 as of June 30, 2017, and the related note to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the regulatory basis of accounting described in the Note 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 statement, to meet the financial reporting requirements of the Minnesota Department of Education, the financial statement is prepared by the Independent School District No. 2859 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 statement of the variances between the regulatory basis of accounting described in the note to the financial statement 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

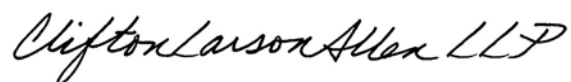
In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Student Activity Funds of Independent School District No. 2859 as of June 30, 2017, or changes in financial position for the year then ended.

Basis for Modified 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.

Modified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effect of the matter discussed in the Basis for Modified Opinion on Regulatory Basis of Accounting paragraph, the financial statement referred to in the first paragraph presents fairly, in all material respects, the cash balances of the Student Activity Funds Independent School District No. 2859 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

Austin, Minnesota
October 2, 2017

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
YEAR ENDED JUNE 30, 2017**

Funds	Balance 06/30/16	Transfers and Receipts	Transfers and Disbursements	Balance 06/30/17
High School Yearbook	\$ 2,387	\$ 1,568	\$ 971	\$ 2,984
Art	3,620	1,532	1,430	3,722
Band	13,440	49,395	33,809	29,026
Business Professional Association (BPA)	349	11,960	11,323	986
Close-Up	1,661	22,621	22,233	2,049
Kindergarten Entertainment	-	525	525	-
Grade 1 Entertainment	-	590	590	-
Grade 2 Entertainment	-	409	409	-
Grade 3 Entertainment	-	636	636	-
Grade 4 Entertainment	-	889	889	-
Grade 5 Entertainment	-	625	625	-
Grade 6 Entertainment	-	556	556	-
FFA	6,466	37,820	41,961	2,325
History	407	4,721	4,984	144
Lincoln Student Council	2,714	2,954	2,269	3,399
Lincoln Yearbooks	40	3,808	3,159	689
HS Student Council	158	-	157	1
Interest - Admin	-	32	-	32
LS Student Council	1,398	658	373	1,683
Nat'l Honor Society	1,726	693	1,143	1,276
Schools Elem Memory Book	1,417	-	-	1,417
Class of 2017	7,816	1,273	9,089	-
Class of 2018	2,057	12,206	9,420	4,843
Class of 2019	-	4,994	2,270	2,724
	<u>\$ 45,656</u>	<u>\$ 160,465</u>	<u>\$ 148,821</u>	<u>\$ 57,300</u>

See accompanying Note to Financial Statement.

**GLENCOE-SILVER LAKE PUBLIC SCHOOLS
INDEPENDENT SCHOOL DISTRICT NO. 2859
EXTRACURRICULAR STUDENT ACTIVITY ACCOUNTS
NOTE TO FINANCIAL STATEMENT
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, Advisors, and Students
Independent School District No. 2859
Glencoe, 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 Independent School District No. 2859 as of 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 October 2, 2017. We expressed an adverse opinion on U.S. generally accepted accounting principles because the financial statement is 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*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the District's noncompliance with the above-referenced provisions.

The purpose of this report is solely to describe the scope of our testing of compliance 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

Austin, Minnesota
October 2, 2017